

OVERVIEW

You probably don't think of a loan or credit-card application as a contract, but it is. By signing on the dotted line, you're entering into an agreement between you and the lender about what each of you must or must not do. You have responsibilities you have to meet to uphold your end of the contract, but so does your lender.

Your responsibilities include not taking on more debt than you can afford. Find out how much is too much and learn more about the legal rights and responsibilities of borrowing.

LEARNING OUTCOMES

In this lesson you will learn about the rights and responsibilities of borrowers and lenders. Along the way you will:

- Explain your legal rights and responsibilities when agreeing to a contract.
- Recite guidelines for borrowing limits.
- State where to get help with credit issues.

Use what you learn to write a code of conduct for borrowing.

LEARNING TASKS

These tasks match pages 16-34, 39 in Student Guide 2.

__ 1.	Explain why you think credit is good or bad.
__ 2.	Check your knowledge of ways you can improve your credit score.
__ 3.	Find out what you are getting into when signing a credit contract. Complete Activity 2.9: Rights and Responsibilities as you examine the fine print on a credit agreement.
__ 4.	When is debt too much? Find out as you complete Activity 2.7: Know the Limit .
__ 5.	Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit .
__ 6.	Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.



TAKING IT HOME

Think about a right or responsibility that you take on at home or think you are ready to take on. Write a contract with your parents/guardians to clarify the rights and responsibilities for both you and your parents. Clarify the terms of the arrangement for work you do or privileges you have such as using the family car, following a curfew, or having a cellphone.



EXTENSION

Research and create a consumer protection marketing campaign for your school or community. Select either "identity fraud" or "rights and responsibilities of borrowers" for your campaign.

1. Collect information and compelling facts from at least four different reliable sources.
2. Compile information to create 10 of the most useful "tips" for the campaign.
3. Check that your tips are accurate, concise, easy-to-understand, and free from writing errors.
4. Determine the most appropriate media for your campaign: posters, brochures, school/cable access television show, website, or Internet video.
5. Create your campaign materials.
6. Deploy your campaign!
7. If time allows, measure the impact of your campaign with a survey before and after your campaign.

Activity 2.6 Good and Bad Uses of Credit

NAME:

DATE:

Directions:

For each situation below, mark (X) if you think this is a good reason to borrow money. If you did not mark an X, explain why you think the situation is not a good reason to use credit.

- 1. Taking out a \$5,000 student loan for college tuition.

- 2. Charging dinner and movie tickets during a night out with your friends.

- 3. Buying a laptop that's on sale using the store's financing program.

- 4. Getting a loan to pay your credit-card bills.

- 5. Charging repairs to get your car running again.

- 6. Borrowing cash from a friend to buy some magazines.

Activity 2.7: Know the Limit

NAME:

DATE:

The 20–10 Rule for Borrowing Limit

\$ Total of	Should Be LESS Than	of Your
Amount Borrowed*	20%	Annual Net Income
Monthly Payments	10%	Monthly Net Income

**Includes credit cards but not mortgages*

Directions:

- Use the 20-10 Rule to calculate the debt limits for Mariah's and Jesse's older siblings.
- If you earn any income now, also compute your debt limits.

Borrower	Annual Net Income	Maximum Total Debt (20% Annual Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	\$	\$
Jesse's brother	\$24,750	\$	\$
Jesse's sister	\$35,800	\$	\$
Me	\$	\$	\$

Activity 2.9: Rights and Responsibilities of Borrowing

NAME:

DATE:

Directions:

Look at a credit card agreement, loan contract, or service agreement to find at least two rights and two responsibilities of the borrower and the same for the lender. Summarize your findings below.

Type of Agreement or Contract:		
	Rights	Responsibilities
Borrower		
Lender		