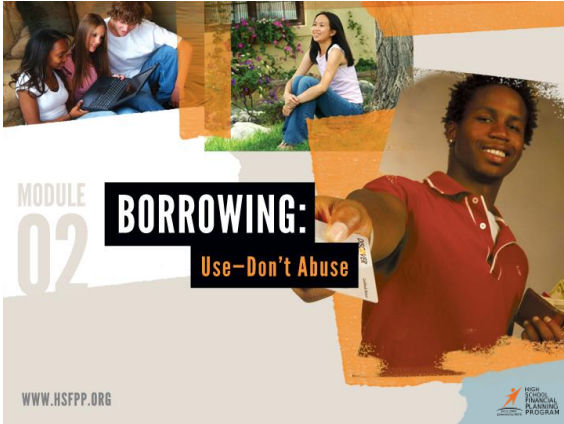


# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES



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### Borrowing Rights

TODAY YOU WILL . . .  
EXPLORE THE RIGHTS AND RESPONSIBILITIES  
OF BORROWERS AND LENDERS.

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### What do you think? Is credit good or bad?

A photograph of two hands, one giving a thumbs up and the other a thumbs down.

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# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES

### Preview

Today we will answer these questions:

- What are my legal responsibilities when I sign a contract?
- What are guidelines for borrowing?
- Where can I get help when I have credit problems?

Use what you learn today to take on the responsibilities of borrowing.

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### Win Loans and Influence Interest

Do the following actions help your credit score?

1. Pay your bills on time.  
*Yes, paying on time is the single best way to get a good credit score.*
2. Open several accounts in a short period of time.  
*No, opening several accounts in a short time frame hurts your score, especially when starting out. This makes you look desperate to borrow.*
3. Own a credit card you don't ever use.  
*No, creditors want to see how well you use credit. If there's no activity for a long time, the account may be considered inactive.*

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### Win Loans and Influence Interest

Do the following actions help your credit score?

4. Frequently move credit card balances to new cards with better interest rates.  
*No, card hopping decreases the average age of your credit accounts, and lenders like to see long-term relationships.*
5. Get a credit card when you already have a car and student loan.  
*Yes, adding a credit card when you only have loans can help because lenders prefer to see a mix of credit types.*

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# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES

### Win Loans and Influence Interest

Do the following actions help your credit score?

6. Close a credit card that you made a lot of late payments on.  
**No**, closing an account with negative items won't help. The account will still remain on your credit report for up to 10 years, whether inactive or closed.
7. Use a debit card responsibly.  
**No**, debit card usage doesn't show up in a credit report because these types of transactions are withdrawals from your own bank account rather than borrowing from someone else.

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### Follow Through or Risk . . .

- Embarrassment if card is declined at the checkout
- Having property repossessed
- State of perpetual debt which can increase personal stress
- Paying higher interest rates and/or late fees
- Negative details for others to see on your credit report
- Having your wages garnished
- Contact with a collection agency
- Unplanned expenses for legal action to enforce the contract

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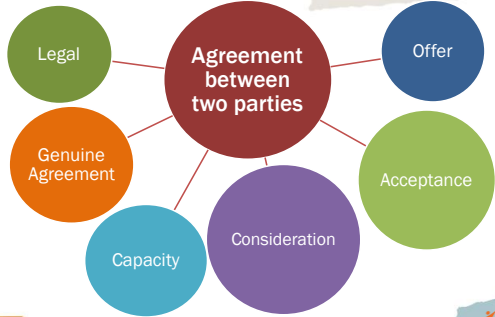
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### The Contract



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# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES

### Ignorance is No Excuse

Read the fine print:

- Payment amount
- Payment due date(s)
- Consequences of late or no payments:
  - Payment penalties? Collection costs? Repossession of property?
- Any insurance coverage requirements (i.e. car, apt)
- How to notify about changes to personal information
- What to do if you have problems with the arrangement



Pay attention to updates!

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### On Your Side

Federal Trade Commission, [www.ftc.gov](http://www.ftc.gov)  
Consumer Financial Protection Bureau, [www.consumerfinance.gov](http://www.consumerfinance.gov)

- Equal Credit Opportunity Act
- Fair Credit Reporting Act
- Fair Credit Billing Act
- Truth-in-Lending Act

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### Know the Limit: The 20-10 Rule

Total Debt\* < 20% Total Annual Net Income



Monthly Payments\* < 10% Monthly Net Income



\*This rule does not include mortgage-related debt.

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# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES

### When to Say When

Borrower	Annual Net Income	Maximum Total Debt (20% Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	$\$6,500 \times .20$	$(\$6,500/12) \times .10$
Jesse's brother	\$24,750	?	?
Jesse's sister	\$35,800	?	?
You	?	?	?

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### When to Say When: The 20-10 Rule

Borrower	Annual Net Income	Maximum Total Debt (20% Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	\$1,300	\$54.17
Jesse's brother	\$24,750	\$4,950	\$206.25
Jesse's sister	\$35,800	\$7,160	\$298.33
You	\$N	$\$N \times .20$	$(\$N/12) \times .10$

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### Be a SHREWD Borrower

Is there a **S**incere need or want?

Am I **H**appy to pay?

Is there **R**oom in my spending plan?

Will there be **E**xtra cost?

What is the **W**aiting cost?

Will I be **D**isciplined to repay on time?

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# HIGH SCHOOL FINANCIAL PLANNING PROGRAM

## LESSON 2-4: RIGHTS AND RESPONSIBILITIES

### What Would You Say?



If you were to be interviewed on the street today, how would you answer this question:

*What two tips can you offer about using credit?*

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### Challenge

Create your own Credit Code of Behavior to use as a guide when you borrow items or money.

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MODULE 02

**BORROWING:**  
Use—Don't Abuse

A photograph of two young people, a boy and a girl, standing together and smiling.

WWW.HSFPP.ORG

Logo for the High School Financial Planning Program, featuring a stylized figure and the program name.

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