



PROFESSOR FINANCE & FED BOY MEET

— THE —

CATASTROPHE

— CLAN —

LESSON PLAN: PROFESSOR FINANCE AND FED BOY MEET THE CATASTROPHE CLAN

Teacher Introduction:

Understanding credit and loan operations will help prepare students for their future financial needs as adults. An awareness of the Credit Card Accountability, Responsibility and Disclosure (CARD) Act should aid students in developing an overview of consumers' rights to credit. This role play introduces students to the use and misuse of credit in a humorous format and emphasizes the importance of wise financial decision-making.

Lesson Description:

This lesson, with the accompanying role play, introduces students to the costs and benefits of credit. It explains credit terms and the "Three C's of Credit" that lenders use to qualify consumers for loans. Learning about the CARD Act will help students understand the financial details involved in using credit, as well as their rights as consumers. The assessment asks students to write tips for the wise use of credit, which should help them in developing better financial decision-making.

GRADE LEVEL: 7-10

Content Standards:

NATIONAL VOLUNTARY ECONOMIC CONTENT STANDARD #2: Students will understand that effective decision making requires comparing additional costs of alternatives with additional benefits. Students will be able to use this knowledge to make effective decisions as consumers, producers, savers, investors, and citizens.

NATIONAL VOLUNTARY ECONOMIC CONTENT STANDARD #12: Students will understand that interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses. Students will be able to use this knowledge to explain situations in which they pay or receive interest, and explain how they would react to changes in interest rates if they were making or receiving interest payments.

JUMPSTART PERSONAL FINANCE STANDARD: Financial Responsibility and Decision Making

Overall Competency - Apply reliable information and systematic decision making to personal finance decisions.

JUMPSTART PERSONAL FINANCE STANDARD: Credit and Debt

Overall Competency - Maintain creditworthiness, borrow at favorable terms, and manage debt.

CONCEPTS: credit, debt, interest rate, credit history, credit report, payday lending, bankruptcy, CARD Act, regulators, Federal Reserve Bank

OBJECTIVES: Students will be able to:

1. Define credit, interest rate, credit report and credit history.
2. Identify the "Three C's of Credit" and discuss their importance to lenders.
3. Explain key components of the CARD Act and how it protects consumers.

TIME REQUIRED: 60-90 minutes

Materials:

Visual 1 (Credit Card graphic)

Visual 2 (The Three C's of Credit/Credit Clues)

Visual 3 (Name tags for role play)

Activity 1 (Role play script)

Preparation:

1. Make a copy of Visual 1 or obtain a sample credit card for use.
2. Make a transparency of Visual 2.
3. Make a copy of Visual 3 and cut out name tags for students to wear during role play.
4. Make copies of Activity 1 for all students.

Procedure:

1. Hold up Visual 1 (or a sample credit card) and ask students the following questions:
 - a. What is the purpose of a credit card? (It can be used to buy goods and services without paying cash for them immediately.)
 - b. What does credit mean? (It's a promise of payment at a future time for goods or services now; it's a loan.)
 - c. How are credit cards helpful to consumers? (Credit cards help consumers buy what they need or want, even if they don't have the cash available at the time of purchase.)
 - d. How can the overuse of credit cards hurt consumers? (Consumers can get into debt, or owe more money on a credit account than what they can afford to pay back.)
2. Ask students to brainstorm the names of credit cards they are familiar with, including bank cards, department store cards, gas/oil cards, and consumer financial company cards. Make a list of the cards named so students can see the variety of credit offered.
3. Ask students the following questions:
 - a. How do you go about getting a credit card? (You apply for the credit/loan through the financial institution or retailer offering the card. You can do this at a bank or store, through the mail, or online.)
 - b. What information does the lender need to know about you before you receive credit? (Your name, address, social security number, employment record, bank accounts, and any other loans or credit cards you already have.)
4. Explain to students that once you apply for credit, the lender looks for certain qualities to ensure the repayment of credit before approving the loan. These qualities are called "The Three C's of Credit." Show Visual 2 to students, getting their opinions on why each quality is valuable to the lending institution. Discuss the "Credit Clues" section, explaining the meaning of credit report and credit history and their importance as references for the consumer.
5. Tell students that credit cards and loans are profitable to lenders because of the interest rate charged to consumers for their use. The interest rate is the price paid for using someone else's money, expressed as a percentage of the amount borrowed. Interest rates are usually fixed, and cannot be increased without the consumer's knowledge. Explain that to better protect consumers' rights to credit, new legislation entitled the "CARD Act" was passed in 2009. This act limits lenders from making sudden changes in interest rates and fees; increases restrictions on offering credit to those under 21; and requests more detailed billing statements to better inform consumers of their repayment responsibilities.

