

Why Personal Financial Literacy Should Be Taught in Business Classes



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Why Teach Personal Finance?

- **Consider this:**
 - Only about one in three parents (34%) have taught their teen how to balance a checkbook, and even fewer (29%) have explained how credit card interest and fees work.
 - More than 67% of parents think that learning about money management, including budgeting, saving and investing, is not one of their teen's top priorities. However, previous research shows otherwise: 60% of American teens identified it as a top priority in Schwab's 2007 Teens & Money Survey.

Charles Schwab, *Schwab "Parents & Money" Survey Offers Prescription for Raising Financially Healthy Kids*, March 26, 2008.



Why Teach Personal Finance?

- **Why in high school?**
 - Only 2% of college undergraduates had no credit history. 39% of students arrived on campus as freshmen with a credit card already in hand.
 - Only 15% of freshmen (in 2009) had a zero balance, down dramatically from 69% in the fall of 2004. The median debt freshmen carried was \$949, nearly triple the \$373 in 2004.
 - 84% of undergraduates indicated they needed more education on financial management topics. In fact, 64% would have liked to receive information in high school and 40% as college freshmen.

Sallie Mae, *How undergraduate students use credit cards: Sallie Mae's national study of usage rates and trends*, 2009, March 2008.



Why Teach Personal Finance?

- **Why in business classes?**

- **Personal finance topics included in high school economics TEKS:**

- Sole proprietorships, partnerships, corporations
- How corporations use stocks & bonds to raise funds – financial markets, capital formation
- Investments
- Savings, checking accounts
- Borrowing money – credit cards, bankruptcy
- Insurance
- Renting / buying a home
- Retirement plans

All topics are in addition to the economics concepts the course was originally designed to teach.



Why Teach Personal Finance?

- **Why in business classes?**

- Career and business teachers can provide more depth and reinforce personal financial literacy concepts.
- Business finance and personal finance share many basic concepts.
 - Learning personal finance makes it easier to learn business finance and capital markets.
 - Students who do not pursue a business career still need to understand personal finance.



How do I do that?

- **Obvious courses:**
 - Business Management and Administration Cluster:
 - Principles of Business, Marketing, and Finance
 - Finance Cluster:
 - Money Matters
 - Banking and Financial Services
 - Securities and Investments
 - Financial Analysis
 - Human Services Cluster:
 - Dollars and Sense



How do I do that?

- **Less-obvious courses:**
 - Integrate personal financial management lessons into other courses
 - For example:
 - When students build a spreadsheet, teach them to use that for creating personal income statements, cash budgets, etc.
 - That teaches the skill and the personal finance concept concurrently



How do I do that?

- **Simulations and hands-on learning**
- **Two outstanding simulations:**
 - **The Stock Market Game**
 - www.stockmarketgame.org
 - 10 week simulation with real-time trading to manage a \$100,000 portfolio of stock, bonds, and mutual funds
 - Various regions in Texas have their own games
 - **Gen i Revolution**
 - www.genirevolution.org
 - Middle and high school students work in teams to undertake 15 daring missions to fight the “Murktide,” an insidious lack of personal finance knowledge that is creeping across the country. Teachers have an online game interface.

Contact for Texas: mackeysmg@aol.com
214-293-8278

The Stock Market Game™ - Home - Windows Internet Explorer

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THE STOCK MARKET GAME™ Home

A program of the **SIFMA**
Foundation for Investor Education

Overview Teachers New to SMG Industry Involvement Registration

**Virtual Learning.
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The SIFMA Foundations's Stock Market Game™ (SMG) gives students the chance to invest a hypothetical \$100,000 in an on-line portfolio. They think they're playing a game. You know they're learning economic and financial concepts they'll use for the rest of their lives. [► More Details](#)

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Register Now

How do I get my class involved?

Teachers new to SMG

- [View teachers classroom experiences](#)
- [Access the teacher support center to examine:](#)
 - Lessons and Activities
 - Projects and Assessments
 - Standards Correlations
- [Read FAQs](#)

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Free through the Council on Economic Education to middle and high school teachers and their students.

Personal Finance and Economics Education Online Game for teachers teaching grades 6 through 12 - Windows Internet Explorer

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Online Personal Finance Game GEN i revolution

Join the Revolution

Overview Demonstration FAQs Lessons & Materials

Welcome to the Gen i Revolution

Developed for middle school and high school students, this **online game** gives your students the chance to learn important **personal finance skills** as they play and compete against fellow classmates.

