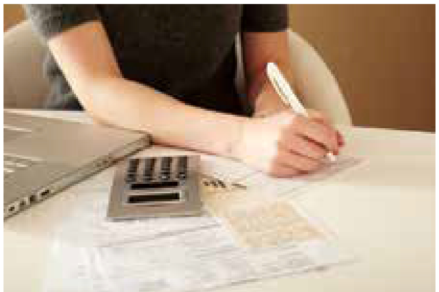

The Danger of Debt: Avoiding Financial Pitfalls

LESSON 15: TEACHERS GUIDE

When teens borrow money from a friend or relative to buy the latest gadget, the thought of returning the payment often comes second to the initial gratification of buying the item. Long before having to pay back what they borrowed, they may have already moved on to the next thing and forgotten that they still need to pay for their purchase. As they move onto college and adult life, their attitudes around borrowing and returning will likely influence how they approach credit. In this lesson, students will understand how credit can open doors if used wisely, but also lead to unmanageable debt if used thoughtlessly. Students will learn how bad debt can damage credit records and how consumers can tackle debt in order to get back on the road to good money management.

Topic: Avoiding Debt

Time Required: 55 minutes

SUPPLIES:

- Notebooks
- Computers or tablets
- Internet access
- Student activity sheets (2)

PREPARATION:

- Copy student activity sheets

STUDENT ACTIVITY SHEETS:

Credit Crossroads
Students will assess different scenarios and determine the differences between good and bad debt.

Debt Snowball
In this activity, students analyze how bad debt grows and discuss how to prevent debt from snowballing.

LEARNING OBJECTIVES:

Students will...

- Explore why debt occurs and how to prevent it
- Learn how debt impacts credit potential
- Discover actions to alleviate debt

STANDARDS:

Jump$tart Standards:

- Credit Standard 3

National Economics Standards:

- Standard 2: Decision Making

Common Core ELA Anchor Standards:

- Speaking and Listening: Comprehension and Collaboration

Common Core Math Standards:

- Number and Quantity: Quantities
- Modeling
- Statistics and Probability: Making Inferences and Justifying Conclusions

Practical Money Skills

Essential Question | ***"How can I stay out of debt?"***

Investigate: Impulsive Spending

[Time Required: 15 minutes]

1. Begin by asking students to write in their notebooks five things they want to buy right now (e.g., concert tickets, video games, clothes, a car, etc.).
2. Invite volunteers to share the items on their lists and write them on the board. Review the items as a class, and ask students to differentiate the wants from the needs. For example, is a car a want or a need? What about a video game? Explain that we must know the differences between wants and needs so that we can manage our money responsibly and avoid falling into **debt**.
3. Next, ask students what they think debt is and what causes it. How do people get into debt? Explain that debt is when we owe more money than we have, and that one way to get into debt is to make impulsive decisions with money, whether for a want or a need.
4. Explain that it's important to ask three questions before making any spending decision: 1) Can I afford it? 2) How will I pay for it? and 3) What will the consequences of my purchase be? Discuss various scenarios where students might ask themselves those questions. For example, if students have an upcoming car payment and decide to buy a luxury item instead of making that payment, even though they cannot afford both, what would be the effects of that decision?
5. Next, explain that while impulsive financial decisions or using credit to buy wants can lead to bad debt, there is also such a thing as good debt. Explain that good debt is when credit is used to purchase something that is needed but may be difficult to pay for in cash. Good debt may include items such as financing college tuition or taking out a mortgage to buy a home. Explain that good debt can help build our credit history and demonstrate to lenders that we are financially responsible. Good debt helps show our "creditworthiness."

Student Preparation: The Choices We Make

[Time Required: 20 minutes]

6. Explain to students that making wise and thoughtful choices with our money can help us maximize savings, build credit and minimize bad debt.

TEACHER'S TIPS

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.

Link to Lesson 11:
Connect this lesson with **Lesson 11: Savvy Spending** and remind students that learning how to manage money responsibly is an important part of avoiding debt.

Link to Lessons 6 & 14:
Remind students the importance of being "creditworthy" from **Lesson 6** and the power of credit from **Lesson 14**.

7. Distribute the activity sheet ***Credit Crossroads***, and tell students they are going to determine bad debt versus good debt. Encourage students to work in pairs and give them ten minutes to complete the activity.
8. Invite volunteers to share their ideas, and engage the class in a discussion about debt and the choices we make. Why is some debt considered good while other debt is considered bad? How can we distinguish between the two?

