FRONTLINE

FINANCIAL LITERACY GUIDE *Individual Borrowing and Mortgages*

www.pbs.org/frontline/meltdown

ABOUT THE FILM

Inside the Meltdown investigates the causes of the worst economic crisis in 70 years and how the government responded. The film chronicles the inside stories of the Bear Stearns deal, Lehman Brothers' collapse, the propping up of insurance giant AIG and the $700 billion bailout. It also examines what Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke didn't see and couldn't stop.

WATCHING THE FILM

Teachers can either assign the film for viewing as homework or show the film in class. Suggested discussion questions are provided. The lessons and activities in this guide are focused on excerpts from the film and can be viewed on DVD in class or online.

NOTE TO TEACHERS

This guide is intended for classes in social studies, civics and government, economics, business studies, mathematics, current events and history; grade levels 9-12. This lesson on individual borrowing begins with a review of terms and an introductory activity that provides important background and context. The main lesson focusing on mortgages and individual borrowing builds from the film *Inside the Meltdown*. You can modify the lesson to accommodate instructional time and student abilities.

DISCUSSION QUESTIONS

This guide includes a list of questions for students to discuss after viewing *Inside the Meltdown*.

INTRODUCTORY ACTIVITY

"Financial Background and Context"

A review of financial terms, overview of mortgage process, credit scores and leverage

FEATURED LESSON PLAN

"Individual Borrowing, Mortgages and the Role of Consumers"

LESSON OBJECTIVES

Students will understand:

- How credit scores impact consumer loans
- The process consumers use to borrow in order to buy a home
- How to determine an appropriate home price
- How leverage was applied by banks and helped to bring about the subprime lending crisis

ADDITIONAL LESSON IDEA **"Credit Cards and Borrowing"**

PURCHASING THE FILM

Inside the Meltdown can be purchased from Shop PBS for Teachers (*http://teacher.shop.pbs.org/product/index.jsp?productId=3450834*). Also, teachers and students can watch the film streamed on FRONTLINE's Web site, *www.pbs.org/frontline/meltdown*

CREDITS

This lesson was developed by Simone Bloom Nathan of Media Education Consultants, Inc. It was written by Kevin Murley of Montgomery Blair High School, Silver Spring, Md. Advisers were Debra Plafker Gutt of Stuyvesant High School, New York; Greg Timmons, curriculum writer and educational consultant; and Joshua Weiner of Benson Polytechnic High School, Portland, Ore.

INDIVIDUAL BORROWING LESSON: GLOSSARY[1]

Note to Teachers: You may wish to distribute and discuss the following terms with students prior to viewing the film. (SOURCE: *www.businessdictionary.com* and *www.investorwords.com*)

- **Central Bank** The generic name given to a country's primary monetary authority, such as the Federal Reserve System in the U.S. Usually has responsibility for issuing currency, administering monetary policy, holding member banks' deposits, and facilitating the nation's banking industry.
- **Collateralized Debt Obligation (CDO)** An investment-grade security backed by a pool of various other securities. CDOs can be made up of any type of debt, in the form of bonds or loans. CDOs are divided into slices. Each slice is made up of debt which has a unique amount of risk associated with it. CDOs are often sold to investors who want exposure to the income generated by the debt but who do not want to purchase the debt itself.
- **Credit Default Swap** A specific kind of agreement which allows the transfer of credit risk from one party to the other. One party in the swap is a lender and faces credit risk if loans are not paid back. Another party provides insurance to insure this risk in exchange for regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase the defaulted asset from the insured party. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal
- **Derivative** A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier. (For example, a bank takes a supply of mortgages it owns and creates a bond to sell to investors that makes money based on the interest paid by the mortgage borrowers.)
- **FDIC** The Federal Deposit Insurance Corp. preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000. (*fdic.gov*)
- **Federal Reserve Bank (also known as the Fed)** One of 12 regional banks established to maintain reserves, issue bank notes and lend money to member banks. The Federal Reserve Banks are also responsible for supervising member banks in their areas and are involved in the setting of national monetary policy.
- **Leverage** The degree to which an investor or business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Leverage, however, is not always bad; it can increase the shareholders' return on their investment, and often there are tax advantages associated with borrowing.
- **Member Bank** A bank that is part of the Federal Reserve System, or a bank that is part of a central clearing or central banking system. Such banks have to follow the rules and regulations put forward by the central bank or the clearing system.
- **Mortgage** A loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan.
- **Shadow Banking System** System of nonfinancial institutions that borrow money in the short term and take that money to invest in long-term assets. Shadow banking systems are able to avoid standard banking regulations through the use of credit derivatives and are considered to be a major contributor to the subprime mortgage crisis around 2007-2008.
- **Subprime Borrower** Subprime refers to a borrower that is not "prime"; in other words, a borrower who might be less likely to repay a loan. Subprime borrowers may be classified as subprime because of bad credit or lack of history, low income or poor debt-to-income ratios, large loans relative to the securing property (high LTV ratio) and/or maxed-out credit cards. (*http://banking.about.com/od/loans/g/subprime.htm*)
- **Treasury Department** Its mission is to "serve the American people and strengthen national security by managing the U.S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness, and security of the U.S. and international financial systems." (*www.treasury.gov*)