The game includes fifteen Missions in which students attempt to help people in financial trouble. Students join the Gen i Revolution, strategically select their Operatives, and begin to explore and earn points as they work to complete each Mission.

Incorporate the Gen I Revolution along with the [Learning, Earning and Investing lessons](#) into your classroom today!

[Join the Revolution »](#)

Get in the Game

Watch the videos to learn more about this online game.

Already Registered?

Username:

Password:

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Let's Pick a Topic

How about credit?



Credit

- “Credit” comes from *creditus*, the Latin word meaning entrusted.
- Using credit, you buy now and pay later.

- Credit comes in many forms:

- Credit cards
- Installment payments for furniture, electronics, etc.
- Student loans
- Car loans
- Home loans

- Let's focus on CREDIT CARDS.





Benefits of Using Credit Cards:

- Can consume goods while paying for them*
- Use in emergencies
- Convenience (renting car, buying online)
- Establishes a credit record

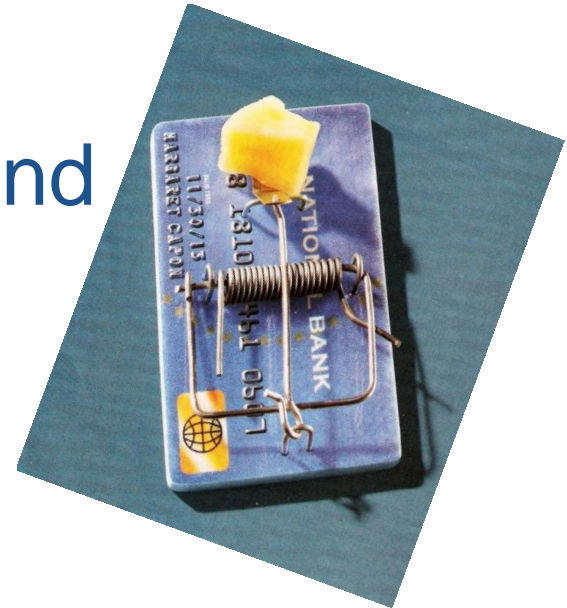
* Rule of Thumb: Purchases should last longer than the payment for them!





Costs of Using Credit Cards:

- Interest payments and fees
- Obligates future income, decreasing future buying power
- Temptation to overspend and live beyond means
- Possibility of identity theft
- Psychological costs:
 - A person overwhelmed with paying credit card debt doesn't "feel in control"
 - Being financially in control has been shown by researchers to "increase the happiness quotient"





Factors in evaluating credit:

5 “c’s” of credit:

- **Capacity** (cash flow: income, expenses)
- **Capital** (net worth: assets - liabilities)
- **Character** (credit record & credit score)
- **Collateral** (Can it be repossessed?)
- **Conditions** (How is the economy doing?)

The 5 C’s are the same in business finance and personal finance.



Credit Record & Credit Score

- Credit report includes:
 - information about credit accounts
 - account balances and payment history
 - legal actions—lawsuit judgments, liens, bankruptcies, wage attachments, collection items
 - credit inquiries
 - Credit bureaus:
 - Equifax
 - Experian
 - TransUnion



Example from Equifax

EQUIFAX

Equifax Credit Report™ Sample

» Credit Summary

» Accounts

» Inquiries **1**

» Negative Information

» Personal Information

» Dispute File Information

Equifax Credit Report™ for Melissa Carson

As of: 03/20/2008
 Available until: 04/20/2008
 Confirmation #: 123456789

Credit Summary

Your Equifax Credit Summary highlights the information in your credit file for determining your credit standing by distilling key credit

Accounts

Lenders usually take a positive view of individuals with a range of credit cards, mortgage, etc. - that have a record of timely payments. However, certain types of revolving (credit card) accounts and installment

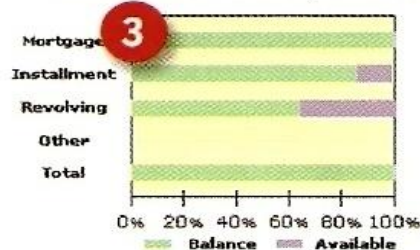
Open Accounts 2	Total Number	Balance	Available	Credit Limit	Debt to Credit Ratio	Monthly Payment Amount	Accounts with a Balance
Mortgage	2	\$253,433	\$0	\$56,250	451%	\$1,825	2
Installment	1	\$17,087	N/A	\$19,843	86%	\$377	1
Revolving	3	\$0	\$21,400	\$21,400	0%	\$0	0
Other	0	\$0	N/A	N/A	N/A	\$0	0
Total	6	\$270,520	\$21,400	\$97,493	277%	\$2,202	3

