





Understanding Credit Lesson – Presentation Guide 2021

Introduction

This session has been developed for Key Stage 4-5 pupils, to help them develop their skills and knowledge about credit.

Schools and colleges may choose to integrate this session into the PSHE or enrichment curriculum.

Financial Education Planning Framework

The Financial Education Planning Framework is a national framework that aims to support the planning, teaching and progression of financial education by setting out the key areas of financial knowledge, skills and attitudes. This session aims to help develop the following knowledge, skills and attitudes:

- I can appreciate that there are a wide range of financial products that cater for different needs and that I should seek out those which are appropriate to me.
- I understand that I should investigate and fully understand the terms and conditions of any contract or financial agreement before committing myself to it.
- I know which financial products I need now and in the future e.g. bank accounts, student loans, mobile phone contracts, saving accounts, pension schemes, insurance.
- I can choose and work out the costs and benefits of the financial products I need now and in the future.
- I understand I am responsible for working out which financial products are best for my situation, or seeking appropriate financial advice to do so.

Session Outline

The focus of this session is to help develop young people's understanding of debit, credit and debt, credit options and the difference between good debt and bad debt and their awareness that they have financial choices, each of which have consequences







Learning Objectives:

By the end of the session all students should:

- Understand the difference between debit, credit and debt
- Be aware of different types of credit and the importance of APR
- Understand the difference between "good" debt and "bad" debt
- Recognise that they have choices, each of which have consequences

In advance

Before you arrive at the school/college

- ensure you have read through the slides, are comfortable with the content and activities and have noted the timings
- ensure any materials and resources required to deliver the session are provided by the school or brought yourself
- ensure that you have viewed the relevant training webinar and have passed the financial education sign off process with the My Personal Finance Skills team
- you may need to pick and choose between the activities to meet the needs of your students depending on their age/ability and the time available
- you could use the materials across more than one session if you wish
- most of the activities should be accessible to the vast majority of students, but some may need help with understanding the language. Some students may struggle with the APR calculations
- Be aware than credit and debt may be a sensitive topic for some students, they may have experience of family members being in severe debt

What you will need

For this session you will need:

- the presentation guide, PowerPoint presentation, sticky notes, copies of the Types of Credit, Laptop Credit and Good Debt Bad Debt worksheets, one per student and a case study, one per pair.
- Optional stretch & challenge worksheet: APR in Practice, one per pair/small group
- to ask the school to have access to either a PC or laptop, projector, paper and pens for the students. Students are likely to require calculators to complete some of the activities in this session.
- Internet access this lesson is linked to an on-line video.

Length of session

This session is expected to take approximately 1 hour to deliver.







Links to Your Money Matters Textbook

All state schools in England will have received copies of Your Money Matters textbook published by the Young Money charity. The chapter on Borrowing includes many more activities, case studies and questions in the book to help further develop the student's understanding of topics such as repayment, interest and APR.

Session Guidance

*where an activity is numbered, this means that this activity takes place on the student handout.

Feel free to bring in your own examples, knowledge and experience where appropriate

<u>General Introduction – slides 1- 4 (5 minutes)</u>



Introduce the session topic and the learning objectives.

Explain a little bit about yourself, your job role and the role of the Personal Finance Society. Students are often inquisitive about visitors and what they do so ask students if they have any questions about your job.

Starter - slide 5 (2 minutes)

Use Slide 5 to give a brief introduction to the session. Explain that as the use of cash declines other payment methods have taken over and we're going to look at some of them today









What payment methods do the students use most often?

<u> Debit – slides 6-8 (3 minutes)</u>



Use slides 7 and 8 to explain the difference between a bank debit card and a prepaid one. Debit cards are different to cash cards, as a cash card can't be used to make purchases. You could ask how many students already have a debit card.

You don't need to have a bank account to have a pre-paid card. They can be a really good idea if you might be tempted to spend more than you intend or want to limit your spending, e.g.: when shopping online or in in-app purchases, etc.

<u> Credit – slides 9 – 18 (15 minutes)</u>

Use Slide 8 to briefly explain the meaning of credit and ask students how many different types of credit they are aware of.

Activity 1: Hand out copies of the Types of Credit worksheet, one per student and ask them to match the term in the left-hand column with the correct definition in the right-hand one. The first one has been done for them.







Use slides 13 – 15 to briefly consider credit apps. How many students are aware of Klarna?









(Regarding Klarna, debt advice firm PayPlan, says: "This form of introduction to credit does not encourage budgeting and supports the 'I want it now' purchases of items people may not be able to afford. We have seen a worrying increase in the number of young people contacting us for free debt advice.