DISCUSSION QUESTIONS for *Inside the Meltdown*

Note to Teachers: You may wish to give these questions to students prior to watching the film and invite them to supply answers as they watch, stopping the tape as needed.

1. What happened to make the firm Bear Stearns go out of business?
2. What are credit default swaps? What role did they play in the meltdown?
3. What is the Federal Reserve Bank? What role did it play when Bear Stearns was in financial trouble?
4. What is the Treasury Department? What role did it play with Bear Stearns' financial troubles?
5. What is systemic risk?
6. Free-market capitalism dictates that markets create efficient solutions and businesses that fail should be left to fail. Secretary Paulson was concerned about "moral hazard" after helping Bear Stearns. What did this mean?
7. The film follows people who took out mortgages they couldn't afford in the hopes that their home values would increase and they would become rich. Why did the banks give these people mortgages?
8. Should there be laws to restrict the value of houses people buy and the amount of leverage used to buy the house? What is the problem with having such laws in a free market?
9. Why did the federal government take over Fannie Mae and Freddie Mac?
10. Secretary Paulson decided not to guarantee a government loan for Lehman Brothers as he had for Bear Stearns with the JPMorgan takeover. What happened as a result of that decision?
11. Why did the government give AIG a loan of $85 billion after refusing to loan money for the Lehman Brothers acquisition?
12. What is capital injection?
13. The last scene in the film shows the leaders of the largest banks being told by Henry Paulson that they would have to accept government capital injections. What was the rationale for that decision?

INTRODUCTORY ACTIVITY **"Financial Background and Context"**

LESSON OBJECTIVES

Students will:

- Gain an overview of the mortgage process from both the buyer's and lender's perspective
- Learn about credit scores and prime/subprime mortgages
- Understand how leverage works in the mortgage process

MATERIALS NEEDED

Student handouts:

- *Lenders and Borrowers*
- *Credit Scores and Loans*

TIME NEEDED

One class period

INSTRUCTIONS

1. Explain to students that they will be learning about the mortgage borrowing and lending process and the role that credit scores and leverage play.

2. Distribute the *Lenders and Borrowers* and *Credit Scores and Loans* handouts to students.

3. Review the following information with students. (*Note:* This information is included in the students' *Lenders and Borrowers* handout.)

   - A mortgage is a loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan. (SOURCE: *www.investorwords.com*)

   - Mortgage lenders make loans to homeowners (borrowers). Lenders then sell the loans to other banks (also called secondary markets).

   - Banks pool their loans together and sell the rights to the interest payments on the mortgages to investors in the form of bonds.

   - A bond is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The federal government, states, cities, corporations and many other types of institutions sell bonds. (SOURCE: *www.investorwords.com/521/bond/html*)

   - If borrowers repay the loans and home prices rise, the bond investments become worth more money. If borrowers do not repay the loans and/or if home prices fall, the bond investments become worth less money.

4. Divide students into two groups: borrowers (house buyers) and mortgage lenders. Provide students with a few minutes to read both handouts and to answer their specific group's questions from their handouts. (See possible answers on the Answer Sheet.)

5. As a whole class, discuss student responses to the questions.

STUDENT HANDOUT **"Lenders and Borrowers"**

Note to Students: Review the following information, then answer the questions that apply to the group to which you have been assigned (borrower or lender).

