BUILDING BLOCKS TEACHER GUIDE

Telling the difference between loan myths and realities

Students analyze statements about loans and decide whether they're a myth or reality.

Learning goals

Big idea

Knowing the difference between loan myths and realities can help you become a responsible borrower.

Essential questions

- What are the most important things to know about taking out a loan?
- Why are some people able to get a loan while other people aren't?

Objectives

- Recognize whether a statement about loans is a myth or reality
- Understand the difference between secured and unsecured loans

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

Financial habits and norms

Financial knowledge and decision-making skills

Grade level: Middle school (6–8)

Age range: 11–14

Topic: Borrow (Getting loans, Managing credit)

School subject: CTE (Career and technical education), English or language arts, Social studies or history

Teaching strategy: Cooperative learning, Gamification

Bloom's Taxonomy level: Understand, Apply, Analyze

Activity duration: 45–60 minutes

National Standards for Personal Financial Education, 2021
Spending: 4-6, 8-4
Managing credit: 4-2, 4-3, 8-4, 8-6, 8-7, 12-2, 12-8

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

What students will do

- Review key terms related to taking out a loan.
- Determine whether statements about loans are a myth or reality.
- Learn about the difference between secured and unsecured loans.

Preparing for this activity

- ☐ While it's not necessary, completing the "Building a good borrowing reputation" activity first may make this one more meaningful.
- ☐ Print copies of all student materials, or prepare for students to access them electronically.
- ☐ Make two signs, one that says "Myth" and one that says "Reality," and post them on the board or a wall.
- ☐ Print a copy of the "Loan myths and realities" statements at the end of this guide and cut apart the statements.
- ☐ Fold the individual statements in half and put them in a hat or other container.

What you'll need

THIS TEACHER GUIDE

- **Telling the difference between loan myths and realities** (guide) cfpb_building_block_activities_tell-difference-between-loan-myths-realities _guide.pdf
- **One "Myth" sign and one "Reality" sign**

STUDENT MATERIALS

- **"Loan myths and realities" statements** (in this guide)
- **Tape**
- **A hat or other container**

Exploring key financial concepts

Sometimes when people want or need to buy something but don't have enough money for the purchase, they borrow money from someone else. Borrowing money is called a loan. Not everyone who applies for a loan is given one. A lender often decides whether to give a loan based on a borrower's past behaviors, such as how well they've repaid other loans.

For some people, it may be easier to get a loan to buy a specific item. Then that item could be the loan collateral – such as a house, car, or boat – that a lender could repossess or reclaim if the loan isn't repaid. That type of loan is called a secured loan. Other property that you own also can be collateral for secured loans. An unsecured loan doesn't have security or collateral — which is why lenders generally consider them to be riskier. People who have a history of paying back the money they've borrowed may qualify for unsecured loans. Since these loans require no collateral, the bank or credit union is trusting that these borrowers will pay them back. Trust between a lender and a borrower is based on what borrowers have done in the past that gives them a reputation for being financially responsible.

TIP

Because products, terms, and laws related to loans change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Tell the class that they'll learn about loans and explore some myths and realities about loans.
- Ask students to share some things they know about loans.
- Be sure students understand key vocabulary:
    - **Borrower:** A person or organization that borrows something, especially money from a bank or other financial institution.
    - **Collateral:** An asset that secures a loan or other debt that a lender can take if you don't repay the money you borrow. For example, if you get a home loan, the bank's collateral is typically your house.
    - **Credit:** Borrowing money, or having the right to borrow money, to buy something. Usually it means you're using a credit card, but it might also mean that you got a loan.
    - **Credit score:** A number created from a scoring model that uses information from your credit history.
    - **Debt:** Money you owe another person or a business.
    - **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

- **Loan:** Money that needs to be repaid by the borrower, generally with interest.
- **Secured loans:** Loans in which your property (a thing you own) is used as collateral; if you cannot pay back the loan, the lender takes your collateral to get their money back. The lender can also engage in debt collection, can file negative information on your credit report, and might sue you.
- **Unsecured loan:** A loan that does not use property as collateral (such as most types of credit cards). Lenders consider these loans to be more risky than secured loans, so they may charge a higher rate of interest for them. If the loan is not paid back as agreed, the lender can also start debt collection, file negative information on your credit report, and can sue you.

- After reviewing the key vocabulary, ask students to consider why people who pay back loans on time are more likely to get unsecured loans.
- Then ask students to consider why people who don't pay back loans might only be able to get secured loans.

