Debt

Lesson 5: Teacher's Guide | Rookie: Ages 11-14

FINANCIAL FOOTBALL

Avoiding Fumbles with Debt Management

Understanding the costs and benefits of debt is essential to managing it effectively throughout life. This 45-minute module will prepare students to think critically about types of debt, debt loads, and strategies for managing debt.

Getting Your Class Game-Ready: Each football game won is the result of careful planning, strategic plays, and judgment calls. There is a risk with each pass and rush that yards might be lost instead of gained on the path to the goal line.

In life, managing debt demands similar planning, careful decision-making, and a solid understanding of the risks, costs, and benefits. With a solid management plan, taking out loans can provide funds that allow you to reach goals such as paying for college or buying a house. However, debt can also spiral out of control, negatively impacting your financial opportunities now and in the future. While the topic of debt may seem overwhelming, it's important to keep your head in the game and take informed action to reach your goals.

Module Level: Rookie, Ages 11-14

Time Outline: 45 minutes total

Subjects: Economics, Math, Finance, Consumer Sciences, Life Skills

Materials: Facilitators may print and photocopy handouts and quizzes, and direct students to the online resources below.

- **Pre- and Post-Test questions:** Use this short grouping of questions as a quick, formative assessment for the Debt module or as a Pre- and Post-Test at the beginning and completion of the entire module series.
- **Practical Money Skills Debt resources:** practicalmoneyskills.com/ff40
- **Index cards**
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

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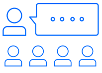
Icon Key

Activity

Assign the given activity to students and have them complete it individually or with a group, depending on the instructions.

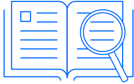


Ask

Pose questions to your students and have them respond.

Assign

Designate individuals or groups to complete a particular assignment.



Debrief

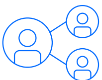
Examine the activities as a whole group and compare answers and findings.

Did You Know?

Share these fun facts with students throughout the lesson.

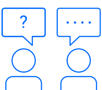
Pre- and Post-Test

Have students take the Pre-Test before the lesson, and take the Post-Test after completing the lesson.



Share

Read or paraphrase the lesson content to students.



Turn and Talk

Have students turn to a partner and discuss a specific topic or question.

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Learning Objectives

- Explore types of debt and their costs and benefits
- Calculate debt-to-income ratio
- Discover strategies to manage and alleviate debt
- Discuss the dangers of debt and how to prevent lasting negative impacts
- Identify tools for debt management planning

Key Terms and Concepts

Before you start the lesson, review the key terms and concepts below. The answers to each question will help you get students prepped and game-ready. Get deeper information around these concepts in the Facilitator Script section on pages 6 to 8 of this guide.

What types of loans are considered good debt? Bad debt?

Borrowing money (taking on debt) can help you reach goals but it can also become a burden. To decide whether a debt is good or bad for your personal situation, you will need to consider the benefits and costs. In general, debt that helps you earn more in the long term, such as school loans, business loans, or real estate mortgages, can be considered good debt. Meanwhile, debt that has no potential of making you money is considered bad debt. In other words, good debt helps your future self and bad debt hurts your future self.

What is debt load and how is it calculated?

The sum total of all the money you owe is called your debt load. To determine whether your load is more than you can afford, you'll want to calculate your debt-to-income ratio by comparing the amount you owe to the amount you earn.

How much debt is too much debt?

Excessive debt is a problem that only gets worse the longer it continues. Warning signs that debt is getting out of hand include not being able to pay bills and owing late fees. Lenders typically like to see a debt-to-income ratio (DTI) of 35% or less.

When does it make sense to take out a loan?

There are many different types of loans:

- Student loans
- Mortgage loans
- Auto loans
- Personal loans
- Peer-to-peer loans

Learning Objectives, cont.

Taking out a loan is a big responsibility and commitment. When you're choosing a loan, it's important to consider the interest rate, length of the loan, and overall cost of borrowing the money. Loans can allow you to leverage time — giving you access to opportunities such as education, real estate, and transportation. However, debt can also quickly grow and get out of hand, so it's critical to consider how much debt you can afford to repay.

Did You Know?

If you can't afford your monthly payments, your creditors may be willing to put you on a new payment plan.

How can I prevent debt problems?