6. Introduce the role play, “Professor Finance and Fed Boy Meet the Catastrophe Clan,” as a story about two superheroes who take on a dishonest credit and loan operation. Explain that lenders in general are trustworthy and honest in offering credit and loans, but in this case, the creditors are taking advantage of their customers. Hand out Activity 1, the role play script. Discuss the list of characters at the top and the roles they play. Ask students to read through the script silently, thinking about what character they might like to play for the group reading.
7. After students have completed their silent reading, choose eight volunteers to role-play the characters. Hand out name tags to each character. (Teacher Note: The first names of the characters may be changed to accommodate males playing female roles, or vice versa. The roles of the Professor and Mark could be split into two parts so more volunteers could participate.) For scenes 1 and 3, the Professor and Mark can be seated at a table, listening to the radio broadcast. Fran Frank can be standing on either side, reading her news report. For scene 2, the Professor and Mark should be standing off to the side before Mark enters “Easy Credit 4 U.” The table from scene 1 could become the loan counter for Carrie and Paul. Barb and Captain Carl should enter from behind the table area at the appropriate times.
8. Ask students in the audience to follow along with the role play reading, listening for references to credit reports, credit history, and the CARD Act. Read through the script orally.
9. To review the main ideas from the role play, discuss the following questions with students:
 - a. How did each member of the Catastrophe Clan break the rules of the CARD Act or bankruptcy legislation? (Carrie Credit offered credit cards at a low introductory interest rate with surprise increases and penalties; Paul Payday Lender offered short-term loans at sky-high interest rates; Barb Bankruptcy promised an easy out if consumers were overloaded with debt.)
 - b. How can deceptive credit practices lead to credit problems for consumers? (Consumers can become overburdened with debt and be unable to repay loans. This lowers their credit rating, making it harder to borrow in the future or increasing the interest rate on their purchases.)
 - c. How can consumers make wise financial decisions regarding the use of credit? (They can read and understand the CARD Act rules and their rights and responsibilities as consumers under those rules. They can plan to live within their means and repay debt on time.)

Closure: Discuss the following questions as review:

1. What does it mean to have credit? (You are given money or a loan for the promise of payment at a future time.)
2. What is an interest rate? (The price paid for using someone else’s money, expressed as percentage of the amount borrowed.)
3. Define credit history and credit report. (A credit report contains your credit history, or the consumer’s loan and payment activity over a period of time. This history is kept by a credit agency in your credit report and used by creditors as an indicator of whether borrowed money will be repaid as agreed.)
4. Explain the “Three C’s of Credit” and why they are important to lending institutions. (The Three C’s of Credit are Character, showing that the borrower is responsible and will repay the money as agreed; Capacity, showing that the borrower has enough income to comfortably make payments on the loan amount requested; and Collateral, showing that the borrower can guarantee the loan through items of value that can be used to repay the debt in case the borrower defaults on the loan.)

5. Describe the key components of the CARD Act and tell how this law helps consumers. (The CARD Act limits lenders from making sudden changes in interest rates and fees; increases restrictions on offering credit to those under 21; and requests more detailed billing statements to better inform consumers of repayment responsibilities. This law makes these regulations uniform for lenders and helps the consumer better understand credit/loan agreements.)

