PERSONAL FINANCE

Credit, Lending, & Debt

By Dr. Mike Casey, Professor of Finance, University of Central Arkansas

ARKANSAS CENTER FOR RESEARCH IN ECONOMICS
UNIVERSITY OF CENTRAL ARKANSAS

https://uca.edu/acre/resources-for-teachers/

About the Author

Michael (Mike) Casey is a Professor of Finance in the College of Business at the University of Central Arkansas. He completed his Doctor of Business Administration (DBA) in finance from Louisiana Tech University in 1996. To date, he has published more than 100 articles in such journals the *Financial Review*, the *Journal of Real Estate Finance and Economics*, and the *Journal of Computer Information Systems*. He is also coauthor of the high school textbook *Personal Financial Literacy*, with Jeff Madura and Sherry Roberts. The text is in the edition and available through Pearson's Career & Technical Education.

About the Editor

Terra Aquia is the Program Coordinator at the Arkansas Center for Research in Economics. She is from the Tennessee mountains, but has called Conway, Arkansas home since 2013. She graduated from the University of Central Arkansas in the spring of 2016 with a BA in history and a minor in anthropology. In her role, she works with a variety of scholars to create economics-focused educational content for K-12 teachers in Arkansas.

About ACRE

The Arkansas Center for Research in Economics is an Arkansas-focused research center housed in the College of Business at the University of Central Arkansas. Our scholars and policy analysts use academic research and original analysis to educate the public on important issues of public policy in Arkansas. Our research focuses on barriers to employment, taxes and subsidies, K–12 education, property rights, and government transparency. The views expressed in this publication do not necessarily reflect those of the University of Central Arkansas.

Acknowledgements

We thank our copy editor Amy Fontinelle for her thoughtful editing and content suggestions throughout the course of this project. We also thank our designer Gwen Canfield for her contributions to the graphic design and layout of the materials. Finally, we thank Jeff Madura and Sherry Roberts, whose past work on personal financial literacy curriculum with Dr. Casey influenced these new materials.

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Suggested Pacing Guide

01 DAY

Topic: Understanding Credit and Why It's Important to You Now

PFM.9.E.1: Evaluate costs and benefits (e.g., interest rates, fees, penalties, rewards) of using various types of credit: student loans, credit cards, personal loans (e.g., auto, home mortgage)

PF.4.C.5: Understand different components of credit by: Comparing and contrasting sources of credit (e.g., car loans, student loans, credit cards,) Discussing the establishment and use of credit, Identifying the factors that contribute to a credit score, Calculating the actual costs associated with credit, Discussing methods of solving credit problems, Evaluating the risks associated with overextending credit

Essential Question: What is credit and how do I use it? How do I afford big ticket items?
Activity: When Do I Borrow Money?

02 DAY

Topic: Credit Reports, Credit Scores, and How Credit Can Help or Harm You

PFM.9.E.2: Analyze factors that affect credit worthiness (e.g., credit score, three Cs of credit)

PF.4.C.4: Analyze factors that determine/influence mortgage costs (e.g., interest rate, term length, credit rating)

Essential Question: What makes a credit score "good" or "bad?" How do my spending decisions affect my credit score?
Activity: Would You Loan Me Money?

03 DAY

Topic: Understanding Loans

PF.4.C.3: Compare and contrast the advantages and disadvantages of renting versus owning a home (e.g., costs, taxes, insurance)

PF.4.C.7: Understand the different components of loans by: Differentiating between the different types of loans (e.g., payday, auto, home, personal, student,) Examining the lending process from application to approval, Calculating true costs associated with loans (e.g., term length, interest rate,) Understanding the factors that contribute to different interest rates, Evaluating the implications of obtaining and/or defaulting on a loan

Essential Questions: Under what circumstances should I take out a loan? How long does it take to pay back a loan?
Activity: Should You Rent or Buy

04 DAY

Topic: Your Credit: Protection and Problem Solving

PFM.9.E.3: Evaluate strategies to avoid and correct credit issues: identity protection, bankruptcy, debt and credit management

PF.4.C.1: Identify types of fraud and credit abuse and develop strategies to protect oneself from identity fraud and theft

PFM.9.E.4: Discuss consumer protection laws (e.g., Credit Card Accountability, Responsibility and Disclosure Act of 2009, Truth in Lending Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act)

PF.4.C.2: Discuss common crimes against consumers and examine federal consumer protection laws

Essential Question: What protections are available to me as a consumer?
Activity: What Should I Do About Identity Theft?

Student Loans

Student loans function in a similar way, except the government subsidizes many student loans to encourage people to get an education. On subsidized loans, the government pays the interest while you are in school and your payments do not begin until you have been out of school for six to nine months, depending on the type of student loan. On unsubsidized loans, you are responsible for the interest that accrues while you're in school.