- Keep track of what you owe and monitor your credit report for accuracy.
- Avoid borrowing more money than you can afford to repay.
- Not everyone receives a steady paycheck. If your income varies, it is of particular importance to minimize your debt burden.
- Create a plan for repayment when considering loan options.
- Pay bills on time; if you can't make a payment, call to notify and negotiate with your creditor.
- Know your consumer rights. Find out more at the Consumer Financial Protection Bureau's website: consumerfinance.gov.

How can I rebuild my finances after debt?

You can't rewrite your credit history, but you can rebuild it. Whether you've undergone a major life event or filed for bankruptcy, reestablishing your credit rating takes time and discipline, so it's helpful to create a plan you can stick to. You'll need to demonstrate that you're able to pay your bills on time every month and make regular repayments to a credit line.

Five ways to rebuild financial credibility:

- Consider a credit builder loan.
- Using a secured credit card account and avoiding balances greater than 9% of the credit limit.
- Becoming an authorized user who has a good credit score.
- Making payments on time.
- Reducing total debt balances.

Module Section Outline with Facilitator Script

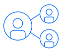
Introduction: Warm-Up

Quick write: Have students spend 5 to 10 minutes writing on the following topic: Is debt always bad? When might debt be useful and why? If time allows, have them share their responses with the class.

Optional Pre-Test: Refer students to page 6 of the Student Activities guide. Have them answer the questions with the most appropriate answer, noting a, b, c or d or filling in the blank.

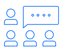
Types of Debt: Weighing the Benefits and Costs

Group Brainstorm: Draw a t-chart on the board with two columns, "Good Debt" (usually useful) and "Bad Debt" (risky).



Share: Explain to students that, in dealing with debt, it's important to recognize that there are various types of debt and they won't always result in the same outcome. When planned properly, going into debt for school or business purposes or taking out a loan for real estate (such as a mortgage) could be considered investments that might yield greater financial earnings for you in the future (good debt). This kind of debt may be costly in the short term, but could potentially end up paying for itself in the long term. However, debt that does not invest in anything is a financial burden in both the short term and the long term (bad debt). This is the kind of debt that must be managed carefully to prevent it from quickly spiral out of control.

A good rule of thumb is that "Good Debt" helps to improve your future self.



Ask: Where would each of the choices/situations below belong on the t-chart?

- Borrowing $20 from a friend and paying them back a week later (usually useful).
- Buying a cell phone with payment plan, $25 per month for 24 months (usually useful).
- Credit card debt less than 10% of your credit limit and paid off each month (usually useful).
- Credit card debt that is 90% of your credit limit and you're only able to make minimum payments (risky).
- Payday loan (risky).
- Auto title loan (risky).
- Monthly auto loan that is less than 5% of your monthly net pay (usually useful).

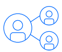
Share: Explain to students that taking out a loan is a big responsibility and commitment. When you're choosing a loan, it's important to consider the interest rate, length of the loan, and overall cost of borrowing

Module Section Outline with Facilitator Script, cont.

the money. Loans can allow you to leverage time — giving you access to opportunities such as education, real estate, and transportation. However, debt can also quickly grow and get out of hand, so it's critical to consider how much debt you can afford to repay.

Group Discussion: Ask students the following questions and facilitate a group discussion. What things are important to consider before taking out a loan? How are people influenced to over-borrow?

Strategies to Get Out of Debt



Share: Managing debt demands planning, careful decision-making, and a solid understanding of the risks, costs, and benefits. There are many different types of loans:

- Student Loans – If you need to borrow money to cover your college tuition, you normally take out a student loan. There are a few options for what kind of loan you would apply for, including federal loans as well as loans from private companies.
- Mortgage Loans – Buying a home can often require applying for a mortgage loan. Different interest rates and repayment times can greatly affect a mortgage loan's impact on your finances.
- Auto Loans – You are able to buy and finance a car through auto loans from car dealerships, banks, and credit unions. You may also take out a home equity loan, which allows you to use your home as collateral for your auto loan.
- Personal Loans – A personal loan can be used to cover various expenses, from repaying credit card debt to taking an expensive vacation, at your discretion. Personal loans can be secured or unsecured, depending on whether you have collateral and the risk you want to take. To get a secured loan, the borrower needs to pledge some asset, such as a home or a car, to serve as collateral for the loan. Unsecured loans are approved without the need for collateral. Borrowers can qualify for the loan based on their income and credit history.
- Peer-to-Peer Loans – You can use an online service to be matched with a peer lender, whether you want a loan for personal purposes or another reason. Many of these loans are unsecured, and since operations are conducted entirely online you should approach peer-to-peer loans with caution.

