

Name: _____

IN THIS LESSON, YOU WILL:

- Calculate the interest accrued with different debt payoff methods
- Identify dangers of compounding debt
- Compare different debt repayment options available to debtors
- Learn about different types of predatory lending and how to avoid it
- Examine statistics on the prevalence and rates of debt in the U.S.



INTRO

QUESTION OF THE DAY: What percent of Americans who have credit card debt won't be able to pay it off within a year?

Debt is not a common subject of conversation, so it can easily feel overwhelming. It can be helpful to know how common debt problems are when faced with debt to know you are not alone. Answer the question on the first slide in the box. Then, compare your answer to the answer on the second slide. Finally, follow your teacher's directions on how to answer the follow-up questions on the last slide.

1. What percent of Americans who have credit card debt won't be able to pay it off within a year?

LEARN IT

INFOGRAPHIC: Experian 2021 Consumer Credit Review**GRAPH: Charting 17 Years of American Household Debt**

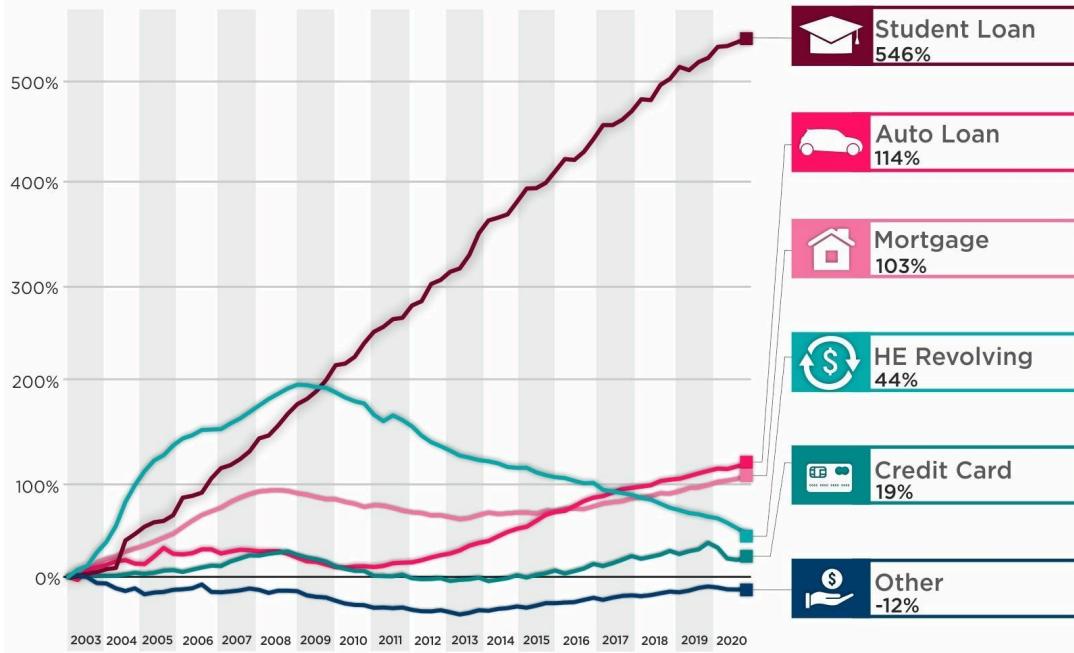
The “normal” amount of debt for an average person can be a tough question to answer, but can be a useful benchmark when considering your own decisions around loans. Take a look at this infographic and this graph depicting different aspects of debt in the U.S. Then, answer the questions.



[Source](#)

Change in the U.S. Household Debt

Percentage Change Since First Quarter of 2003



howmuch net

Article & Sources:
<https://howmuch.net/articles/change-in-the-us-household-debt>
 Federal Reserve Bank of New York - <https://www.newyorkfed.org/>

Note: "HE Revolving" refers to home equity lines of credit (HELOC) loans

[Source](#)

1. Aside from mortgages, what is the largest source of debt for most Americans on average?
2. What debt has grown by the largest percentage since 2003?
3. Over the same time period, the bottom 90% of workers' income rose just over 10%. How does that growth compare the growth of household debt? How might that impact workers?

4. **What factors do you think may have contributed to the increase of these debts over time?**

5. **These graphics are examples of inferential statistics because they took a smaller sample and from those answers made inferences about the larger U.S. population. What other interesting or surprising inferences can you draw from any of these graphics?**

ACTIVITY: INTERACTIVE: Compounding Cat Insanity

It might start out small, but if you're not careful, debt can get out of hand quickly! Follow your teacher's instructions to complete this activity that shows just how overwhelming debt can be.