ASSESSMENT: Discuss the importance of good financial decision-making in regard to credit, using the Catastrophe Clan characters as examples of possible pitfalls of credit misuse. Ask students to develop a list of the Top Ten Tips in making good credit decisions. These rules could be in the form of “DOs and DON’Ts” or just general statements that consumers should follow in making wise financial decisions. Give an example of a credit tip: “Pay your credit card bill off fully each month, or at least make more than the minimum payment.” After students have written their tips, ask volunteers to share their best ideas with the class. If time allows, make a poster with ten of the best tips for a bulletin board titled “Top Ten Credit Clues.”

Permission is granted to reprint or photocopy this lesson for educational purposes, providing the user credits the Federal Reserve Bank of Kansas City. Our website is located at: www.kansascityfed.org.

VISUAL 1



THE THREE C'S of CREDIT

CHARACTER: Is the borrower responsible and will he repay the money as agreed?

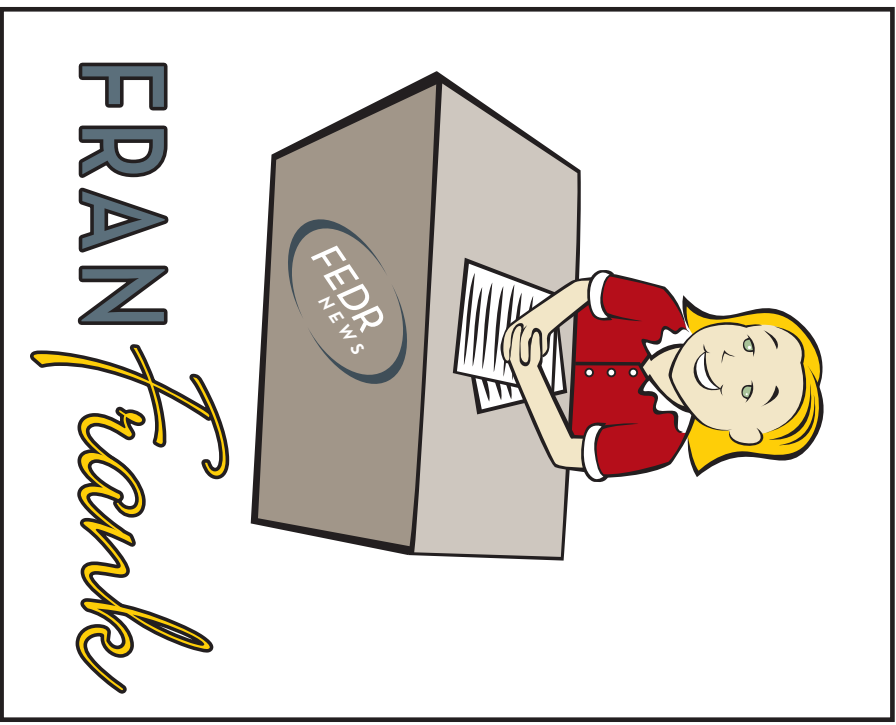
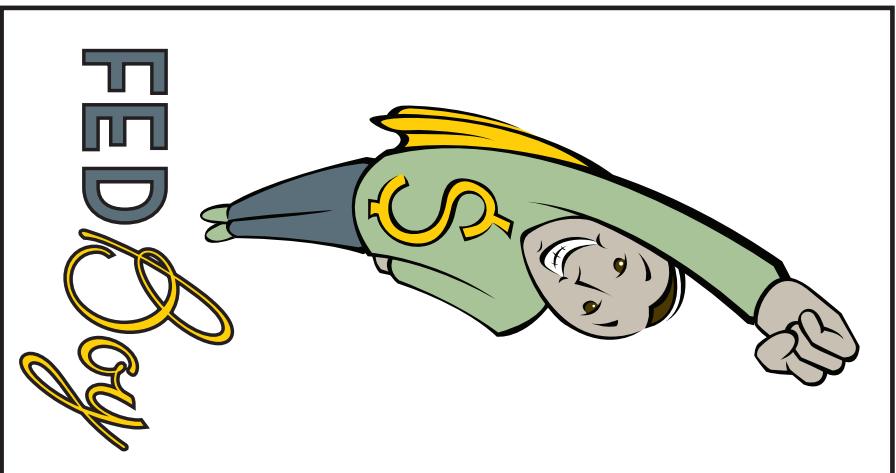
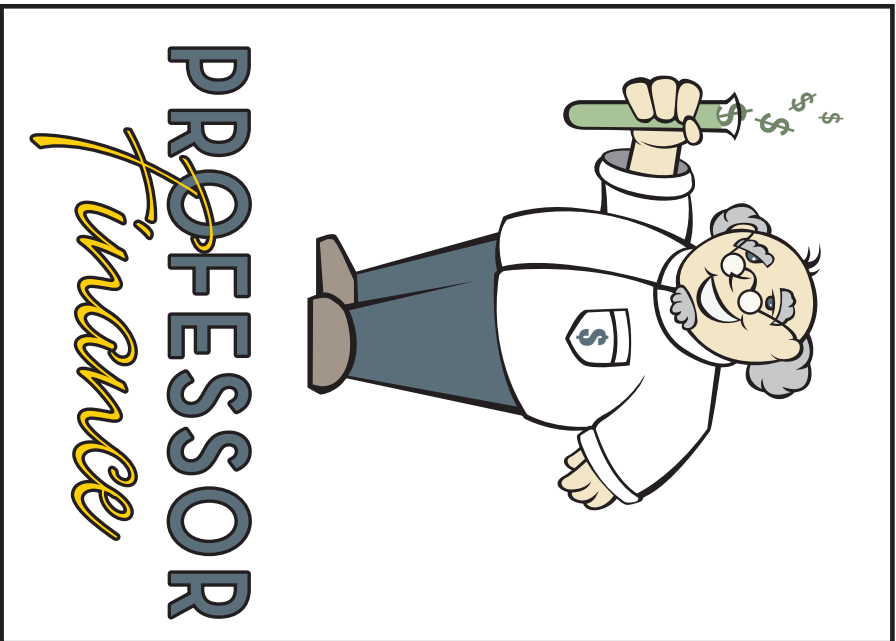
CAPACITY: Does the borrower have enough income to comfortably make the payments on the loan requested?