Challenge: Debt and Credit

[Time Required: 15 minutes]

9. Ask students about the short- and long-term effects of debt and the ways a person can get into bad debt. For example, what happens if we pay our bills late or bounce a check? What about not paying off credit card bills? Explain to students that debt can snowball very easily if we spend more than we have and only pay the minimum amount due on our bills. Help students understand there are consequences for falling into debt, such as increasing interest payments that can cause us to fall even deeper into debt. Remind students that debt also impacts our credit score and while good debt builds a positive credit history, bad debt can negatively impact our credit score.
10. Next, distribute the activity sheet ***Debt Snowball*** and tell students they will get to see a debt snowball in action. Give them ten minutes to complete the activity, and then invite volunteers to share their answers. How much did each purchase end up costing? How could the debt snowball have been prevented? How might the debt snowball impact credit?
11. Explain that in both scenarios, the actual cost of the purchases were significantly higher in the end because of interest rates and minimum payments. Emphasize that in the second scenario, the cost of the car repairs doubled the original payment, making a much greater impact in the long run than if Brent had paid off the car more quickly.
12. Next, ask students how they think their lives would be impacted if they had significant "bad debt." For example, how would it affect spending time with friends, paying for a new car or planning for college? How might their credit scores be affected?
13. Help students understand that not handling credit responsibly can have long-term consequences, from decreasing credit scores to continual calls from creditors seeking payments. Explain that if a person gets so deep into debt that they are unable to get out on their own, they may consider filing for **bankruptcy** as a last resort. While bankruptcy can help eliminate or reduce money that is owed, it damages a credit score and can prevent us from being able to buy a house, open new credit card accounts or obtain any kind of loan.

14. Next, engage the class in a discussion about how bad debt can be alleviated. What would students do if they were in debt? Would they change their spending habits? Help students understand that bad debt should be avoided because once bad debt snowballs, it becomes increasingly difficult to pay off. Explain that if debt begins to snowball, there are options such as debt counselors who help develop a plan for paying back money owed, and debt consolidation, which can simplify repayments and lower interest rates.
15. Emphasize that debt can have a serious impact on our credit scores and severely limit opportunities, such as the ability to go to college, afford a new apartment or even purchase a gift for a friend's birthday. Also discuss the impact the media has on our spending—many images we see encourage us to buy even if we can't really afford it. Help students understand that making a budget and cutting unnecessary expenses are not only ways to alleviate debt, but also ways to save for the things we want to buy.

Reflection

[Time Required: 5 minutes]

Ask students to reflect in their notebooks about good versus bad debt. How does good debt help our credit and how does bad debt damage our credit?

TEACHER'S TIPS

Link to Lessons 6 & 9:
For more on credit, review **Lesson 6** on "creditworthiness" and how paying fees on time or late can influence an individual's credit score and debt. Remind students about the value of budgeting from **Lesson 9** and explain how a solid budget can maximize savings and reduce overspending.

Extension Idea:
Review **Lesson 9** on creating a budget and ask students to create their own by using the Practical Money Skills' My Budget Planner tool at practicalmoneyskills.com/reworkbudget.

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Credit Crossroads

LESSON 15: ANSWER KEY 1

Scenario 1
Mark and Ryan's desire for a new television is a want and, therefore, not a great purchase to make using credit, especially since their money is needed for other items such as rent, tuition and books. If Mark is unable to repay the loan, his credit score could be damaged.

Scenario 2
Blake has steady employment and a solid down payment, making the condo purchase a good investment for him. The home loan will give Blake the opportunity to continue building his credit history and "creditworthiness."

Scenario 3
Because Nora already has five credit cards and is sometimes late in paying her bills, opening another credit card could potentially damage her credit score if she continues to be late in payments.

Debt Snowball

LESSON 15: ANSWER KEY 2

The real cost of Brent's video game system includes the following:

Original Purchase Cost	Months to Pay off Debt	Amount Paid in Interest	Final Price
$200	**27**	**$61.40**	**$261.40**

The real cost of Brent's car repairs includes the following:

Original Purchase Cost	Months to Pay off Debt	Amount Paid in Interest	Final Price
$2,000	**87**	**$2,344.86**	**$4,344.86**