- A mortgage is a loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan. (SOURCE: *www.investorwords.com*)
- Mortgage brokers make loans to homeowners (borrowers). Brokers facilitate the transaction between borrowers and lending banks.
- Lenders may sell the loans to other financial institutions in what is called a secondary market. Secondary markets enable banks to raise money to make more loans. Many of the mortgages are sold to Fannie Mae.
- Mortgages are also put together in a bond called a mortgage-backed security and sold to investors.
- A bond is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. Governments, corporations and other types of institutions sell bonds. (SOURCE: *www.investorwords.com*)
- If borrowers repay the loans and home prices rise, the bond investments become worth more money. If borrowers do not repay the loans and/or if home prices fall, the bond investments become worth less money.

BORROWER (HOUSE BUYER) QUESTIONS

1. What are the benefits of home ownership?
2. What things should a potential homeowner do before being able to buy a home?
3. What would make a borrower more likely to qualify for a prime mortgage rate and terms?
4. How important is it for a borrower to have an ongoing relationship and good customer service from the mortgage lender? (Consider how you would feel and what you would expect if your cell phone company was bought by a new company and you no longer knew the people at your local store. Similarly, what impact might it have on you if, after you signed your loan, it was sold to another bank?)

MORTGAGE LENDER (BANK) QUESTIONS

1. What factors will you weigh when considering making a loan?
2. Where can you find more money to make more loans?
3. To what degree is a good customer service relationship with the borrower important to you? (Consider that you will probably sell the loan to another bank soon after you make the deal with the borrower.)
4. What incentive do you have to offer subprime loans to borrowers?

TEACHER ANSWER SHEET **"Lenders and Borrowers"**

BORROWER (HOUSE BUYER) QUESTIONS

1. What are the benefits of home ownership?
(**Answers** include pride of ownership; possible investment gains; ability to customize the home; security.)

2. What things should a potential homeowner do before being able to buy a home?
(**Answers** include maintain a steady income; save money; pay other loans on time; establish a good credit score; seek preapproval for loans; research the housing market and mortgage loan options.)

3. What would make a borrower more likely to qualify for a prime mortgage rate and terms?
(**Answers** include a good credit score; more than 10 percent down payment.)

4. How important is it for a borrower to have an ongoing relationship and good customer service from the mortgage lender? (Consider how you would feel and what you would expect if your cell phone company was bought by a new company and you no longer knew the people at your local store. Similarly, what impact might it have on you if, after you signed your loan, it was sold to another bank?)
(**Answers** include an ongoing relationship leads to greater trust in what lenders say to you and in your ability to ask for explanations on an ongoing basis; good customer service and a personal relationship might allow you to better renegotiate terms if your financial situation changes because the bank wants to keep you as a customer.)

MORTGAGE LENDER (BANK) QUESTIONS

1. What factors will you weigh when considering making a loan?
(**Answers** include credit history; size of loan compared to value of the home; ability to pay the loan back.)

2. Where can you find more money to make more loans?
(**Answers** include customer deposits; selling the loans to other banks.)

3. To what degree is a good customer service relationship with the borrower important to you? (Consider that you will probably sell the loan to another bank soon after you make the deal with the borrower.)
(**Answers** may include very important if there is a long-term relationship with the customer as with a neighborhood bank, or not as much if there is no other relationship with the customer.)

4. What incentive do you have to offer subprime loans to borrowers?
(**Answers** include being able to sell loans to secondary markets; being able to receive higher interest payments.)

STUDENT HANDOUT **"Credit Scores and Loans"**

Note to Students: In order to understand the factors that led to the 2008 economic meltdown, it is helpful to learn about credit scores and how they affect the type of loan that a consumer can obtain.

A credit score is "a number, roughly between 300 and 800, that measures an individual's credit worthiness. The most well-known type of credit score is the FICO® score. This score represents the answer from a mathematical formula that assigns numerical values to various pieces of information in your credit report." (SOURCE: *www.helpwithmybank.gov/dictionary/index.html*)

Your credit score is used to determine whether or not you can qualify to receive credit. Credit providers such as banks look at your FICO score to make a quick judgment about how risky it is for them to make a loan to you. The score is also used by loan providers to determine whether they will give you their best or worst loan rates and terms. The three major credit report bureaus that keep a score on consumers in the U.S. are Experian, Equifax and TransUnion. You can buy your FICO scores by going to *www.myfico.com*.