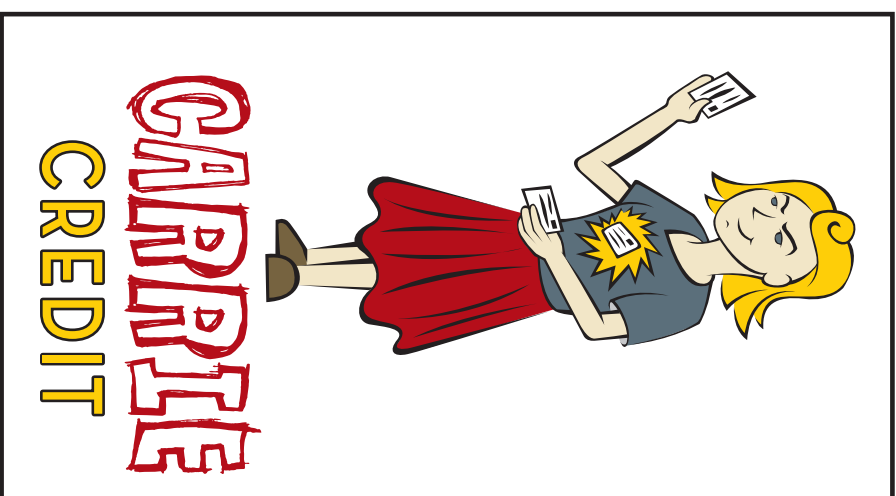
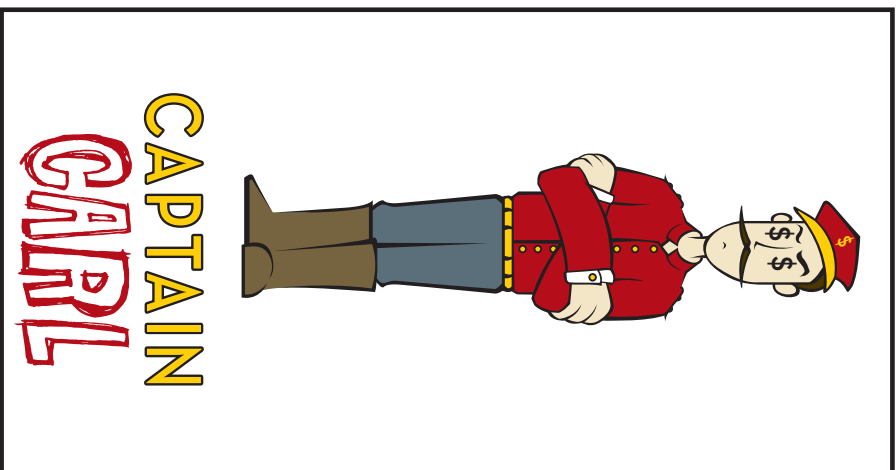
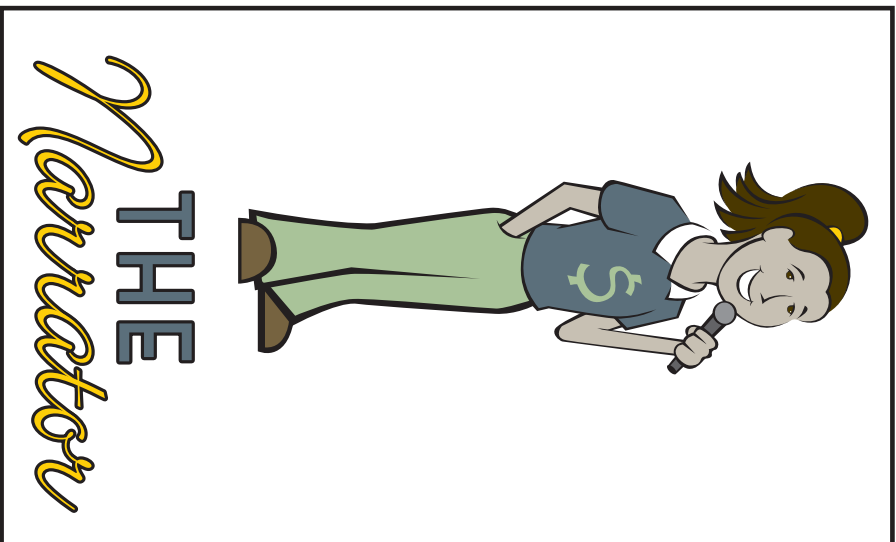
COLLATERAL: Can the borrower guarantee the loan through items of value that can be used to repay the debt in case he defaults on the loan?