The federal government offers both subsidized and unsubsidized loans. Private lenders only offer unsubsidized ones. Only students that demonstrate financial need are eligible for subsidized student loans. For each year you attend college, the maximum amount you can borrow increases.

Which type of loan you receive has a big impact on the final amount you owe. The following table summarizes the differences between the two types of student loans. The example uses the maximum loan amount an incoming freshman can borrow and the federal student loan interest rates that apply to loans taken out before July 1, 2020. The example assumes you graduate in four years and do not begin making loan payments until after your six-month grace period ends.

Subsidized Versus Unsubsidized Federal Student Loans

	Subsidized Loan	**Unsubsidized Loan**
Loan amount	$3,500	$3,500
Grace period	6 months	6 months
Interest rate	4.53%	4.53%
Loan payment while in school	$0	$0
Total amount owed after 4.5 years	$3,500	$4,272.21
Total interest accumulated while you are in school and during the grace period	$0	$772.20

For subsidized loans the government pays the interest while you are in school. For unsubsidized loans, the interest accumulates and it increases the amount you owe. Notice that the unsubsidized loan results in $772 more you will have to repay after you leave school in 4.5 years. The following website has a lot of information on student loans: https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized#subsidized-vs-unsubsidized

Personal Loans

While the previously mentioned loans are personal loans, this term often refers to a distinct category of unsecured debt. Personal loans are short-term unsecured loans that are typically paid back in equal monthly payments over two to five years. However, some personal loans can be backed (secured) by other assets. Assets used to back any loan are known as collateral.

Each and every time you borrow and repay money, whether it's for a credit card or a student loan, your lender reports your behavior to a credit bureau. Credit bureaus track everyone's credit history and then use that information to create a numeric credit score that future lenders can look at to determine your creditworthiness. When new lenders see your credit score, they can quickly determine whether they want to loan you money. In the next section, we will discuss credit reports and credit scores.

Instructor Note: To assess mastery for this section, have your students complete the "When Do I Borrow Money?" exercise on page 24.

Exercise #2 | STUDENT VERSION

What Should I Do About Identity Theft?

(25–30 minutes)

Name ____ Date:____________________ Class Period: __________

Look at the following email message and identify red flags that might indicate it is a fraudulent email.

INVALID LOGIN ATTEMPT PREVENTED

American Express Account: 3****

ACCOUNT UPDATE

Dear Valued Member

We noticed invalid login attempts into you account online from an unknown IP address .

We have temporarily suspeded your account.

We need you to update your account information for your online banking to be re-activated

please review your billing information as soon as possible.

www.americanexpress.com/secure/verify.

You can follow onscreen instructions.

Thank you for helping us to protect the security of your account.

American Express Account Protection Services

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Exercise #2 | TEACHER VERSION

What Should I Do About Identity Theft?

(25–30 minutes)

PF.4.C.1: Identify types of fraud and credit abuse and develop strategies to protect oneself from identity fraud and theft
PF.4.C.2: Discuss common crimes against consumers and examine federal consumer protection laws

Introduction
Identity theft is a huge problem for everyone. Millions of Americans of every age suffer from identity theft every year. Despite the efforts to combat and prevent identity theft, cybercriminals' tactics continue to evolve. One statistic relevant to the following exercise is that in 2018 there were 679,000 mobile account takeovers in the United States alone. Experts estimate the losses from such takeovers exceed $4 billion per year. There are many other types of identity theft fraud with millions of people affected every year.

READING: (5 minutes)
Split the students into groups and give them copies of the following fraudulent email message. Have students identify red flags that might indicate it is a phishing email.

GROUP ACTIVITY: (10 minutes)

Have the groups brainstorm different red flags. They should be able to identify at least two red flags that indicate this email is fraudulent.

Red flags:
- The account number does not provide an ending number. When your credit card company contacts you, they will show the last digit or digits of your account number.
- The credit card company will never ask you to click on a link and verify personal information.
- The text at the bottom of the email has some errors in the firm's name.
- The logo is slightly off. Pay attention to small details.
- The message's formatting is inconsistent.
- The message's punctuation is inconsistent.

While you cannot see it here, pay attention to the email address that sent the message. Does it appear to be from a legitimate source? In addition, if you move your cursor over the link, but do not click on it, you can see where that link will take you. It is typically to an unusual URL that you should not visit.

ENTIRE CLASS ACTIVITY (15 minutes)

List all of the red flags on the board. Were you able to locate all of them? Now have the class identify the steps they should take if they actually followed through and provided their private information in response to this phishing scam.

- Call your credit card company.
- Review your account balance and charges.
- Change the password on your account.