It now makes up more than a fifth of our total client base." <u>https://www.thequardian.com/money/2018/nov/17/klarna-buy-now-pay-later-system-that-is-seducing-millennials</u>



Show the video at: <u>www.bbc.co.uk/teach/class-clips-video/pshe-ks3--ks4-what-happens-</u> <u>when-you-borrow-money/z4qbf4i</u> (3 minutes 52 seconds) You will need to ctrl-click the link underneath the picture on slide 15



Explain that the rules on pay day loans have changed since the video was made. They are now much more tightly regulated. As a result of the changes the maximum you have to repay is double what you originally borrowed. So, if you borrow £100 then the most you have to repay is £200. Most pay day loans are now for a maximum duration of 30 days, although in some instances you can roll them over...but then it becomes a new loan...so if you owed £200 when you roll the loan over you could now end up paying £400.

Stress that there is nothing wrong with using credit as long as you use it properly and make sure you can pay the money back!



MY PERSONAL FINANCE SKILLS



Interest rates and APR – slides 19-24 (15 minutes)

Use slides 17 and 18 to briefly demonstrate how simple and compound interest are calculated. Explain that most forms of credit use compound interest.





NOTE TO SPEAKER – these 2 slides are quite

complicated but the essence is about simple vs compound interest and how it stacks up....

<u>Slide 21</u>

Activity 2 on handout. Which of the offers would they choose and why?

NOTE TO SPEAKER - read out the two scenario

<u>Slide 22</u>

We are now going to look at Option A together as a group.

Realistically, you will be using an online repayment calculator and it is good to know how to use it for when the time comes where you might need to compare.

So, following the link on your worksheet and also visible here, you will see this calculator that we need to fill out with the amount we wish to borrow, for how many months and the APR...

https://moneyfacts.co.uk/loans/loan-calculator/

NOTE TO SPEAKER – go through step by step on working out all the information. Whether virtual or in school, encourage students to follow the link on the slide to have a go themselves. If joining virtually, they can access the link for the handout.

You could say something like, 'you could use this type of activity in the future as it is always important to compare and make informed decisions when it comes to money'



Slide 23











Now have a go yourself using the loan calculator, making sure you input the correct figures into each section. Remember, this person is NOT paying anything in Year 1 so everything will need to be paid off in year 2

NOTE TO SPEAKER – ensure you pause before revealing the answers and say that we will proceed to compare both Option A and Option B next

<mark>Slide 24</mark>

So, here we are, the two options. Which one would you go for? On the surface, the monthly

repayments are lower for Option A but that is over 2 years whereas Option be is in one go in 12 months. Overall, Option B is by far the cheaper of the two.

But remember, ask yourself, can I save up money to save taking out a loan in the first place? Cutting back, making a budget can all help. In either case, you are better to opt for option B assuming you can afford the minimum deposit. And if you couldn't afford the deposit you probably shouldn't be buying the laptop!

Your Results	"You can spread the cost of any purchase over £99 ' is irrelevant to calculations
Monthly repayment	A
£17.52	
Total repayable	2 years The total amount repayable will be £420.52 therefore
£420.53	the loan will cost you £70.53
	You will pay £3.50 minimum as a deposit
	You will pay £3.50 minimum as a deposit
Your Results	You will pay £3.50 minimum as a deposit Year 1 Pavine off the lean in the first 12 months and beine charge
Your Results Monthly repayment	You will pay £3.50 minimum as a deposit Year 1 Paying off the loan in the first 12 months and being charge the £29 settlement fee is effectively an APR of 16%
Your Results Matthly repayment £31.39	You will pay £3.50 minimum as a deposit Year 1 Paying off the Ioan in the first 12 months and being charges B the £29 settlement fee is effectively an APR of 10%
Your Results Monthly repayment £31.39 Total repayable	You will pay £1.50 minimum as a deposit Year 1 Paying off the loan in the first 12 months and being charge the £23 settlement fire is effectively an APA of 16% Year 2
Your Results Moothly repayment £31.39 Total repayable £376.70	You will pay £330 minimum as a deposit War 1 Paying off the loan in the first 12 months and being chang B the £35 settlement file is effectively an APR of 16% War 2 War 2

In either case, you are better to opt for option B assuming you can afford the minimum deposit. And if you couldn't afford the deposit you probably shouldn't be buying the laptop!

https://moneyfacts.co.uk/loans/loan-calculator/ (useful tool for calculations)

<u> Making Informed Choices – slides 25-33 (15 minutes)</u>

Use the information on the slides to explain what it means to be in debt and the link with using credit









Explain that not all debt is bad! It can be really sensible to borrow money as long as it's for a good reason and you have a plan for paying it back.

Make the distinction between good debt and bad debt. Can the students think of any other examples?





Use slides 28-29 to help students make clear distinctions between good and bad debt. Slide 30 contains an interactive stand up/sit down activity.

NB: If this workshop is being conducted virtually, you can ask the teacher to observe and reveal what the majority think. Alternatively, it can be talked through.

<u>Slides 31-34</u>

Activity 3: hand out copies of the case study, one per pair and ask the students consider different options for making a major purchase plus the advantages/disadvantages of each.









Plenary – slides 35-37 (5 minutes)

Use Slide 32 to give a brief resume of the expected outcomes and invite any questions, discuss what they could do next to find out more.

Conclude by asking students to complete their feedback form,

remembering to keep it anonymised.



