**“Winning the Debt Battle by Losing the Debt”** **Student Guide**

A Lesson in:

* Debt
* Credit Scores
* Credit Report
* Failure to Repay Debt

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| 1. **What problem does the couple sitting at the table have at the start of the clip?** | 1. **What is the name of the unique new program for managing debt?** | 1. **What is the solution to their money problems?** |
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**Your Thoughts Before Reading:**

1. **Growing up means doing what is right.** Have you ever had to make a decision that you did not really like but knew it would do good for you in the end?
2. **Opportunity Cost.** Have you ever had to make a tough decision like this with money? Maybe paying your parents back on Friday meant that you did not have enough cash to go to the movies with your friends on Saturday. Sometimes debtors need to make tough choices that will benefit them in the end. *Have you ever made a responsible decision with money, only to find you missed out on other things in the end? Share an experience you’ve had similar to the example.*
3. **Debt consolidation.** Sometimes people make the choice to take out an additional loan to pay off their credit cards. *Does this sound like a smart thing? Why or why not?*

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Doing so will consolidate all of their debt with one financial institution and should drop their interest rate. Consolidate means to condense, to unify, to make compact. The one monthly debt payment to pay off their new loan should be less money than before they consolidated their debt. *Which of the following individuals do you think should consider debt consolidation? Remember to explain why.*

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| ***Debtor*** | ***Debt owed at interest rate*** | ***Consolidation option*** | ***Consolidate:*** |
| *Charlie* | $10,000 at 20%  $6,000 at 18%  $2,500 at 10%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | $18,000 at 12%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | ***Yes/No***  *Why?* |
| *Dakota* | $18,000 at 22%  $9,000 at 5%  $7,000 at 25%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | $34,000 at 10%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | ***Yes/No***  *Why?* |
| *Jackie* | $102,000 at 6%  $4,250 at 17%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | $100,000 at 20%  Total $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | ***Yes/No***  *Why?* |

1. **The effects.** As a consequence, taking out another loan is debt. The Credit Bureaus note the new line of credit and the consumer’s credit score drops. *If Charlie, Dakota and Jackie decide to consolidate their loans, how many debts will be identified on their credit report?*

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|  | ***Charlie*** | ***Dakota*** | ***Jackie*** |
| ***Number of Creditors*** |  |  |  |

1. **Think about it.** It feels good to pay off several credit card companies with the new money from the loan; which may have even boosted your credit score temporarily. However, after a few months the new loan hits your credit and your score will drop- right back to where you started from. *Consider the following:*

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| *Is it worth taking on new debt to pay off old debt? Why?*  *What is the end financial goal for most consumers?* |

1. **Credit score.** Using your prior knowledge, answer the following: *What good does a credit score do? Do you need a credit score?*

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**Look it up!** *Use the internet to provide information on the following:*

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|  | ***Range of Scores*** | **Impact of Credit Score** |
| ***Excellent Credit*** |  |  |
| ***Good Credit*** |  |  |
| ***Fair Credit*** |  |  |
| ***Poor Credit*** |  |  |
| ***Very Poor Credit*** |  |  |

*How important are the following components in determining a credit score?*

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|  | ***How Influential is this information?*** |
| ***Payment History*** |  |
| ***Credit Utilization Rate*** |  |
| ***Type, Number and Age of Credit Accounts*** |  |
| ***Total Debt*** |  |
| ***Public Records (such as bankruptcy)*** |  |
| ***Number of New Accounts Recently Opened*** |  |
| ***Number of Inquiries for Credit Report*** |  |

1. **Did you know?** An employer may decide to use your credit score as a deciding factor of whether or not to offer you a job! Landlords will often use credit scores as a means to rent an apartment to the most financially responsible tennant. Insurance companies can decide how much of a risk you are to their company by using the credit score as a tool to better understand you and your likelihood for risk. More risk… higher insurance rates. Fair or not, these are common practices used which may determine whether you get the new job, lease a beautiful home, or can afford car and life insurance.

*Think like a business owner and identify why and how the credit score can help you better understand and assess your clients.*

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| --- | --- | --- |
| Employer | Landlord | Insurance Agent |
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1. **Research with a partner.** Spend some time brainstorming and make a list of what options are available, without opening another line of credit to pay off debt? *Go online and see what alternatives you can find to add to your list.* The Balance has an article “Five Ways to Consolidate Debt on Your Own.” This article may help!

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| **Brainstorming List:** | **Online Resource Suggestion:** |
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1. **Uhh-ohh!** What happens if the loans are not or cannot be paid off?

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| *Identify the most common consequences for not paying off debt:* |

**During the Reading with Newspapers in Education:**

1. **Read the letter that “J” wrote to Penny, in the Tampa Bay Times.**

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| *What is your immediate response to the reader’s letter?* *Why?*  *How difficult do you think it was for J to write the letter to Penny? What makes you come to this conclusion?* |

1. **Reply to sender.** Write a 5+ sentence letter in response to advise J on the best way to pay off debt.

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| *Attach your letter to this page.* |

**After the Reading:**

1. **Extend your research.** *Where can help be found when looking for support in debt management?*

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**13. Decide.** Using what you have learned, share whether or not an additional loan should

be taken out to pay off debt in the future. Be sure to support your choice.

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| *I have concluded…* |
| *Support for my decision:* |

**14.** In the video you watched at the start of the lesson, the host mentioned he created a

book with three chapters. Think about what you learned today in the lesson, and if you

were to write a book with 7 chapters, what would they be titled?

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| Book Title: | |  |
| *Chapter Titles:* | | |
| 1 |  | |
| 2 |  | |
| 3 |  | |
| 4 |  | |
| 5 |  | |
| 6 |  | |
| 7 |  | |

**Extension:**  Create a scenario in which it would not be advisable to open a new line of credit to pay off existing credit. Write about the FICO score and how financial decisions affect the movement of a credit score. What items tarnish your credit for seven years or longer?