PRIME VS. SUBPRIME LOANS

When consumers seek a mortgage, the mortgage lender or bank looks at their credit scores to determine whether to give them their lowest (prime) or highest (subprime) interest rates and the best or worst terms. If you have a high credit score and the amount of your down payment is at least 10 percent of the home's value, you are likely to qualify for a prime loan rate, which has lower interest rates and better terms. A subprime loan is a loan made to a person who has a lower credit score and/or who is borrowing a larger amount relative to the value of the home price. Here are two examples:

- Danielle saved $20,000 for a down payment on a house valued at $300,000. She had a high credit score, but her lender only offered her a subprime loan, with higher interest rates and potentially worse terms. Why? Her loan of $280,000 is higher than 90 percent of the value of the home. (If she bought a home of lesser value, she would likely qualify for a prime loan with lower interest rates and better terms.)
- Teddy had a low credit score because he had not paid his credit cards on time. His family gave him $100,000 to use as a down payment for buying a home worth $300,000. Even though his loan is for far less than 80 percent of the value of the house, his bad credit score would still make most lenders offer him subprime rates and terms.

Leverage is defined as "using credit or borrowed money to increase the rate of return for an investment. For example, by purchasing a $100,000 house with 10 percent down, you are using just $10,000 to control the investment." (SOURCE: *www.harrynorman.com/Content/Content.aspx*)

Leverage can help an investor make money. Say the house goes up in value over four years to $120,000, and the investor sells it: There is a $20,000 gain, or 200 percent return, on your original investment. Your $10,000 investment was used to leverage a $20,000 gain.

Leverage magnifies gains and can magnify losses. During the 2008 economic crisis, there were banks that held investments with high leverage (i.e., the amount that was invested was used to borrow up to 30 times of its value). Because the value of stocks fell more than 40 percent, and home values, on average, fell more than 20 percent, the high leverage investments caused both individuals and businesses to lose fortunes.

FEATURED LESSON PLAN
"Individual Borrowing, Mortgages and the Role of Consumers"

LESSON OBJECTIVES

Students will understand:

- How credit scores impact consumer loans
- The process consumers use to borrow in order to buy a home
- How to determine an appropriate home price
- How leverage was applied by banks and helped to bring about the subprime lending crisis

MATERIALS NEEDED

Inside the Meltdown DVD or Internet access to watch video clip online

TIME NEEDED

The lesson should take about 45 minutes. Watching the video clip and the discussion questions takes about an hour. Add another hour if you use the entire film. The subsequent student activities should take a class period to complete.

PROCEDURE

1. As a class, if time permits, watch the entire video of *Inside the Meltdown*. If time does not permit, watch the segment about Fannie Mae and Freddie Mac that begins at 22:57 and ends at 27:10.

2. Review with students the timeline of events in the meltdown by visiting the following URL: *www.pbs.org/frontline/meltdown/cron/*

3. Review the following with the class:
   - Homeowners get mortgage loans from lenders in order to buy homes. This has long been the so-called American dream. As homeowners pay off their mortgages over the years, they have an asset that they have paid for that is worth a great deal of money and has also gone up in value. In most years, home values have gone up.
   - The Federal Reserve (Fed) is responsible for making monetary policy decisions in the United States. When the economy suffers through a bad cycle, the Federal Reserve may lower interest rates in order to increase money supply in the economy and motivate businesses and individuals to start borrowing and producing more economic activity. After the dot-com bubble bust and the 2001 recession, the Fed kept interest rates very low in an effort to increase money supply in the economy and create easy credit. Easy credit was a factor in the 2008 economic meltdown.
   - Mortgage lenders sold home loans to other banks. This gave lenders more cash to make new loans, and with all the additional money available in credit markets, lenders had a lot of money to loan. This resulted in lenders making more high-fee, subprime loans and loans for big houses that even prime borrowers could not afford.
   - Investment banks borrowed a lot of money to create leverage so they could buy an increasing number of mortgage loans from the lenders for investors. Banks borrowed from other banks to do this.
   - Investment banks packaged the loans together to sell as bonds they could sell to investors. Banks used math models to put mortgages together in a way that bond-rating companies would rate as favorable.
   - Bond investors, including pension funds and big-money managers, wanted to buy the bonds to diversify their assets. They also wanted the bonds because they were rated as safe and they earned a higher return than Federal Reserve Treasury Bonds, which had low return rates because of the low interest rates.