Debt by Account Type



- Installment-0%
- Revolving-0%
- Mortgage-94%
- Other-6%

Debt to Credit Ratio by Account Type



NOTE: Total may not equal 100% due to rounding

Account Age

Usually, it is a good idea to keep your oldest credit account open, as a high average account age generally demonstrates stability to lenders. Also, especially if you have been managing credit for a

Length of Credit History 9 Years, 6 Months
Average Account Age 5 Years, 1 Month
Oldest Account ABC LOANS CO
Most Recent Account XYZ INSTALLMENT

12-Month Payment History

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
2007	*	*	*	*	*	*	*	*
2006	*	*	*	*	*	*	*	*
2005	*	*	*	*	*	*	*	*
2004	*	*	*	*	*	*	*	*
2003	*	*	*	*	*	*	*	*

Inquiries - Requests for your Credit Report

Numerous inquiries on your credit file for new credit can be a negative factor. It is usually better to only seek new credit when you really need it. Too many inquiries for a single loan and many new loans in part by the length of time over which the inquiries occur. So, when rate shopping for a loan it's a good idea to do it within a focused period of time.

Inquiries in the Last 2 Years 3
Most Recent Inquiry 123 UTILITY (03/05/07)

Potentially Negative Information

Delinquent payments, collections and public records can have a negative impact on your credit standing. The more severe and recent they are, the more negative the potential impact might be.

Public Records 3
Negative Accounts 2
Collections 1



Who Gets to See Your Credit Report?

- Lenders use it to:
 - Make the credit decision
 - Determine amounts of credit
 - Determine the interest rate
- Potential landlords
- Insurance companies (premiums can increase if the score drops too low)
- Current or potential employers



Other Credit Information

- History is visible on report for 7 years after last transaction (10 years for bankruptcy)
- Check your credit report annually for free at www.annualcreditreport.com



What is a credit score?

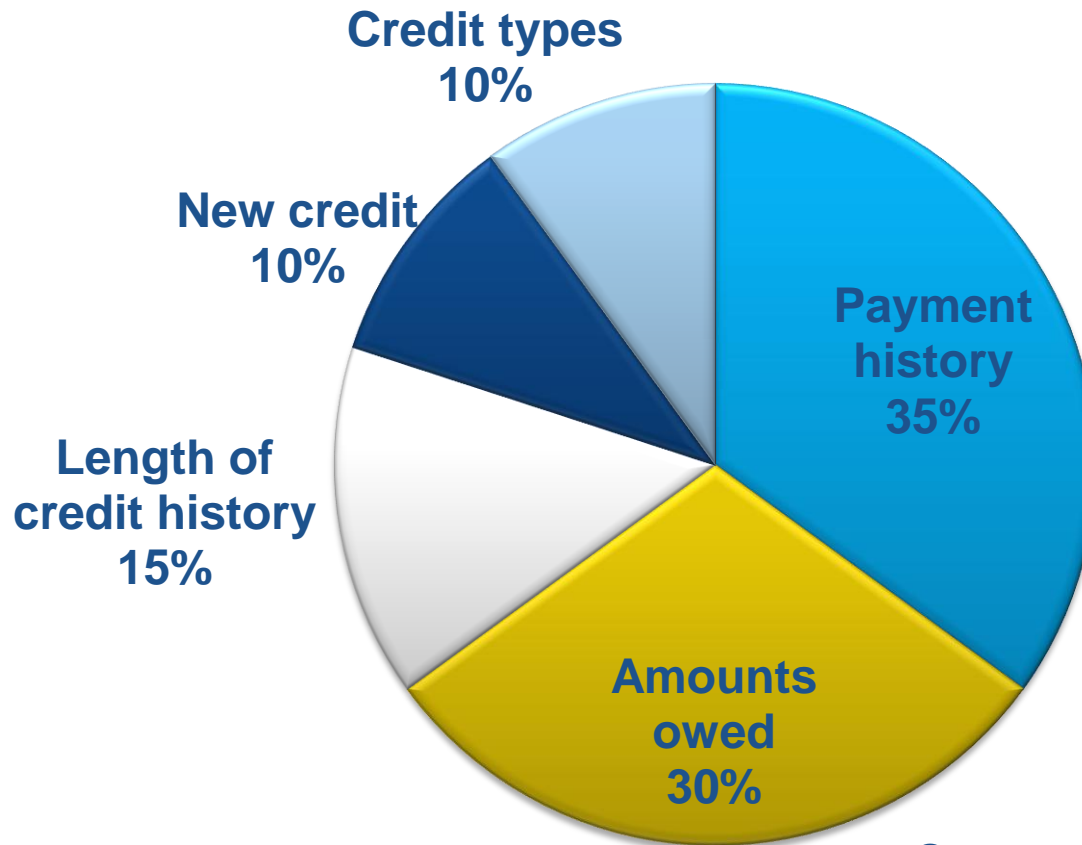
- The FICO score is the most common (determined by Fair Isaacs, Co.)
- The FICO score falls between 300 – 850
- Other evaluators of credit have their own proprietary scores
 - VantageScores 501 - 990

