



Financial Literacy Education Student Handouts



Lesson 7: What is credit?

Warm-Up

Where have you seen people use credit?

What words or phrases do you associate with credit?

What do you think credit is used for?

How can credit make people feel?

Learning Targets

I can:

- Identify different types of consumer credit.
- Compare the costs and benefits of different credit options.

Glossary

Annual percentage rate (APR): The cost of borrowing is expressed as a yearly percentage, including interest and certain fees. It tells a borrower how much they will pay if they carry a balance on any type of credit.

Credit: An agreement in which you receive something of value now—like money, goods, or services—and promise to pay for it later, usually with added costs like interest or fees.

Collateral: Something valuable—like a car, house, or money in a bank account—that you promise a lender when you borrow money. If you don't repay the loan, the lender is allowed to take the collateral to recover their money.

Debt: Money you owe because you borrowed money or did not pay for something yet.

Installment credit: A type of credit where you borrow a set amount of money and pay it back in equal payments (installments) over time.

Interest rate: The extra money paid for the use of money over time, usually expressed as a percentage of the principal.

Loan: A specific amount of money that you borrow and repay over time, usually with interest.

Open-end/revolving credit: A flexible type of credit that lets you borrow up to a set limit, pay it back, and borrow again.

Prime credit: Credit that reflects a strong history of borrowing and repayment, which helps borrowers qualify for lower interest rates and better loan terms.

Principal: A sum of money you borrow.

Secured credit: Credit that requires collateral to guarantee repayment. If you don't pay, the lender can take the collateral.

Unsecured credit: Credit that does not require collateral. The lender relies on your promise to repay and your credit history.

Note Catcher

Main Ideas/Key Information

What are we discussing?

Notes

What did I learn?

Summary/Application

Why does it matter to me?

Credit Scenarios

Name:

Directions:

1. Work with your group to read each credit scenario.
2. For each scenario, identify:
 - a. Is it installment credit or revolving credit?
 - b. Is it secured credit or unsecured credit?
3. After discussing all of the scenarios, your group will be assigned one scenario to research.
 - a. Find a real credit offer from an Oregon bank, credit union, or retailer that is similar to your assigned scenario.
 - b. Record the following information:
 - i. Product name
 - ii. APR or interest rate
 - iii. One fee (if any)
 - iv. One important feature or benefit
 - c. Be prepared to explain your group's answers and share what you learned with the class.

Scenario 1: Buying a used car

Jordan, a 19-year-old college freshman, works part-time and earns \$2,400 per month. Jordan has \$3,000 saved for a down payment and finds a used car for \$10,000. A bank approves a \$7,000 loan at 6% interest for 3 years, with monthly payments of about \$245. The bank will hold the car title and can repossess it if Jordan stops paying.

Identify and select the type(s) of credit described in this scenario and explain your reasoning.

Type	Explanation
☐ Installment ☐ Revolving ☐ Secured loan ☐ Unsecured loan	

Use the website of an Oregon bank or credit union to find an offer for a loan for a used car. Look for and record the information identified in the table below.

Information	Your Notes
Name of credit product	
Interest rate/APR	
Fees (late fees, annual fees, etc.)	
Features/benefits	

Scenario 2: Furnishing a first apartment

Daniella, a 23-year-old who just moved into her first apartment after starting a full-time job, needs basic furniture such as a bed, small couch, and kitchen table. The total cost is \$1,200. She has \$300 saved, but not enough to purchase everything upfront. A furniture store offers her a store financing plan for the remaining \$900 at 8% interest over 12 months, with payments of about \$81 per month. If she misses a payment, a late fee is added and her account may be sent to collections.

Identify and select the type(s) of credit described in this scenario and explain your reasoning.

Type	Explanation
☐ Installment ☐ Revolving ☐ Secured Loan ☐ Unsecured Loan	

Use the website of an Oregon-based furniture or home-furnishings store to find an offer for in-store financing. Look for and record the information identified in the table below.

Information	Your Notes
Name of credit product	
Interest rate/APR	
Fees (late fees, annual fees, etc.)	
Features/benefits	

Scenario 3: Signing up for a credit card

Mikaela, a 20-year-old college student, gets approved for her first traditional credit card with a \$1,000 credit limit. She uses the card to pay for groceries, gas, and occasional school expenses. Some months she pays the full balance, but other months she only pays the minimum payment of \$35.

Identify and select the type(s) of credit described in this scenario and explain your reasoning.

Type	Explanation
☐ Installment ☐ Revolving ☐ Secured Loan ☐ Unsecured Loan	

Use the website of an Oregon bank or credit union to find an offer for a credit card. Look for and record the information identified in the table below.

Information	Your Notes
Name of credit product	
Interest rate/APR	
Fees (late fees, annual fees, etc.)	
Features/benefits	

Scenario 4: Starting a small business

Ethan, a 23-year-old art school graduate, wants to launch a small online shop selling custom-designed T-shirts and hoodies. Ethan already owns drawing equipment and design software but needs \$1,800 to purchase a starter batch of blank shirts, fabric ink, and a small heat-press machine. He applies for a small business line of credit from a local credit union and is approved for a \$2,000 credit line with a 12% interest rate on any outstanding balance. With a line of credit, Ethan can borrow money as needed, repay it, and borrow again. The lender requires Ethan to make minimum monthly payments on whatever amount is used. No collateral is required.

Identify and select the type(s) of credit described in this scenario and explain your reasoning.

Type	Explanation
☐ Installment ☐ Revolving ☐ Secured Loan ☐ Unsecured Loan	

Use the website of an Oregon bank or credit union to find an offer for a business line of credit or a business loan. Look for and record the information identified in the table below.

Information	Your Notes
Name of credit product	
Interest rate/APR	
Fees (late fees, annual fees, etc.)	
Features/benefits	

Exit Ticket

What type of credit do you think you will use first?

What is one benefit of credit?

What is one risk of credit?