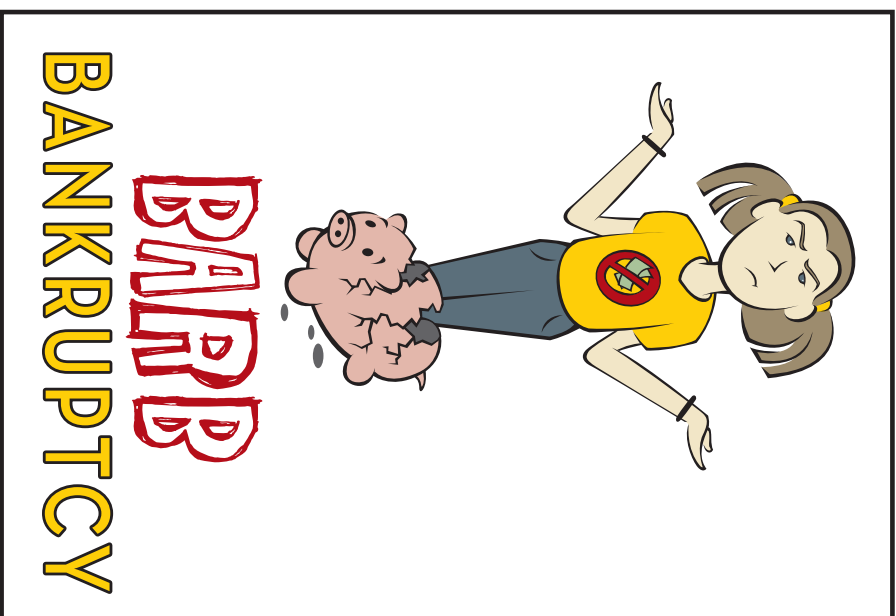
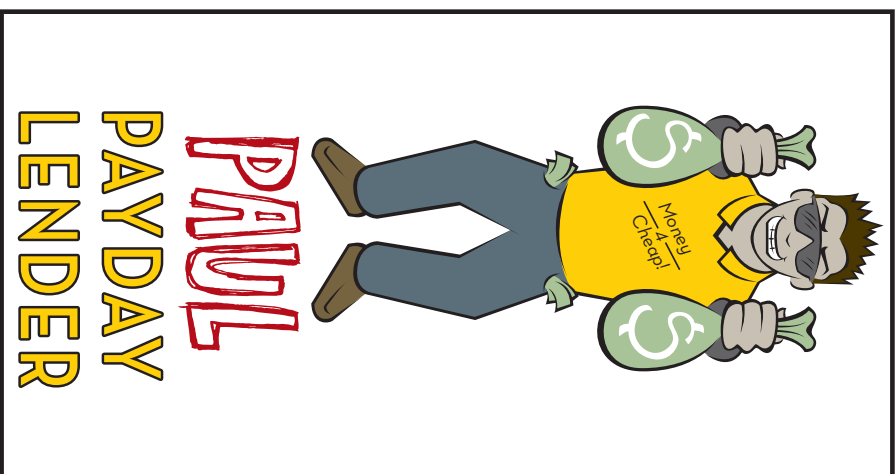
Credit Clues

