

Scams and Schemes

LESSON DESCRIPTION AND BACKGROUND

While most credit transactions are completely legal, there are some that are not. This lesson introduces scams and schemes, including identify theft, loan scams, and credit-repair loans. The lesson also identifies legal but high-cost credit practices, such as payday loans and rent-to-own plans.

Lesson 19 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Identity theft
- Payday loans
- Rent-to-own plans

OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify and describe various fraudulent practices related to consumer credit.
- Identify and describe high-cost credit practices.

TIME REQUIRED

One 45-minute class

MATERIALS

- A transparency of **Visual 19.1**
- A copy for each student of **Exercise 19.1** and **19.2** from the *Student Workbook*

ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more visit <http://fffl.councilforeconed.org/9-12/lesson19>.

PROCEDURE

1. Tell the students that each year millions of consumers lose money by getting involved in credit scams and schemes. Explain that this lesson introduces some common credit scams and schemes and suggests ways to avoid them.
2. Give each student a copy of **Exercise 19.1** from the *Student Workbook*. Ask the students to read the exercise and complete the chart in which they match definitions to the name of the scam or scheme. Discuss their answers in class.

| Scam or Scheme | Definition |
|----------------------------|------------|
| Rent-to-own | G |
| Credit-repair scheme | A |
| College financial aid scam | B |
| Pyramid scheme | F |
| Payday loan | E |
| Identity theft | C |
| Loan scam | D |

3. Tell the students that it is important for families to live within or below their means. When people live within or below their means, they find it easier to avoid seeking credit that involves high interest rates like the ones charged for payday loans. Living at or below their means allows individuals to apply to banks, credit unions, and other conventional lending institutions for credit. These institutions charge "normal" market rates of interest when people seek credit.

4. Explain that there are other steps that can be taken to avoid scams, schemes, and swindles. Display **Visual 19.1**. Discuss the suggestions it provides for avoiding identity theft.

CLOSURE

Use these prompts to review and elaborate key points in the lesson.

- Call on the students to name the scams and schemes examined in this lesson. (**Identity theft, loan scam, credit-repair loan scheme, college financial aid scam, pyramid scheme, payday loan, rent-to-own.**)
- Explain that there are ways to avoid scams and schemes. Stress the idea that the buyer should always beware. Although there are laws designed to protect you, being a careful and skeptical consumer is the best way to avoid trouble. When a deal sounds too good to be true, it probably is. Ask questions. Hang up on the telemarketer offering the chance of a lifetime to buy shares of a gold mine. Walk away from the salesperson on a college campus who offers you a free trip to Cancun in exchange for your credit card or debit card number.
- Certain state and federal agencies assist consumers who are victims of scams. The Federal Trade Commission works with law enforcement agencies to address identity theft and enforce credit laws. The Secretary of State in your state is responsible for ensuring compliance with state securities laws. The Attorney General in your state is responsible for addressing unfair and deceptive trade practices.

ASSESSMENT

Give each student a copy of **Exercise 19.2** from the *Student Workbook*. Ask the students to read each scam or scheme and then identify and explain the type of scam or scheme it exemplifies.

Answers:

SCAM 1 is **E, a pyramid scheme**.

SCAM 2 is **F, a payday loan**.

SCAM 3 is **G, a rent-to-own plan**.

SCAM 4 is **E, a pyramid scheme**.

SCAM 5 is **A, an identity theft**.

SCAM 6 is **C, a credit-repair scheme**.

SCAM 7 is **B, a loan scam**.

SCAM 8 is **D, a college financial-aid scam**.

EXTENSION

Ask someone who has been a victim of identity theft to visit your class and describe what happened when his or her identity was stolen, and what steps were taken to remedy the situation. This can be a helpful way for students to make a real-world connection to the problem.

Steps to Reduce the Chance of Identity Theft

- Sign your credit or debit cards as soon as they arrive.
- Pick up your mail each day. When you pay your bills, mail the checks from collection boxes rather than your mail box.
- In a secure place, keep a record of your account numbers, their expiration dates, and the phone number and address of each company.
- Keep an eye on your card during a transaction.
- Save receipts to compare with billing statements.
- Open bills promptly and reconcile accounts monthly.
- Report any questionable charges promptly and in writing to the card issuer.
- Do not lend your card(s) to anyone.
- Do not leave cards or receipts lying around.
- Shred unneeded documents with your personal and account information.
- Do not sign a blank receipt. When you sign a receipt, draw a line through any blank spaces above the total.
- Do not give out your account number over the phone or Internet unless you're making the call to a company you know is reputable.
- Use secure Internet connections and websites (secure websites have an address that starts with "https" instead of "http").
- If you lose your credit or debit cards, or if you realize they've been stolen, immediately contact the issuer of the card.