Group work

- Tell students that they'll play a game where they decide whether a statement about loans is a myth or reality.
- Explain the directions to the class:
  - A student volunteer will pull a statement from a container and read it aloud.
  - With help from the class, the student will decide whether the statement is a myth or reality.
  - Once the class comes to a consensus, the student will tape the statement under the myth or reality sign.
- After they've made their choice, use the answer guide to give the answer and explain why the statement is a myth or reality.

Wrap-up

- Bring the class back together and discuss what they learned from this activity.
- Have students complete an exit ticket (a short, ungraded quiz) that answers this question: "What are three things you learned in this activity about getting a loan?"

Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including getting loans or managing credit. Suggested activities include "Understanding ways to pay for higher education after high school" and "Understanding credit scores."

Measuring student learning

Students' answers on their exit tickets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the loan myths and realities activity. **Keep in mind that students' answers may vary**. The important thing is for students to have reasonable justification for their answers.

Answer guide

Realities

Statement	Reason this is true
With a secured loan, the lender can take collateral away from the borrower if the borrower doesn't repay the loan.	Secured loans are considered secure because they require collateral, which is something the borrower owns that the lender can take away if the loan isn't repaid. For example, if a borrower doesn't pay their car loan, the lender can take the car.
An example of an unsecured loan is a loan for college tuition, which doesn't require collateral.	Unsecured loans such as private student loans are riskier because they don't require any collateral.
If you use your house as collateral on a secured loan and you don't make payments on your loan, the lender can take your home.	When an item is used for collateral, it gives the lender something they can repossess or reclaim if you don't pay back the loan. If you don't make payments on a loan, the lender may take that item away from you.
Unsecured loans are riskier for lenders.	Unsecured loans are considered high risk by lenders because there's no collateral that the lender can take if the borrower doesn't make the loan payments.
People who have higher credit scores qualify more easily for loans.	People who have higher credit scores can usually get loans more easily because they have shown in the past that they're responsible borrowers and repay their loans on time.

Myths

Statement	Reason this is false
Loans don't have to be repaid.	All loans need to be repaid.
You can pay back your loan anytime you want for however much you want.	People who borrow money must make payments on a schedule, but you can ask your lender to work with you to select a specific due date that works for you. People can pay off a loan quickly if they choose, but to be a responsible borrower, it's important to pay loans on time and to at least pay the required amount.
If you apply for a loan, you'll automatically get it.	Only people who have a good credit record will qualify to receive a loan. People with good credit have shown in the past that they're responsible borrowers and repay their loans on time.
Your credit and whether or not you've paid off previous loans don't matter when you try to get a loan in the future.	A lender often decides whether to give a loan based on a borrower's past behaviors, such as how well they've repaid other loans. That's why people who don't pay back their loans may have a harder time getting another loan, may have to pay higher interest rates, or may not be able to borrow as much as they wanted or needed.
When you apply for your first loan, you're sure to get it because you automatically have good credit.	People don't automatically start out with good credit. They start out with no credit history at all. Because of this, lenders are generally cautious about loaning money to people who are new to credit. Most people need to build a good credit history by showing that they can pay bills when they're due. People who show that they can repay loans on time are most likely to get new loans when they need them at the best rates and terms. Identity theft can hurt a person's credit whether they've borrowed money or not. Both children and adults who have never personally borrowed money before can discover they have a credit history because their identity was stolen and misused by someone. When a person's identity is stolen, the thief can use that information to buy things on credit or borrow money. The victim of this crime winds up with poor credit because they don't know their identity has been stolen and the thief doesn't pay the money back. This can be fixed, but it takes time and effort. That's why it's always important to keep your personal information, like your Social Security number, in a safe place and not share it unless you have to and you're certain it will be treated confidentially.

Loan myths and realities statements

Print this page. Cut the statements into individual slips and place them in a hat or other container.

With a secured loan, the lender can take collateral away from the borrower if the borrower doesn't repay the loan.

An example of an unsecured loan is a loan for college tuition, which doesn't require collateral.

If you use your house as collateral on a secured loan and you don't make payments on your loan, the lender can take your home.

Unsecured loans are riskier for lenders.

People who have higher credit scores qualify more easily for loans.

Loans don't have to be repaid.

You can pay back your loan anytime you want for however much you want.

If you apply for a loan, you'll automatically get it.

Your credit and whether or not you've paid off previous loans don't matter when you try to get a loan in the future.

When you apply for your first loan, you're sure to get it because you automatically have good credit.