CREDIT HISTORY: The consumer's loan and payment activity over a period of time.

CREDIT REPORT: A record of a consumer's personal credit history, used as an indicator of whether the consumer will repay borrowed money as agreed. Credit reports are issued by credit agencies which collect information on consumers from banks, stores, and other businesses.







ACTIVITY 1: *Role Play Script*

PROFESSOR FINANCE AND FED BOY MEET THE CATASTROPHE CLAN

Characters: Professor Finance (aka Phil Payment); Fed Boy (aka Mark Money)

Catastrophe Clan members: Captain Carl Catastrophe; Carrie Credit Catastrophe;
Paul Payday Lender Catastrophe; Barb Bankruptcy Catastrophe

Fran Frank (radio news reporter); Narrator

Narrator: Scene one takes place in Professor Phil Payment's university office. The professor and student Mark Money are listening to a local news broadcast on radio station FEDR.

Fran Frank: I'm Fran Frank, with a frank word on today's news. Here's a breaking story on the cost of credit! Credit card debt in the U.S. has reached a record high of over \$1 trillion, according to the latest figures from the Federal Reserve Board. The average American family's household debt from credit cards has risen from \$3,000 in 1990 to almost \$10,000 currently. Government leaders are working on ways to discourage this overuse of credit by consumers...

Professor: Did you hear that, Mark? U.S. consumers' financial debt is even worse than I suspected. Easy credit has led to easy spending and going beyond consumers' means. And I know who is to blame!