With a solid management plan, taking out loans can provide funds that allow you to reach goals such as attending college or buying a house. Debt can help you leverage time. When mismanaged, debt can also spiral out of control, negatively impacting your financial opportunities now and in the future.

Activity:

Part 1: Divide the class into small groups. Give each team seven index cards. Have them work together to choose a character (animated or superhero) and create an index card for types of debt they might take out, such as car loan for their superhero mobile. Each index card should also include an interest rate and loan amount within the assigned range from the choices below.

Module Section Outline with Facilitator Script, cont.

- Auto loan Index Card: 0% – 20%, $1,000 – $10,000
- Credit card debt #1 Index Card: 12% – 34%, $250 – $15,000
- Credit card debt #2 Index Card: 12% – 34%, $250 – $15,000
- Credit card debt #3 Index Card: 12% – 34%, $250 – $15,000
- Mortgage Index Card: 4% – 5%, $100,000 – $300,000
- Payday loan Index Card: 300% – 450%, $350 – $500
- Auto title loan Index Card: 750%, $2,500 – $10,000

Part 2: Two options for game play.

Option 1: Each team creates an answer key categorizing the types of debt as good or bad for the character.

Option 2: Each team creates an answer key assigning the debt repayment order for each debt reduction strategy: snowball and avalanche. Each team then creates an answer key assigning the debt repayment order for each debt reduction strategy: snowball and avalanche. The teacher checks each team's answer key.

Debt Snowball Method - This method of paying off loans works by prioritizing debts based on their size. By paying off smaller loans first, you'll be able to pay off several loans earlier on, and your payments "snowball" as you're psychologically rewarded. Many people feel more motivated to pay off loans if they can see visible progress.

Debt Avalanche Method - Paying off debt through the debt avalanche method means first making the minimum payment on each debt, then using any remaining money to start paying off the debt that has the highest interest rate. Once you've paid off your highest interest rate debt, tackle the debt with the next highest interest. Using this method can result in paying off debt more quickly while reducing overall interest rates.

Part 3: The teams swap cards and compete. The team that can first correctly order its index cards for each strategy wins. The teacher holds each team's answer key and is the referee.

Closing: Post-Test

Group Discussion: Ask students the following questions and facilitate a group discussion. Borrowing money can be useful sometimes. What is one strategy of managing debt effectively?

Optional Post-Test: Have students turn to page 6 of the Student Activities guide and answer the questions with the most appropriate answer, noting a, b, c or d or filling in the blank.

Lesson 5 Debt: Answer Keys

> Debt Pre- and Post-Test

> Strategies for Managing Debt student activity

Debt Pre- and Post-Test

Directions: Have students answer the questions with the most appropriate answer, noting a, b, c, d or filling in the blank.

Answer Key

1. Your personal debt is:

a. The PIN code for your debit card

b. What is in your savings account

c. What you owe in money, goods, or services

d. The same as your credit score

2. Which of the following is a warning sign that you could have a problem with debt?

a. You aren't sure how much you owe

b. This month's bills arrive before last month's have been paid

c. You often owe late fees

d. All of the above

3. Decisions you can make that will help pay down your debt include:

a. Canceling your credit cards

b. Opening a new, low-interest credit card account

c. Increasing your income and reducing your expenses

d. All of the above

4. The more debts you take on, the harder it may be to pay all your bills.

a. True

b. False

5. So-called "good debt" is debt that helps to improve your_________.

(Correct answer: future self)

Strategies for Managing Debt

Directions: Divide students into two teams to complete the following activities.

Part 1: Work with your team to fill out seven index cards. On each index card, write down an interest rate and loan amount within the assigned range from the following choices:

- Auto loan Index Card: 0% – 20%, $1,000 – $10,000
- Credit card debt #1 Index Card: 12% – 34%, $250 – $15,000
- Credit card debt #2 Index Card: 12% – 34%, $250 – $15,000
- Credit card debt #3 Index Card: 12% – 34%, $250 – $15,000
- Mortgage Index Card: 4% – 5%, $100,000 – $300,000
- Payday loan Index Card: 300% – 450%, $350 – $500
- Auto title loan Index Card: 750%, $2,500 – $10,000

Part 2: Create an answer key listing the right debt repayment sequence for the seven cards, using two different strategies: snowball and avalanche.

