CREDIT WHERE CREDIT IS DUE

PARENT GUIDE

In this important episode, your child will join the MoneyBright Kids as they learn all about debt, including credit cards and loans, and will help your child understand how debt can be dangerous for themselves and the family.

This Parent Guide provides you with all resources we've made available to your child, along with the True/False and Multiple Choice quizzes, including the correct answers, and a list of Discussion Questions, all of which your child will have the opportunity to review and complete online.

GLOSSARY OF TERMS

Credit: The ability to acquire items before paying for them with the assurance that they will be paid for in the future.

Defaulting: When you no longer have the money to pay back your loan. It has serious consequences later, negatively affecting your credit rating and making it extremely difficult to buy a house or car.

Deferring Cost: When something bought on credit is used to make money, offsetting interest payments and fees

Interest: A fee taken by the bank for loaning you money. It may increase dramatically depending on the amount of risk the bank is taking loaning the money.

Investment: Something that you put money into in order to get more money out. A good investment nets you money, while a bad investment loses you money.

Need: Something that is necessary to survive such as food, shelter, and clothing.

Negative Net Worth: When your liabilities and debts outweigh the money you have available.

Risk: A chance assumed by the bank that people won't be able to pay back their loans. The more risk involved for a bank, the more money they charge their borrowers in interest and fees.

Saving: Putting money in the bank and earning interest on it. It is a better alternative to credit, and while it does take longer and could cost money in the short term, it may keep you out of debt.

Want: Something that may make life easier or better but that you could survive without.

ACTIVITY

Money Wave - Stay Above Water Game

Smart credit decisions will keep you "above water." Circle all of the ways you can use your power to use credit wisely.

Only use credit for things you need.

Put down part of the money, if you have it, to lessen the amount you need to borrow.

Pay only the minimum monthly payments.

Control your spending.

Be sure to keep a list of the things you want and get them every month.

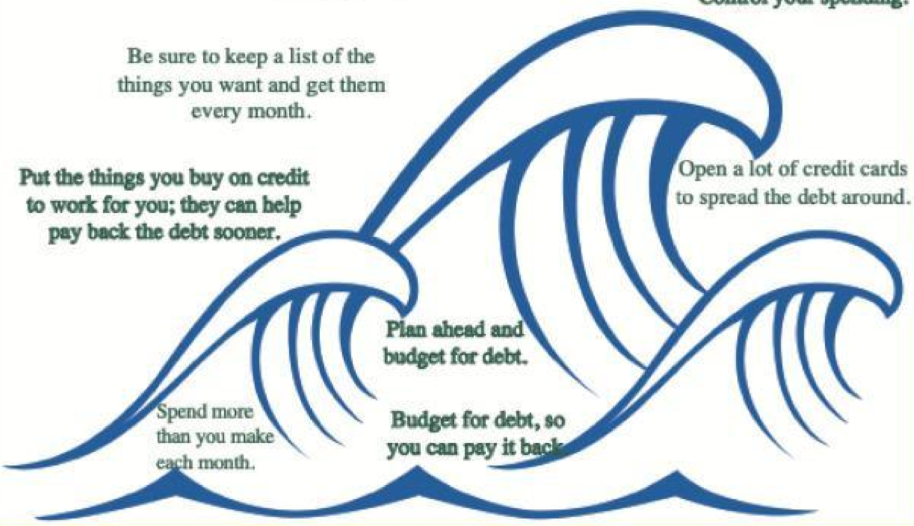
Put the things you buy on credit to work for you; they can help pay back the debt sooner.

Open a lot of credit cards to spread the debt around.

Plan ahead and budget for debt.

Spend more than you make each month.

Budget for debt, so you can pay it back.



TRUE/FALSE QUIZ

1. The fee, or cost, for borrowing money or using a credit card is called interest. —**True**
2. Things that are needed to live include food, clothing, and shelter. —**True**
3. A negative net worth is when people have more money than debt. —**False**
4. Lenders can't do anything when people don't repay loans. —**False**
5. Compound interest is when interest is charged on unpaid interest. —**True**
6. Failure to pay back loans as promised can lead to a bad credit rating. —**True**
7. Having a bad credit history has no effect on a person's ability to borrow money in the future. —**False**
8. The best financial tool people have is borrowing. —**False**
9. Budgeting and saving are two very helpful financial tools. —**True**
10. The faster a loan is paid off, the less the loan costs. —**True**

MULTIPLE CHOICE

1. What is a credit card best used for?
   a. Convenience
   b. Things that you need
   c. Things that you really want
   d. Saving money

2. What is the fee charged by the bank for loaning you money on credit?
   a. Credit card
   b. Savings
   c. Mortgage
   d. Interest

3. What is the first question you should always ask when considering using a credit card?
   a. Do I really need this?
   b. How bad do I want this?
   c. Is this the best color for me?
   d. Will my parents approve of this?

