

**WHO IS CONSIDERED A
GOOD CREDIT RISK?**

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Personal Finance

Credit

Who is considered a good credit risk?

Objectives:

Students will be able to:

- | |
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| <input type="checkbox"/> Apply the 6 C's of credit to evaluate who is a good credit risk |
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Materials

<input type="checkbox"/> Colored Post-its
<input type="checkbox"/> Colored popsicle sticks
<input type="checkbox"/> Board &/or overhead projector
<input type="checkbox"/> Index cards
<input type="checkbox"/> Timer

Anticipatory Set

How many students have ever been asked to lend money to someone else? Did you give them the loan? Why or why not? If you gave them the loan, did you ever get paid back?	2
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Standards addressed in the lesson

<i>Standard 3a-</i> Universal Foundation Skills - Students will enhance certain basic skills including reading, writing, thinking, and interpersonal skills.
<i>Standard 3b- Career Major</i> – Knowledge of credit and the 6 C’s of credit would be beneficial for a student who is interested in a career of banking &/or finance.

Activities

As students are answering the do now questions and distribute colored sticks		
<input type="checkbox"/> Discuss responses to anticipatory set	<i>Auditory</i>	3
<input type="checkbox"/> Ask students how their loaning money to friends relates to this class – CREDIT (if no responses remind students of the name of the class)	<i>Auditory</i>	
<input type="checkbox"/> Break students into 5 groups of 4 or 5 using colored sticks	<i>Kinesthetic/</i>	1
<input type="checkbox"/> Once in groups – Groups identify as many advantages and disadvantages of credit as they can think of. <ul style="list-style-type: none"> ▪ One student, the scribe, will write down each idea on a separate post-it note. The runner will stick the post-it note on the board in the proper column – Tally the winning team for bonus points on tomorrow’s Rich Dad Quiz 	<i>Auditory/ Kinesthetic/ Visual</i>	2
<input type="checkbox"/> Discuss and record the main points on the board		5
<input type="checkbox"/> Go back to the question from the beginning of class. Obviously, you would not loan money to just anyone, but List the characteristics you would look for before giving someone a loan.	<i>Auditory/ Visual</i>	2
<input type="checkbox"/> Ask how students’ characteristics relates to a bank giving a loan - The items students listed represent credit risk		.5
<input type="checkbox"/> Using the list above elicit responses to Identify and define the six C’s of credit. Write responses on board	<i>Auditory/ Visual</i>	10
<input type="checkbox"/> Examine two case studies. Evaluate who is a good credit risk and why?	<i>Auditory/ Visual</i>	4
Time Permitting		
<input type="checkbox"/> Identify red flags for someone who is a bad credit risk		
<input type="checkbox"/> Create a scenario in which someone would be denied credit for each of the 6 C’s		
<input type="checkbox"/> Formulate a plan to develop good credit		

Credit

Who is considered a good credit risk?

Advantages:	Disadvantages	Characteristics	6C's
☺ Able to buy needed items now	☹ Interest (higher cost of items)	1. Trustworthy	Good character: honesty, integrity & desire to repay the loan even under conditions of personal and financial difficulty.
☺ Don't have to carry cash	☹ May require additional fees	2. Has a job	Capacity: ability to repay the loan, both financially and personally within the time required in the contract. Financial capacity - income minus expenses and debts + A margin of safety. Personal capacity - job skills and health.
☺ Creates a record of purchases	☹ Financial difficulties may arise if one loses track of how much has been spent each month	3. Has something of value that I would want as repayment	Capital: own assets or items of value that could be a source of debt repayment should problems develop in the future. Some examples of capital are bank accounts, cash value built up in insurance policies, stock and bonds, etc.
☺ More convenient than writing checks	☹ Increased impulse buying may occur	4. repaid previous loans	Conditions: The economic climate including indicators that we discussed such items as unemployment, inflation, interest rates, seasonal demand or other factors affecting the borrower.
☺ Consolidates bills into one payment			Collateral: An item specifically pledged as security to guarantee the repayment of the loan.
			Credit record: A report of the past credit history of the applicant. It may include hidden debt, previous bankruptcies, and unpaid loans.

Questions

How does loaning money to a friend relate to banking & this class?
Advantages When we talked about the rule of 72, you had to figure out how much you spent on junk food. Some of you could not remember where you had spent your money. What does a credit card do for you to help w/ this problem? (Tracks spending)
How many of you think you'll save enough money in an account to buy a house without a loan? (Buy Now)
If you go shopping with \$200 in your pocket and lose the money, what recourse do you have? (Safer than \$)
Disadvantages – Why would a company give you a loan? Out of the goodness of their heart? If see something in a store that really want but you don't have any money on you, what do you do? What if you have a credit card in your wallet, does that change what you do?
6C's - What would a Finance Company, like Chrysler Financial, do if I failed to repay my car loan loan? Why are they allowed to repossess my car?
You've recently completed projects on economic indicators. What C might these represent – Current Economic _____.

Closure

<input type="checkbox"/> At (9:03) five minute bell, hand out Exit Cards. <input type="checkbox"/> Have each student write down one thing they have learned today as well as something they would still like to know about the topic

Assessments

Which of the 6 C's of credit are hard to establish, and which are relatively easy? Explain.

HW Read rich dad to page 161 – Quiz Tomorrow

Follow Up Complete a mock credit application