Mark: Is it that treacherous team of the financial world, the Catastrophe Clan?

Professor: You got it, Mark! Headed by the worst financial fiend of all, Captain Catastrophe! The clan is noted for luring consumers into making bad financial decisions which lead them into drastic debt. They give all the reputable credit firms a bad rap. It's unfair to all lenders and a disaster to the borrowers!

Mark: So is it time for some financial super hero action?

Professor: You bet it is! That's the only way to stop the captain and his clan from their evildoing and save consumers from financial doom.

Mark: Then what are we waiting for? To the armored car transport and away!

Narrator: Scene two takes place outside the clan's headquarters, a business called "Easy Credit 4 U."

Professor: Let's review the clan's profile before we descend on their den. There are four clan members who are wanted for questioning: Carrie Credit, who offers credit cards to anyone at low introductory rates and then arranges for surprise rate increases, extra charges and additional penalties; Paul Payday Lender, who preys on consumers by offering short-term loans at sky-high interest rates; Barb Bankruptcy, who gives consumers an easy out if they are overloaded with debt; and Captain Carl, who masterminds new and dastardly ways to profit from this consumer financial crisis.

Mark: I can't wait to round up these perpetrators! They need to be taught a lesson for extending credit to consumers through trickery and deceit!

Professor: Here's the plan: You pose as yourself, Mark Money, university student, looking for easy credit to pay for your books and living expenses. They will begin their play by offering you instant credit of large proportions without checking your credit report or requiring a co-signer. Pretend to agree to their vague terms of repayment, but don't sign anything! Signal me by playing your cell ring-tone tune of "Money, That's What I Want." I'll enter as Professor Finance and catch them in their financial evildoing ways!

Mark: Now that's what I call a plan! We'll disrupt their whole credit operation and the resulting publicity will help inform consumers on how to make better credit decisions. We can turn this credit abuse problem around yet!

Narrator: Mark enters "Easy Credit 4 U" and walks up to the "Loan Arranger" counter. Carrie Credit and Paul Payday Lender are behind the counter, eager to wait on Mark.

Carrie: Welcome to "Easy Credit 4 U"!! We meet your credit needs no matter what the cost. How can we help you?

Mark: Hi, I've never gotten a loan or a credit card before, but I'm hoping you can lend me some cash.

Carrie: Certainly, sir! A lack of credit history has never stopped us before! How much cash would you like to borrow?

Mark: Well, I'm a university student and paying tuition has wiped out all my finances. I need money for books and living expenses for the school year. And maybe a little extra cash for entertainment on the weekends.

Carrie: You've come to the right place, sir! At "Easy Credit 4 U", our mission is to increase your cash flow and decrease your cash problems. How about a credit card with a \$10,000 limit? Our introductory interest rate is only 10% on your balance each month!

Mark: I don't think I need a limit that high. And what is the interest percentage rate after your introductory period is over?

Carrie: Sir, you never know what circumstances you'll find yourself in, so a higher limit might come in handy! And don't you worry about the interest rate—we're very competitive with other credit institutions and we'll give you the best rate available...

Mark: Do you have any information on your credit card fees and penalties? Just in case I have a bad month financially and I'm not able to make a payment.

Paul: Sorry to interrupt, but that's when I might be of service! I can give you a short-term cash loan to get you over your financial bump, and you can pay me back later. We aim to please!

Mark: But then wouldn't I owe interest on the credit card plus more interest to you? And how much is YOUR interest rate?

Paul: Oh, it varies from month to month. But it's worth a little extra interest to have cash when you really need it, don't you think?

Narrator: Mark has decided he's heard enough and pulls out his cell phone to signal Professor Finance. The tune "Money, That's What I Want" begins to play loudly as the professor enters.

Paul: Now that's MY kind of music! Hey, who are you? Do you need a quick loan?