4. Which of these things would not be considered a need?
   a. Food
   b. Shelter
   c. A video game
   d. Clothes

5. We have some great money tools at our disposal. Which of these is not a good tool?
   a. Investing wisely
   b. Overspending
   c. Proper budgeting
   d. Saving

6. Which of these is an example of an expense a family may have?
   a. House payments
   b. Food
   c. Electric
   d. All of the above

7. Credit is a form of debt. When is it okay to have some debt?
   a. When spending is controlled
   b. When everything a person wants can be bought with credit
   c. When only the minimum payment can be afforded each month
   d. When it's necessary to have the newest and best of everything

8. What is it called when a person owes more money than what they ear and all that they own?
   a. Foreclosure
   b. Debt
   c. Savings
   d. Negative Net Worth

9. What can happen if people can't pay their debts or if the decide to just stop paying the money back?
   a. Creditors can take back their property
   b. Their credit rating can be ruined
   c. It can be impossible to borrow money again in the future
   d. All of the above

10. When using credit, what can be done to make sure it is being used wisely?
    a. Put some money down to lessen the original debt.
    b. Put items that are purchased with credit to work to help pay the cost of the interest.
    c. Budget for the debt so more debt isn't added.
    d. All of the above

11. Which of the following best describes compound interest?
    a. Interest paid each time a payment is made
    b. Total interest paid in the first payment rather than a little in each payment
    c. Any interest unpaid in a loan payment is charged interest
    d. None of the above

12. What happens when people take on more and more debt?
    a. They become more trusted with using credit.
    b. People with a lot of debt are charged higher interest rates.
    c. People get lower interest rates so the lender can be paid back.
    d. All of the above

13. When do banks charge interest?
    a. **They charge interest when they loan money.**
    b. They charge interest on savings accounts.
    c. They charge interest on checking accounts.
    d. All of the above

14. When do banks pay interest?
    a. They pay interest to people who take out loans or credit cards.
    b. **They pay interest on savings accounts.**
    c. They pay interest on small checking accounts.
    d. None of the above

15. How do some small businesses pay back loans on equipment when they hit a slow season or period?
    a. They sell the equipment and buy newer models when business picks up.
    b. **They can rent out unused equipment to cover some of the costs.**
    c. They wait to pay the loan payments until business picks up.
    d. None of the above

16. What happens when loans, or money spent with credit, are not repaid?
    a. Lenders pay extra interest to people who can't repay their debt.
    b. Lenders start to charge interest on savings accounts.
    c. Lenders lower interest rates so they can get paid back.
    d. **Lenders can take back, or repossess, the items purchased with credit.**

17. If a minimum payment on a credit card doesn't include the interest, how can just paying the minimum payment become a problem?
    a. Interest is added to the unpaid interest.
    b. More interest charged on the unpaid interest increases the cost of the original purchase.
    c. **Interest won't just be on the amount borrowed; it will also be charged on the interest.**
    d. All of the above

18. Which of the following best describes how paying a loan off faster helps keep the cost of the loan lower?
    a. The faster the loan is paid off, the more the purchased item costs.
    b. **The faster a loan is paid off, the less interest is owed.**
    c. The faster a loan is paid off, the more interest is charged.
    d. It doesn't matter how fast a loan is paid off.

19. Which of the following tells how having a bad credit history can hurt a person's ability to borrow money in the future?
    a. He or she may have to pay much higher interest for loans.
    b. He or she will find it harder to get mortgage loans and car loans.
    c. He or she becomes too much of a risk.
    d. All of the above

20. Of the financial tools people have—borrowing, budgeting, and saving—which is the most risky?
    a. Borrowing
    b. Budgeting
    c. Saving
    d. All of the above

DISCUSSION QUESTIONS

1. What is credit? What makes it useful to many people?
2. What are some things that people may need to use credit for?
3. What is the difference between a "need" and a "want"?
4. What is interest?
5. How does interest relate to risk?
6. Why do banks charge less interest on a mortgage than on a credit card?
7. Why do some people default? How does this affect them later on?
8. What does it mean to have a negative net worth?
9. How does deferring cost make something more valuable?
10. What makes saving a better financial choice than credit?