# Determine Sources of Credit

**Unit.** Basic Skills

**Problem Area.** Use Business Terminology

**Lesson.** Determine Sources of Credit

**Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

1. **Explain the use of institutional credit.**
2. **Understand the use of charge accounts.**
3. **Understand the use of credit cards.**
4. **Understand the use of installment plans.**

**List of Resources.** The following resources may be useful in teaching this lesson:

This lesson was adapted from the following: "Determining Sources of Credit. Lesson D1–3." *Illinois Agricultural Education*. 2006. Illinois State Board of Education. <http://www.agriculturaleducation.org/curriculum/default.asp>

"High School Financial Planning Program." Greenwood Village, CO: National Endowment for Financial Education and Cooperative Extension Service, 2001. (This source is available free from the National Endowment for Financial Education, High School Department, 5299 DTC Boulevard, Suite 1300 Greenwood Village, CO 80111—Phone: 303-224-3511.)

Morton, John, and Mark Schug. *Financial Fitness for Life.* New York: National Council on Economic Education, 2001.

Ryan, Jerry, and Roberta Ryan. *Preparing for Career Success.* St. Paul: West Publishing Company, 1997.

## List of Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

**Terms.** The following terms are presented in this lesson (shown in bold italics):

- average daily balance
- charge account
- collateral
- cosigner
- credit card
- installment plans
- institutional credit
- intermediate-term credit
- real estate financing
- revolving credit account
- short-term credit

**Interest Approach.** Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situation. A possible approach is included here.

> *Ask students to provide a list of items that can be purchased using “90 days, same as cash.” Ask them to explain why a business would offer this arrangement. What kind of problems can occur for the consumer?*

# SUMMARY OF CONTENT AND TEACHING STRATEGIES

**Objective 1:** Explain the use of institutional credit.

**Anticipated Problem:** How can institutional credit be used?

I. ***Institutional credit*** is obtained from organizations in the business of loaning money.

A. ***Short-term credit*** is usually paid back within one year.
   1. Usually used to purchase small items
B. ***Intermediate-term credit*** is usually paid back in one to five years.
   1. May be used to purchase a car
C. ***Real estate financing*** usually ranges from 5 to 30 years.
   1. Used to purchase land or houses
D. ***Collateral*** are the assets that are pledged to secure a loan. In the event that the loan goes unpaid, the collateral may be sold to pay the loan.
E. If collateral is not available a ***cosigner***, a person who shares responsibility for the loan if the borrower is unable to pay, may be used.

*Many techniques can be used to help students master this objective. As an example, use "High School Financial Planning Program." Use VM–A to discuss credit terms. Invite a bank representative to talk about the requirements for obtaining each type of loan.*

**Objective 2:** Understand the use of charge accounts.

**Anticipated Problem:** What is a charge account?

II. A ***charge account*** is extended by retailers to those who purchase products from them.

A. This makes purchasing the product more convenient for the consumer.
B. An example is having a charge account at the local gas station.
C. Usually, interest is waived for a period of time.
D. This type of credit may carry extremely high interest for unpaid balances.

*Many techniques can be used to help students master this objective. As an example, use "High School Financial Planning Program." Assign LS–A (Comparing Charge Accounts). Use VM–A to discuss credit terms.*

**Objective 3:** Understand the use of credit cards.

**Anticipated Problem:** How are credit cards used?

III. A ***credit card*** is a plastic card with owner information that is used to conduct a credit transaction.

A. Many department stores and financial institutions offer credit cards.

B. Most credit cards use a ***revolving credit account***; the cardholder can pay the full amount or a minimum monthly payment.

C. If minimum payment is made, finance charges begin on the unpaid balance.

D. The cardholder can continue using the account until the credit limit is reached.

E. Finance charges are usually charged on the ***average daily balance***, the balance carried forward plus any new purchases.

*Many techniques can be used to help students master this objective. As an example, use "High School Financial Planning Program." Have students bring in charge card applications and review the terms of each card. Use VM–A to discuss credit terms.*

**Objective 4:** Understand the use of installment plans.

**Anticipated Problem:** What are installment plans?

IV. ***Installment plans*** are a way of purchasing goods. The buyer makes regular payments while taking immediate possession of the good.

A. The buyer does not own the product until it is paid for in full.

B. Usually, a down payment is required.

C. Interest is usually figured into the payments.

D. Some retailers offer "90 days, same as cash" incentives in which no interest is due if the total cost is paid within 90 days.

*Many techniques can be used to help students master this objective. As an example, use "High School Financial Planning Program." Have students collect a credit application for an installment plan and discuss the terms included. Use VM–A to discuss credit terms.*

**Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the ends of chapters in the textbook may also be used in the review/summary.

- **Application.** Use the included visual master and lab sheet to apply the information presented in the lesson.

- **Evaluation.** Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

## Answers to Sample Test:

### Part One: Matching

1. f
2. a
3. g
4. b
5. c
6. e
7. j
8. i
9. d
10. h

### Part Two: Completion

1. intermediate-term credit
2. Collateral
3. institutional
4. high
5. down payment

### Part Three: Short Answer

An installment plan may be used if you are already carrying a balance on a credit card. You may also use an installment plan if the store is offering “90 days, same as cash.”

Name ______________________________

# Determine Sources of Credit

## Part One: Matching

***Instructions:*** **Match the term with the correct definition.**

a. short-term credit
b. installment plan
c. credit card
d. institutional credit
e. revolving credit account
f. cosigner
g. real estate financing
h. charge account
i. average daily balance
j. intermediate-term credit

_____1. A person who shares responsibility for loan repayment

_____2. Financing usually paid back with one year

_____3. Financing usually paid back in 5 to 30 years

_____4. Way of purchasing goods in which the buyer makes regular payments

_____5. A plastic card used to conduct a credit transaction

_____6. Credit may be used in any amount up to the maximum limit

_____7. Financing usually paid back within one to five years

_____8. Method of determining finance charges on credit cards

_____9. Credit obtained from organizations in the business of loaning money

____10. Credit extended by retailers to those who purchase products from them

## Part Two: Completion

***Instructions:*** **Provide the word or words to complete the following statements.**

1. A loan used to purchase a car is considered _________________________.

2. ______________________ is an asset pledged to use to secure a loan.
3. A bank provides ______________________ credit.
4. A charge account usually carries extremely ______________________ interest rates for unpaid balances.
5. Usually, a ______________________ is required for an installment plan.

## Part Three: Short Answer

***Instructions:* Complete the following.**

Discuss when you would use an installment plan rather than a credit card.

VM–A

# CREDIT TERMS

- Institutional credit
- Short-term credit
- Intermediate-term credit
- Real estate financing
- Cosigner
- Charge account
- Credit card
- Revolving credit account
- Average daily balance
- Installment plan

Name

# Comparing Charge Accounts

## Purpose

The purpose of this activity is to compare the policies of business charge accounts.

## Objectives

1. Interview three businesses in the community to determine their charge account policies.
2. Answer the following questions for each business.

## Materials

- lab sheet
- writing utensil

## Procedure

1. Visit three different businesses to obtain credit information.
2. Collect credit applications from the different businesses.
3. Answer the following questions.

## Questions

1. Does the business allow personal charge accounts?
2. How long is the grace period?
3. Is there a maximum limit?
4. What are the service charges per month?