Small businesses receive trade credit from suppliers; that is often evaluated using a credit reports from Dun & Bradstreet or Experian or firms like PredictiveMetrics that advise trade creditors on risk.

Publicly-traded businesses have income statements and balance sheets publicly available, so debt, times interest earned, and current ratios are used.



FICO Credit Score Calculation



Scores range from 300 – 850 and are a snapshot in time; your score can change in either direction depending on your credit report



FICO Score Explanations

- Payment history – most important component of credit score calculation
- Amounts owed – balance owed compared to available credit
- Length of credit history – length of time since first credit account was opened
- New credit – credit inquiries and recent account openings
- Credit types – mortgage, installment (auto), revolving (credit card), and other



Handling Problems with Paying Debt

- **1st contact the issuer of credit**
 - Extension
 - Payment plans
- **Debt consolidation loans at banks**
- **Credit counseling (CCC)**
 - Many churches and other organizations do credit counseling
 - Others advertising to do “credit counseling” are often for-profits who take a fee and don’t help very much
- **Bankruptcy**



Bankruptcy

- **When budgeting fails and credit gets out of control, the last resort is bankruptcy.**
 - **Chapter 7 – straight bankruptcy**
 - Assets that are not exempt are sold to pay off debts.
 - All debts are discharged.
 - **Chapter 13 – wage earner plan**
 - You retain assets and pay off debt over 3-5 years while creditors are held at bay.
 - If your monthly income is more than the mean income in your state, you must file Chapter 13 rather than Chapter 7.
- **What debts cannot be discharged?**
 - Student loans
 - Alimony or child support
 - Most taxes
 - Debt taken on in anticipation of bankruptcy
 - Certain suits for damages



Credit Card Act of 2009

- Went into effect on Feb. 22, 2010
- Banks cannot change credit card rates the 1st year you have a card.
- Cardholders get 45 days (vs. 15) notice on rate changes.
- Rates on current balances won't be raised *unless the account is 60 days past due*.
- Customers must have a 21 day grace period (now 14), and the payment must be the same day each month.
- Customers cannot be charged an additional fee to pay by mail, electronic transfer, telephone, or other methods.



Credit Card Act of 2009

- Customers must agree to exceed their credit limit before they can be charged an over the limit fee, which will be limited to one per bill. (Must “opt in”)
- Statements must explain:
 - how many months it will take to pay off the card if only the minimum is paid each month
 - how much the monthly payment would need to be to pay off the card in 3 years

The “opt in” provision is also being extended to overdrafts of checking accounts using debit or ATM cards or checks. You must “opt in” to be allowed to overdraft your account. (Begins 7-1-2010 on new accounts and 8-15-2010 on existing accounts.)



Credit Card Act of 2009

- Cardholders who refuse to accept interest rate hikes can opt out and pay off the card at existing rates.
- Universal default is banned. Rates cannot be increased on one card because of poor payment records on other cards, utilities, etc.
- Beginning August, 2010:
 - Cardholders assessed a penalty APR for late payment can reclaim the lower rate if they pay on time for 6 consecutive months.
 - Prepaid cards, gift cards, and gift certificates cannot expire within 5 years of activation unless the terms of the expiration are clearly disclosed. (Service fees, inactivity fees, etc. must be clearly disclosed and are banned the first year.)



Credit Card Act of 2009

New Rules Affecting Students

- Those under 21 either need an adult co-signer or proof of income to repay the debt they incur.
- Prescreened credit card offers must not be sent to consumers younger than 21.
- Bans offers of freebies if students sign up for credit cards on or near campus or at college-sponsored events.
- Colleges and alumni associations must disclose details of contracts signed with card marketers allowing access to student and alumni contact information and must file reports with the Federal Reserve of all deals with colleges.
- Those under 21 must get permission from parents or spouses to increase credit limits on joint accounts they hold with those adults.