- Foreclosure is what happens when a homeowner can no longer afford to pay back his or her mortgage and the bank takes over ownership of the house and ceases to receive interest payments on the loan. As the foreclosure rate on risky subprime loans climbed from 3 percent to 10 percent, the supply of houses increased sharply and forced home prices down.
- Investors stopped buying the bonds banks offered as the returns on investment went negative.
- Banks then had a difficult time paying back the loans they took because of their high leverage and less money coming in from investors.
- Lenders were left with very little money to lend, which created the credit crisis.

4. If computer access is available, a terrific 10-minute summary is available at the *Get Rich Slowly* blog site. This video clearly explains what happened and the risks of leverage. Have students watch *www.getrichslowly.org/blog/2009/02/25/the-credit-crisis-visualized/*.

5. Ask students to work with a partner to draw a graphic organizer chart to identify connections in the crisis among the following groups: banks, U.S. government, individual mortgage borrowers and investors. On the chart, students should identify one factor each group contributed to the crisis and one thing each group should do differently in order to avoid a similar situation in the future. Also, have students draw arrows along with an explanation that describes the relationship between different groups. (Possible responses to what can be done differently: better government regulation; more stringent lending requirements; allow less leverage; understand the terms of the mortgage before taking the loan; buy more affordable homes.)

6. Invite students to suggest steps consumers can take to manage their debts, such as personal loans and credit cards, wisely.

7. Explain to students that they are going to learn some practical information to help them understand how to get a good credit score and how to determine what price house they can afford. Distribute the *Credit Score Information* and *How Much House Can You Afford?* student handouts as homework assignments.

ADDITIONAL RESOURCES

This American Life from Chicago Public Radio has a series of interesting podcasts concerning the credit crisis.

Follow this link to hear the episode, “The Giant Pool of Money.”

- *www.thislife.org/Radio_Episode.aspx?sched=1242*

Another helpful episode is “Bad Bank.”

- *www.thislife.org/Radio_Episode.aspx?sched=1285*

METHOD OF ASSESSMENT

- Class participation
- Completion of assignments

STUDENT HANDOUT **"Credit Score"**

Go to *www.experian.com/consumer/credit_education.html*

1. Now, click the link to the left titled "Credit Reporting Basics" and then the link "My Credit Report." Describe four categories of information that are included in your credit report. For each category, describe one thing you could do to create a positive report.
   A **C**
   B **D**

2. Now, click the left link under "Credit Reporting" titled "Improving Your Credit."
   Describe and rank in order of importance four things you can do to create 2 positive credit history.
   A **C**
   B **D**

3. What do you think is the most important thing to do if you fall behind on your payments?

4. Now, click the left link titled "Credit Scores" and then the link "What Is a Credit Score?" Describe a credit score in your own words.

5. What factors would make your credit score change?

6. A credit score can be generated based on the information in your credit report. Go to the FICO® Web site, *www.myfico.com* Click the tab halfway down the page that is titled "About FICO® scores." What is the range for the scores?

7. What are the five categories used to calculate your score and the weightings (percentages) for each category?
   A **D**
   B **E**
   C

8. What is the median average score in the U.S.?

9. What are the most important things you can do to improve a credit score?

Now you are ready to begin establishing your credit history and score. As a student, you can begin building a positive history by applying for a student credit card from a credit union. Charge some small purchases and pay the credit card bill on time and in full every month. You can also take out a small loan and pay the monthly payment back on time and in full every month. Any bills in your name, such as for a cellular phone, should be paid on time every month. Soon enough, you will be eligible to be a "prime" borrower, receiving the lowest loan rates available and the best terms.

- To see an example of a credit report, click this link:
  www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf

STUDENT HANDOUT **"How Much House Can You Afford?"**

Congratulations! You were able to save and invest more than 10 percent of your budget over a few years, and you now have $10,000 for a down payment on a house. Better yet, you have a good credit score of 700. You are going to need a mortgage. Start by checking out the current rates.

- Go to the following Web site: *http://realestate.yahoo.com/loans/*
- Scroll down to the box that lists "Mortgage Rate Trends and Averages."
- Click "Change Location," and enter your ZIP code to see local rates.

