



Laying the foundation for responsible credit use

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During a fifth-grade personal finance lesson, I asked my students to define credit. In the discussion that ensued, I heard not only wide-ranging definitions but also several negative credit stories, such as how their parents cut up their cards in frustration over mounting bills and rising interest rates.

The conversation showed me two things: First, it's important to help children gain a well-rounded understanding of credit, both its advantages and costs. Second, even young children can begin to learn personal finance principles that lead to a strong understanding about credit use. Below are age-appropriate suggestions for paving the way.

Preschool age: Teach your child the difference between a want and a need to begin the decision-making process.

Elementary age: Receiving an allowance can help your child practice money skills such as saving and paying off debts. Honing these skills is great preparation for credit management.

Pre-teen and early high school: Provide your budding

credit manager a certain amount of money or a prepaid debit card to purchase school clothes and supplies. Make sure your child understands that the shopping ends once the balance reaches zero.

Older teens: Consider having your teen open a checking account that includes a debit card. This experience can help your teen practice budgeting and money management, as well as how to handle a debit card.

College age: At this age, young adults may be ready to take responsibility of a low-limit credit card. You may want to co-sign for the credit card. Alternatively, a college student with independent funds for bill payment could accept the responsibility of an individual card.

Children as young as the fifth graders I was teaching can understand the details of credit cards. Be sure to point out the advantages credit cards offer, such as:

- They are more convenient and safer to use than cash;
- They can help in financial emergencies;
- Card issuers sometimes offer incentives for paying by credit card, such as points toward free products, airline miles or charitable donations.

Also point out the potential pitfalls of not using credit wisely, such as:

- Excessive debt (iterate that credit is not "free" money);
- The effects of compounding interest (to illustrate, try the "Doubling Dilemma" activity on Page 32 with your child);
- The danger of acquiring too many cards.

The high school years are a great time to familiarize your teen with the new Credit Card Accountability, Responsibility and Disclosure Act (CARD Act), emphasizing your teen's



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rights and responsibilities as a consumer. For instance, the act requires card issuers to keep the same billing date each month and send statements at least 21 days before that due date, as well as give advance information about rate and fee increases. Issuers also must report how long it would take the consumer to pay off the total balance if the consumer sent in only the minimum monthly payment. This can be a rude awakening for many teens.

Particularly significant to your teen, the act requires consumers under 21 show they are financially able to make payments before

receiving a credit card. This can serve as a good conversation starter on how to determine your teen's creditworthiness. Use the "Get a Credit Clue" quiz on Page 33 to test your teen's knowledge about common credit card facts.

Also stress that credit card use can help build a good credit history—something your teen will want on his or her side when it's time to buy a car or home, or even apply for a job. Show your child how to obtain a personal credit report, and urge him or her to check the report for accuracy each year.



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public.

Online at KansasCityFed.org/TEN:

"Professor Finance and Fed Boy Meet the Catastrophe Clan"

Introduces students to the use and misuse of credit in a humorous, superhero format. An explanation of the Credit CARD Act and consumers' rights and responsibilities is included. For ages 12-15.

"The Money Circle: Theme Two—Money Principles, Lesson Two—Credit: Friend or Foe?"

Helps students analyze personal spending patterns; evaluate credit sources; recognize the importance of a good credit history; and evaluate the costs and benefits of using credit. For ages 14-18.

"It's Your Paycheck: Unit 3—All About Credit"

Contains several in-depth lessons on credit cards, figuring loan rates, and the rights and responsibilities of both the consumer and creditor. For ages 14-18.

"Choosing a Credit Card"

Provides a primer of basic information about credit cards, including understanding card features, fees and characteristics. For teens and adults.

WhatsMyScore.org

Includes downloadable money guides on credit card basics and credit history, a blog answering credit questions, and a credit score video. For teens and adults.

Literature

The Skinny on Credit Cards, How to Master the Credit Card Game

By Jim Randel

Gives credit card information in an entertaining cartoon story format. For teens and adults.

Managing Your Debt ("Which?" Essential Guides)

By Phillip Inman

Focuses on managing finances, credit cards, student loans and decreasing debt. For teens and adults.

Doubling Dilemma: The Effects of Compound Interest

Which is greater:

\$1 million or a penny that doubles in value every day for 30 days?

Using a calculator, figure the compound interest of the doubling penny below to see what happens. (Take each new total and multiply by 2 to double.)



Day	Amount	Day	Amount
1	1¢	16	
2	2¢	17	
3		18	
4		19	
5		20	\$5,242.88
6		21	
7		22	
8		23	
9		24	
10	\$5.12	25	\$167,772.16
11		26	
12		27	
13		28	
14		29	
15	\$163.84	30	

Did you guess correctly?





Take this credit quiz to see if you are credit card worthy!

Score a point for each correct answer and get your “credit report” below.

- | | | |
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| 1. An advantage of having a credit card is that it is a more convenient and safer form of payment than cash. | T | F |
| 2. APR stands for actual payment rate, which is how much you should pay monthly. | T | F |
| 3. Compound interest is interest computed as a percentage of the original loan amount. | T | F |
| 4. A credit limit is the total amount you may charge on your credit card. | T | F |
| 5. It is best to make only the minimum payment on your card each month. | T | F |
| 6. The APR for a cash advance may be higher than the APR for a purchase on the same card. | T | F |
| 7. A credit history is the history of a consumer's employment. | T | F |
| 8. According to the Credit CARD Act, anyone over the age of 19 can receive a credit card. | T | F |

Credit Report:

- 8 correct: Credit Candidate
- 6-7 correct: Becoming Credit Competent
- 4-5 correct: Becoming Credit Capable
- 1-3 correct: Credit Confused

Answers:

1. T 2. F 3. F 4. T 5. F 6. T 7. F 8. F