Spending: Cash vs. Credit



The Trouble with Plastic

Think you don't have a credit-card problem just because you don't carry a balance? Study after study has found that **SHOPPING WITH PLASTIC CAN PROFOUNDLY AFFECT YOUR SPENDING**—and not for the better.

SOURCES: "Effect of Payment Transparency on Consumption," Dilip Soman, University of Toronto, 2003; "Always Leave Home Without It: A Further Investigation of Credit-Card Effect on Willingness to Pay," Drazen Prelec and Duncan Simester, MIT Sloan School of Management, 2001; "Effect of Payment Mechanism on Spending Behavior," Soman, 2001.

* YOU BUY MORE STUFF

In a study of **SUPERMARKET SHOPPERS**, researchers found that people who used credit cards spent more than those who stuck with cash or checks, and the chargers were more likely to splurge.



AVERAGE TOTAL SPENT ON GROCERIES



AVERAGE SPENT ON NONESSENTIAL ITEMS

\$32.96 ← **CASH** → \$9.08

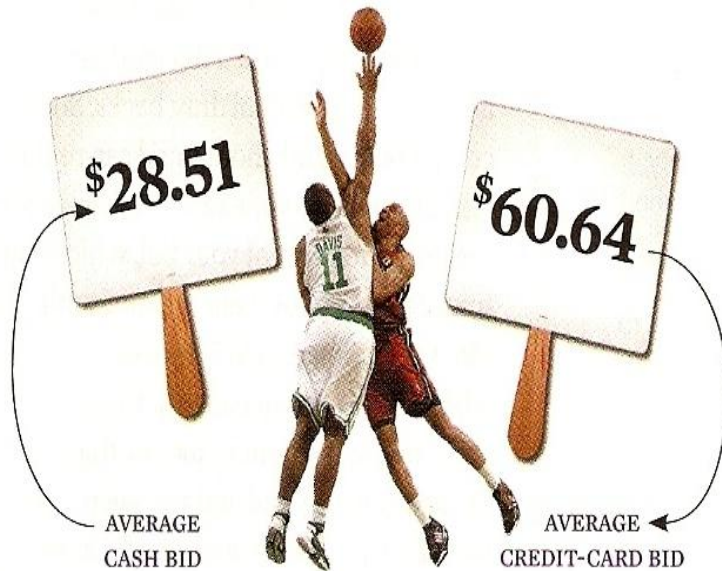
\$43.49 ← **CREDIT** → \$18.72



Spending: Cash vs. Credit

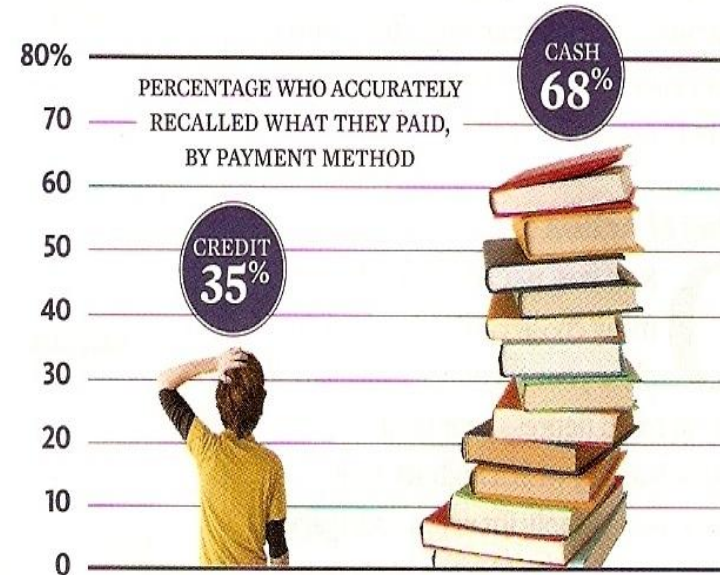
* YOU'LL PAY MORE FOR THE SAME STUFF

When researchers held an **AUCTION FOR TICKETS** to a sold-out Boston Celtics-Miami Heat game, bidders who used credit cards bid far more than those who were limited to cash.



* YOU'RE LESS AWARE OF HOW MUCH YOU'VE SPENT

A survey of **SHOPPERS EXITING A CAMPUS BOOKSTORE** found that paying with cash helps you remember what you spent.





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