1. What is the typical rate for a 30-year fixed-rate mortgage?
2. What is the rate for a 5/1-year adjustable-rate mortgage (ARM)?

Note: A fixed-rate mortgage has an interest rate that never changes over the term of the loan, while an ARM, or adjustable-rate mortgage, can go up or down. 5/1 means the rate is fixed for five years and can't go up by more than 1 percent a year thereafter. This type of rate is good if you absolutely know you will live in the house for only three to five years.

Congratulations again! You graduated high school. According to the U.S. Census Bureau, the average high school graduate earns approximately $30,000 a year. Better yet, you went on to college and earned a bachelor's degree and along with it an income of $52,000 a year. You even went on to get your master's degree, and you now earn $62,000. You budget well and have no credit card debt. Now see what house price will be affordable with each of the different salaries. A general guideline is that you should not spend more than one-third of your budget on debt payments.

- Click the link at the top of the page for "Calculators."
- Now click the link titled "How Much House Can I Afford?"
- Enter the following information:
  - Your income ($30,000 first for the high school graduate)
  - $150 car payment
  - No credit card debt or other payments
  - Your local interest rate for a 30-year fixed-rate loan
  - 30 (years) for term of new mortgage
  - $10,000 for down payment
  - $2,000 in property taxes
  - $500 for insurance
- Click "Submit."

1. How much house can you afford if you earn the average high school graduate's salary?
   Repeat the steps to determine how much house you can afford on the other two salaries.
2. How much house can you afford if you earn the average college graduate's salary?
3. How much house can you afford if you earn the average master's degree graduate's salary?

One question you might ask is does it make sense to buy a house, or is it better and easier to rent?

- Click the link at the top of the page for "Calculators."
- Now click the link titled "Should I Rent or Buy a Home?" According the U.S. Census, the average American rental housing cost is $650 per month. (Rent is much higher for new buildings and for higher-valued regions.)
- Enter the following information:
  - A $650 month rent payment
  - 4 percent annual rent increase
  - The home price a college graduate can afford (from above)
  - 5 percent annual home price appreciation rate
  - An amount of a loan that is 90 percent of your house price (the other 10 percent was your down payment)
  - The interest rate for a 30-year loan (from above)
  - $500 in homeowner's insurance
  - $2,000 annually in property taxes
  - $1,000 in maintenance costs (remember when you rent, the landlord takes care of the maintenance)
  - Change the number of years for comparison to five
- Click submit.
  Under this scenario, would you be better off buying or renting, and by how much?
  (The answer is at the top of the page.)
- Click the link at the top of the page titled "Find a Home. "
- Enter your ZIP code, and next to "price," change the price to the highest amount affordable for someone with a master's degree.
- Click search.
  You can keep searching by clicking the search button again on the next page. You can sort in a variety of ways, including from low price to high and by the number of bedrooms available. Try to find a house you like that fits your future master's degree budget. If you can't find a house you like in your area, keep searching by scrolling down and choosing a different city or homes within 50 miles. Describe a house that was for sale that you liked and that fit into your budget.

Now all you need to do is get a preapproved loan offer from a mortgage lender and perhaps a real estate agent to help you through the process. You are on your way to taking the right steps to own a home that fits within your budget.

ADDITIONAL LESSON IDEA **"Credit Cards and Borrowing"**

Understanding how credit cards work and how to responsibly make them a part of your cash management plan is important. If you pay your bill on time every month, that is a good first step. If you can keep a zero balance by paying credit cards in full every month, you can avoid being what the film *The Secret History of the Credit Card* calls a "deadbeat." This keeps you from paying higher interest rates.

- Click the link *www.pbs.org/wgbh/pages/frontline/shows/credit* for eight things everyone should know about credit cards.

1. What does the term "universal default" mean? Why is that dangerous for credit card users?
2. What are typical amounts that banks charge for late fees? Are they trending upward or downward?
3. How many Americans pay only the minimum payment each month on their card? What are the pros and cons of this choice?
4. Look for the box on the right that is titled "Poll: What's Your Balance?" What is the average balance Americans keep on their credit cards? How do you think that amount grows to be so high for so many people?
5. Click back to the start page. Click on the link for the "A Credit Card Quiz." Take the quiz. Of the 11 questions, how many did you get right? What was the most interesting fact you discovered that you did not know?