INFOGRAPHIC: The Consequences of Unpaid Debt

Just as you saw in the game, unpaid debt has consequences in real life too, often serious ones. NerdWallet has compiled this list of potential consequences of missing payments.. Use the chart to answer:

1. **Foreclosure and repossession are when you lose the rights of your property and the lender takes ownership of it. What types of loans could result in the seizure of your property?**

2. **Wage garnishment is when payments are deducted from your wages before you are paid. In general, which type of loans can lead to wage garnishment if not paid on time?**

3. **What do you think might be some other consequences of carrying unpaid debts, besides what is listed in the chart?**

VIDEO: Debt Snowball vs Avalanche Method: Best Way to Pay Off Debt?

Let's say you're ready to start paying off your debt, but you aren't sure how to allocate your funds, and there are a variety of ways you can approach it. Watch the video to learn about two of the most popular payoff structures, and then answer the questions.

1. **Briefly describe the two methods in your own words.**
 - a. Avalanche Method:

 - b. Snowball Method:

2. **What are the benefits of each method?**
 - a. Avalanche Method:

b. Snowball Method:

3. Which method do you think would work best for you, if you were trying to pay off debts? Explain why.



MATH CONNECTION - DEBT PAYOFF COMPARISONS

ACTIVITY: [CALCULATE: Avalanche v. Debt Snowball](#)

By far the two most popular debt payoff methods are the debt snowball and the debt avalanche methods. Follow your teacher's instructions to complete this activity comparing the two methods and their relative benefits.



LEARN IT

[VIDEO: Payday Loans Explained](#)

[VIDEO: Payday Loans Can Trap Consumers With Interest Rates, Hidden Fees](#)

Watch these videos to get a better understanding of what payday loans actually are, who uses them, and how they can lead to a cycle of debt! Then, answer the questions.

- 1. How are payday loans different from other loan types you've learned about?**
- 2. Let's consider the example in the video. Sally takes out a \$375 loan and can't afford to repay it after two weeks. She pays a \$55 renewal fee every two weeks. Assuming she has to renew that loan as stated in the video:**
 - After 6 months (26 weeks), how much would she have paid in fees?
 - How much would she pay in fees over 1 year of renewing the loan?
 - To compare the cost of loans, we can calculate the APR, which is the total cost of the loan, including fees and interest, divided by the principal. Since this type of loan just has fees, use the formula $APR = \text{fees}/\text{principal} * 100$ to calculate the APR for this loan after one year expressed as a percentage.

- 3. Why do you think so many people still use payday loans despite the financial dangers?**

- 4. Your friend says: "Payday loans are a perfect short term fix in an emergency!" What would you say in response to your friend's statement?**

ARTICLE: Predatory Lending

Debt can sometimes stack up due to our own choices, but other times we are taken advantage of by unfair lenders. Payday loans are just one practice that can trap borrowers into a cycle of debt. Skim the section titled "Predatory Lending Tactics to Watch Out For" to learn about other predatory practices, and then answer the questions.

- 1. Choose ONE of these practices that you think poses a significant risk to borrowers. Give a brief definition of that tactic in your own words.**

- 2. Why did this tactic stand out to you?**

- 3. Explain how this tactic could contribute to a cycle of debt.**

ARTICLE: How to Manage Debt of Any Size

If you are unable to manage a program on your own or extenuating circumstances apply, there are organizations explicitly to help you get back on track. These debt relief services are often free or low-cost and the biggest barrier to obtaining them is knowing they're there in the first place.

- 1. What is always the first step in beginning to tackle your debt? Why do you think this step is important?**

- 2. The article recommends making at least the minimum payments and always paying on time. What can you avoid by following these two rules?**

- 3. What do you think is the benefit of building up an emergency fund, even when you are working on paying off debts?**

4. **What are two options you could explore further if you find yourself overwhelmed with debt and unable to make all your payments?**
5. **The tip at the end of the article emphasizes the importance of distinguishing between “needs” and “wants.” While this might be the problem for some, others might face different difficulties in overcoming debt. Looking at the larger debt amounts from the graphic resources at the beginning of the lesson, what category (needs or wants) do you think those fall under, and how would those rising costs impact a person struggling with debt?**

VIDEO: 4 Ways to Deal with Debt Shame

Debt can be a stressful thing, but there are some steps you can take if you find yourself in debt to help you work your way out. Watch this video on understanding debt shame and some keys to working through it, and then answer the questions.

1. **What are some potential non-financial costs to living with debt?**
2. **How might the emotional impacts described make it more difficult to manage your debt?**
3. **Why do you think it is common for people to feel shame about being in debt?**
4. **Summarize the 4 keys this video recommends for dealing with debt shame**



EXIT TICKET

Follow your teacher's instructions to complete the Exit Ticket.

Teachers, you can find exit ticket questions on the Lesson Guide.