The Business of Credit

During this lesson, students will apply the basics of credit to managing a small business.

Lesson Summary

Overview

This lesson plan teaches high school students the basics of credit, including what a credit rating is and how credit ratings are determined. They watch a video segment from the PBS series *What's Up in Finance?* and learn about small-business financial management through creating a model business and having to determine how to take out a loan to expand the business. Finally, students apply the concepts of good credit versus bad credit to understand that good credit is necessary for taking out a loan.

Objectives

Students will:

- Understand the concept of credit
- Identify the components of a credit score
- Recognize the importance of having good credit
- Identify techniques for building a strong credit history
- Explain why new businesses need financing
- Research online sources for information about credit

Grade Level:

7-12

Suggested Time:

3 (45 minute) class periods

Media Resources:

Green Chic Video

In this video from *What's Up in Finance?,* Anna needs a loan for her eco-friendly fashion start-up.

Materials:

- Credit Rating Card Organizer
- Lending Requirement Card
- Computers with Internet access (for individuals or groups)
- Board and/or chart paper
- Computers with Internet access (for individuals or groups)
- Notebook or journal

- Calculator

Web Sites:

- Citigroup Financial Education: Educational Resources
- Citigroup: SME Credit: Five Cs of Credit
- FICO Credit Scores

Before The Lesson

- Bookmark the Web site used in the lesson on each computer in your classroom. Using a social bookmarking tool such as del.icio.us or diigo (or an online bookmarking utility such as portaportal) will allow you to organize all the links in a central location.
- Preview all of the video segments and Web sites used in the lesson to make certain that they are appropriate for your students, currently available, and accessible from your classroom.
- Download the video segments used in this lesson onto your hard drive, or prepare to stream the clips from your classroom.
- Print out the Student Organizers "Credit Rating Card" and "Lending Requirement Card" and make enough copies so that each student has one copy of the "Credit Rating Card" Student Organizer.

The Lesson

Part I: Introductory Lesson

1. Check for prior knowledge by asking students if they know the meaning of the term “entrepreneur.” (*An entrepreneur is someone who creates, manages and takes on the risks of a business to make it a success.)* Take student responses. Next discuss with students what it takes to start a new business. Ask students if they know anybody who has started a business, or if they have any interest in owning their own business some day.
2. Ask students if they have an idea of how to pay for the start-up costs of a new business. Explain that one option is to borrow money from a bank or other financial institution.
3. Tell students they are going to watch a video segment from the PBS series *What’s Up in Finance?* about Anna, a fashion designer who needs a loan for her growing eco-friendly start-up. Ask them to think about how new business owners might attain the money needed to get their businesses off the ground. Play the Green Chic video for the class.
4. After the segment ends, discuss with the class the reason Anna needed a loan for her company. (*Answer: To produce her spring line of clothing*.)
5. Next, discuss the loan approval meeting, and the part where the lenders discuss how Anna has a good credit rating and how that will help her get a loan.
6. Ask students if they know what a good credit rating is, and then explain that it's a rating that tells banks and other lenders how likely it is that an individual will repay a loan, like a car loan or a home loan.
7. Explain to students that they are going to do an activity where they pretend to be business owners who need to borrow money to get their new businesses off the ground.
8. Next, ask students to divide into groups of five and start brainstorming ideas for new businesses.

Part II: Determine Business and Credit Rating

1. First, ask students to finalize their ideas for a new business and their plan for borrowing money.
2. Give each group one Credit Rating Card Organizer (there are seven for this lesson plan). This card gives them, as the business owners, a personal credit rating score that will impact their ability to attain a loan for their new business.

3. Next, explain to students that they will be researching what makes a person or a company a good candidate to receive credit by looking at a couple of different Web sites.
4. Ask students to go to the Citigroup: SME Credit: Five Cs of Credit Web site to find out about the five characteristics that describe a person who is a good candidate to receive credit. (*Answer: capacity, capital, collateral, conditions, and character*.)
5. Next, ask students to research at the FICO Credit Scores Web site what factors determine a credit score and discuss it as a class. (*Answer: 35% — Payment History, 30% — How Much You Owe, 15% — Length of Credit History, 10% — New Credit, and 10% — Other Factors.)*
6. Then, discuss the range of possible credit scores and what they mean. (*General range: 300-850. Above 700 is a sign of good financial health. Below 600 is considered a high risk to lenders — this might mean higher interest rates or being turned down for a loan or credit application.)*

Part III: The Lending Process

1. One person from each group should be chosen by his or her group to become part of the panel of bankers.
2. The panel is given the Lending Requirement Card , which gives them information about the type of credit rating a business will need in order to get a loan.
3. The panel then meets with each group to discuss whether or not that business is getting a loan, based on the business's credit rating, and the lenders' requirements.
4. If the group receives a credit score of under 600 they do not receive a loan.
5. If the group receives a credit score of over 700 they will receive a loan.
6. If the group receives a credit score of 600-700 they have the opportunity to try to convince the bankers to give them a loan based on their plan for borrowing money to start a business.
7. Finally, have a class discussion about which businesses received a loan and why.