> **Debt Snowball Method:** This method of paying off loans works by prioritizing debts based on their size. By paying off smaller loans first, you'll be able to pay off several loans earlier on, and your payments "snowball" as you're psychologically rewarded. Many people feel more motivated to pay off loans if they can see visible progress.
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> **Debt Avalanche Method:** Paying off debt through the debt avalanche method means first making the minimum payment on each debt, then using any remaining money to start paying off the debt that has the highest interest rate. Once you've paid off your highest interest rate debt, tackle the debt with the next highest interest. Using this method can result in paying off debt more quickly while reducing overall interest rates.

Part 3: Swap cards with another team and compete. The team that can first correctly order its seven index cards for each strategy wins. The teacher holds each team's answer key and is the referee.

Glossary of Terms

Have students study this list of personal finance terms to help warm up before playing Financial Football. By mastering these terms, students will have a better opportunity to answer questions in the game correctly and score.

Bad debt: Debt taken on for items that a consumer cannot afford and that does not generate opportunities for future income. (See good debt)

Bankruptcy: A condition of insolvency where an individual or business is unable to repay debts. Bankruptcy is a way to eliminate debts or repay them under court protection and supervision, although child support payments, alimony, fines, taxes, and some student loan obligations are typically not eliminated. Bankruptcy will stay on your credit report for 7 or 10 years depending on the type of bankruptcy filing, possibly affecting your ability to buy or rent a home, and will likely result in higher interest rates on future loans.

Cost-benefit analysis: Analyzing whether the cost of an item is more than, equal to, or less than the benefit that comes from its purchase.

Creditor: A person or business to whom money is owed.

Debt: The state of owing money to another individual or business, or the amount of money borrowed.

Debt avalanche method: Paying off debt through the debt avalanche method means first making the minimum payment on each debt, then using any remaining money to start paying off the debt that has the highest interest rate. Once you've paid off your highest interest rate debt, tackle the debt with the next highest interest rate. Using this method can result in paying off debt more quickly while reducing overall interest rates.

Debt counseling: Debt management advice and services available through either of the following national organizations: American Consumer Credit Counseling, National Foundation for Credit Counseling.

Debt load: The sum total of all the money you owe.

Debt snowball method: This method of paying off loans works by prioritizing debts based on their size. By paying off smaller loans first, you'll be able to pay off several loans earlier on, and your payments "snowball" as you're psychologically rewarded. Many people feel more motivated to pay off loans if they can see visible progress.

Debt-to-income ratio: A calculation comparing the amount you owe to the amount you earn. Debt-to-income ratio may be used to see how much debt you can afford to take on.

Finance: To borrow funds for the purpose of a purchase.

Foreclosure: A legal process in which a mortgaged property is confiscated because the borrower has failed to keep up payments.

Good debt (usually useful): The concept that sometimes it is worth taking on certain types of debt in order to generate opportunities for income in the long run. Common examples include college education debt and real estate.

Glossary of Terms, cont.

Liabilities: Everything that you owe, which may include your mortgage, credit card balance, interest, student loans, and loans from family and friends.

Loan: Money or assets borrowed and paid back with interest over time.

Loan principal: An amount borrowed that remains unpaid, excluding interest.

Loan term: The period of time during which a loan is active.

Mortgage: A loan secured in order to purchase property.

Mortgage payment: The payment a borrower makes each month toward the purchase of a home.

Mortgage term: The agreed-upon amount of time to pay off a mortgage.

Opportunity cost: The loss of potential gain from other alternatives when one alternative is chosen.

Principal: The amount of money you deposit in your account to begin saving or the original amount of money borrowed.

Student loan: A loan offered to students for education-related expenses that must be repaid.

Unsecured loans: An unsecured personal loan doesn't require you to put up any collateral (like a car) for the loan. If you don't repay it, the lender can't claim collateral as compensation. But there is something you risk if you default on either unsecured or secured loans — your credit. Lower credit scores could make it more difficult to get approved for other types of credit.