Mark: Professor, it's obvious that this clan is ignoring the rules of the new Credit CARD Act. With this new law, lenders must let consumers know ahead of time what their interest rates will be. No rate increase can take place until the credit account has been open a year. Fees for missed payments can't be increased. And, most importantly in this case, no credit card can be issued to a person under 21 without a co-signer or proven financial independence of the cardholder!

Paul: Gosh, I thought you were at least 21 and a half...

Professor: Mark has enough incriminating evidence to send you both away for a long time. You make your profit by taking advantage of consumers who need money and credit. Evildoers like you are the reason people are in debt up to their earlobes today!

Paul: You got it all wrong, pal! We're trying to make life EASIER for consumers by giving them access to all the cash and credit they need.

Professor: But at what overall cost? When interest rates go up and consumers can't make their payments, they become buried in debt. Then their credit history goes down the tube, along with their credit report and credit rating. Some consumers can never recover!

Narrator: Barb Bankruptcy hears the discussion and joins the conversation.

Barb: That's where I come in to set them free! Consumers can just declare bankruptcy, and all that debt will go away...they can start with a clean slate in 10 years.

Professor: You make it sound so easy. You've forgotten about the long-term effects on consumers who have declared bankruptcy. If they don't change their ways, in future years they may be denied credit altogether. If they are granted credit, they may have an extremely high interest rate on purchases. They could possibly be denied employment because of a poor credit history. They may have difficulty renting an apartment. And they will likely pay higher insurance premiums.

Barb: Details, details, details...

Mark: Aren't you up-to-date on bankruptcy legislation? It's harder to pass income standards in order to declare bankruptcy now. And once a consumer files for bankruptcy, his debt may not be completely wiped out. He may have a repayment plan to follow in order to get things cleared up. But the good news is, credit counseling is REQUIRED before the bankruptcy will go through. Consumers may learn their lesson...

Barb: Whatever!

Narrator: An angry Captain Carl suddenly enters the room.

Captain Carl: All this commotion is disturbing my thinking process! What's going on in here, clan?

Barb: These dudes are trying to wreck our business with their new rules and legislation. They think they know all about credit!

Captain Carl: And who are "these dudes"?

Professor: I'm Professor Finance and this is Fed Boy. We're here to take down "Easy Credit 4 U" for unethical business practices!

Captain Carl: Say what?

Mark: You're busted, Captain! Your clan has taken advantage of consumers one too many times. Your deceptive methods of charging sky-high fees and ever-increasing interest rates are coming to an end. And ignorance of the new credit and bankruptcy laws is no excuse!

Captain Carl: Sometimes ignorance is a good thing...

Professor: Not this time, buddy! Consumers deserve to have access to credit without worrying about hidden traps and tricks in their credit card agreements. Say goodbye to "Easy Credit 4 U" and hello to hard times to come!

Narrator: Scene three takes place back at the university office, as the Professor and Mark listen to the latest news on station FEDR.

Fran: I'm Fran Frank, with a frank word on today's news. Here's breaking news from the courthouse: the recently rounded-up Catastrophe Clan pleaded guilty to the charge of giving misleading information on credit and loan interest rates to take advantage of their customers. The judge has sentenced the clan to do 100 hours of public service announcements about the new CARD Act to inform consumers of their rights to credit. They have also been fined \$10,000 for the excessive profit they gained through their deceptive practices. And "Easy Credit 4 U", the clan's business, has been permanently shut down by regulators.

Mark:

All right! When those public service announcements go nationwide, consumers will better understand the CARD Act and lenders' responsibilities to the public. They'll realize that the clan was the "bad apple" in a group of trustworthy credit and financial firms.

Professor:

And we may start to see that overall consumer debt is decreasing due to better financial decision-making by an informed public. We've accomplished our goal, Mark! Now let's hope that consumers can accomplish theirs!

*"Professor Finance and Fed Boy Meet the Catastrophe Clan" script written by Michele T. Wulff
for the Federal Reserve Bank of Kansas City*

