



LifeSmarts U Personal Finance Lesson
Credit: Dear Mr. Moneyman student activity

Directions: Mr. Moneyman gives advice to teenagers about personal finance and money management. Using the knowledge you gained from this lesson about credit, help him answer the following letters. Your responses should be specific and show your knowledge about credit concepts and vocabulary.

1. Dear Mr. Moneyman:

It is my first week of college and I am already confused. From the freshmen barbeque to the college bookstore, I have been bombarded with student credit card offers. What are the pros and cons of getting a credit card; do I really need one?

Sincerely,
Currently Cash and Carry

2. Dear Mr. Moneyman:

I am working hard at my first full-time job and recently applied for my first credit card. When I received my first statement in the mail the credit card company enclosed a flyer about preventing identity theft. The flyer seemed to be written in a foreign language—all this stuff about pretexting, phishing, skimming and dumpsters. HELP—I need an interpreter.

Yours truly,
Lost in the Translation

3. Dear Mr. Moneyman:

When my economics teacher finished her lecture on credit, she told us all to check out the terms of credit agreements. Then she went on about full disclosure and this guy Schumer, who she said is in a box. What's up with that?

Help me out here,
Credit Confused

4. Dear Mr. Moneyman

My Dad is helping me buy my first car by co-signing the loan. He was just starting to tell me something about open- and close-ended when my sister interrupted and began lecturing me about installment payments. Then my Uncle Eddy joined in with tips about revolving payments, and now the only thing spinning is my head. What are they talking about?

Your friend,
Dizzy

5. Dear Mr. Moneyman:

After I graduated from high school I moved out of my parents' home and into an apartment with two friends. I have a full-time job and I thought it would be cool to get a credit card. I have applied for two, but have been turned down because I have no "credit history." What can I do?

Yours truly,
Cardless in California



LifeSmarts U Personal Finance Lesson Credit: Dear Mr. Moneyman Teacher Prompts

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Sincerely,
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Sample Response:

Dear Cash and Carry,

As you point out credit has advantages and disadvantages. Here are some pros and cons to consider:

PROS:

- Buy needed items now
- Carry less cash
- Create a record of purchases
- Convenience
- Consolidate bills into one payment

CONS:

- Interest charges
- Additional fees to use credit
- Impulse buying
- Financial problems if you don't track spending
- Possibility of identity theft

One of the most important things to remember is that you need to use credit like cash. Do not spend money on things you can not afford, and live within your budget.

Sincerely,
Mr. Moneyman



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Sample Response:

Dear Lost,

First, let me congratulate you on reading the information your credit card company sends. That is one indicator that you are on your way to becoming a responsible consumer. All the terms you mention are ways that identity thieves could steal your personal information. Here is what they mean:

- Pretexting—A request for your credit card information or other personal information by a source that might sound or look legitimate. The thief creates a “pretext” or dishonest reason for asking you for information.
- Phishing—You receive an email that asks for personal information and provides a link to a look-alike Web page. These Web sites, that mirror legitimate business sites, request your personal information, but are really just phishing for your personal data.
- Skimming—A thief attaches an electronic data storage device to an ATM or a point-of-sale terminal, steals your personal information, and uses your credit or bank account.
- Dumpster Diving—Thieves look through trash for documents that contain credit card or personal information. This can happen at work, home, or at a dump or waste management facility.

Never respond to text message or email requests for personal information from an unknown source, and remember to shred documents with personal information before you put them in the trash.

Yours truly,
Mr. Moneyman



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Sample Response:

Dear Credit Confused,

The Truth-in-Lending Act (TILA) requires that certain disclosures be made when credit card companies are soliciting your business. This information will be displayed in a format called the "Schumer Box," which is named after the U.S. Senator from New York who drafted the bill.

The Schumer Box includes:

- The APR or APRs
- Finance charges, including the minimum finance charge
- The minimum payment required
- The method used for computing your outstanding balance
- The actual company offering you credit (sometimes not the company marketing the card)
- The credit limit
- The grace period
- The annual fee, if any
- The fees for credit insurance, if any

This information makes it easier for you to compare credit cards and choose the card that best suits your needs.

Hope this Helps,
Mr. Moneyman



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Your friend,
Dizzy

Sample Response:

Dear Dizzy,

Consumer credit comes in several forms. You can get a loan you repay with fixed payments each month, like your car loan, and that is called closed-ended or installment credit. This type of credit is closed because you borrowed a pre-determined amount and your payments are based on what is required to be paid back in equal installments over a specified time period.

Another type of credit is called open-ended or revolving. This type allows you to charge throughout the month, and then pay part or all of the balance when you receive your monthly statement.

Consumers often use closed credit for major purchases (a home or an automobile); making installment payments each month until the balance owed is zero. Open credit, such as a retail credit card, is used to pay for expenses that occur on a more regular basis when the convenience of a credit card is desirable.

Just remember whatever type of credit you choose, you need to be responsible, and carefully determine how much credit you can afford.

Your friend,
Mr. Moneyman



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Yours truly,
Cardless in California

Sample Response:

Dear Cardless in California,

Your credit history is a record of how you have used credit in the past. It is a bit tricky when you are told you can not get credit because you have never had credit, but there are some simple things you can do to begin to establish the credit history you need. The following steps should help you gain a credit history and become eligible for a credit card:

- Establish a steady work record
- Pay all bills promptly
- Open a checking account (and don't bounce checks)
- Open a savings account and make regular deposits
- Apply for a local store card and make regular monthly payments
- Get a small loan (using your savings account as collateral, or asking a co-signer to help you), and pay back the loan as agreed
- Put bills, such as the phone or cable bills, in your name

Take this time before you get your first credit card to put your finances in order and learn to budget wisely so that a credit card is another financial tool, not a temptation.

Yours truly,
Mr. Moneyman