

Avoiding debt

Students read a short story and a handout to learn about excessive debt and ways to avoid or reduce debt.

Learning goals

Big idea

Understanding debt can help you manage your finances and pay your bills.

Essential questions

- How do you avoid debt?
- What are some steps you can take to reduce or better manage debt?

Objectives

- Understand what it means to have debt
- Recommend ways people can avoid or reduce debt

What students will do

- Read a short story and a handout about debt.
- Recommend ways a borrower could avoid or reduce debt.

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:

- Executive function
- 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, Math, Social studies or history

Teaching strategy: Direct instruction

Bloom's Taxonomy level: Understand, Apply, Analyze

Activity duration: 45-60 minutes

National Standards for Personal Financial Education, 2021

Managing credit: 4-1, 4-2, 4-3, 8-3, 8-4, 8-6, 8-7, 12-10

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.

Preparing for this activity

- While it's not necessary, completing the "Telling the difference between loan myths and realities" activity first may make this one more meaningful.
- Print copies of all student materials for each student, or prepare for students to access them electronically.

What you'll need

THIS TEACHER GUIDE

- **Avoiding debt** (guide)
[cfpb_building_block_activities_avoiding-debt_guide.pdf](#)

STUDENT MATERIALS

- **Avoiding debt** (worksheet)
[cfpb_building_block_activities_avoiding-debt_worksheet.pdf](#)
- **What is debt?** (handout)
[cfpb_building_block_activities_what-is-debt_handout.pdf](#)

Exploring key financial concepts

When you borrow money from someone, you have debt. Debt can be a problem when you owe money you can't pay back. If you don't pay back the money you borrowed, future lenders won't trust you and you may even have legal problems.

Before you borrow money to buy something, it can be helpful to make sure what you're buying is something you really need. It's also a good practice to make sure you don't borrow more than you can repay with your future income. Making careful choices about spending and borrowing can help you avoid debt altogether.

Another way to avoid or get out of debt is to make a budget. A budget is a plan that you can use to track how much money you spend. With a budget, you can look for ways to spend less money. You might find ways to save, and it helps to write down what you spend so that you don't need to borrow money. If you do borrow money, a budget can help you make sure you can afford to repay that debt.

TIP

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

Sometimes it may be worth it to go into debt. For example, borrowing money to further your education with a certification, license, or a degree can help you get a better-paying job. This is an example of good debt, but only if you finish your studies and your future income is high enough to allow you to pay back the amount that you borrow. Borrowing money to get a reliable car to get you to work might be another example of good debt if the loan terms fit your budget.

Teaching this activity

Whole-class introduction

- Ask students what they know about debt.
 - Be sure students understand that when you owe money to someone, you are in debt. Debt may be the result of getting a loan or using a credit card.
- Explain that owing money may not always be bad.
 - Borrowing money for things like tuition, a car, or a house can let you pay for these kinds of expensive items over time.
 - Making your payments on time is one way to build good credit.
- However, sometimes debt can be a problem when you:
 - Owe a lot of money on credit cards
 - Pay bills late
 - Don't pay at least the minimum amount due
 - Skip payments
- Distribute the "What is debt?" handout.
- Be sure students understand key vocabulary:
 - **Borrower:** A person or organization that borrows something, especially money from a bank or other financial institution.
 - **Budget:** A plan that outlines what money you expect to earn or receive (your income) and how you will save it or spend it (your expenses) for a given period of time; also called a spending plan.
 - **Debt:** Money you owe another person or a business.

TIP

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

- **Financial well-being:** The ability to meet all financial needs, today and over time; feel secure in the financial future; absorb a financial shock; and have the financial freedom to make choices to enjoy life.
- **Loan:** Money that needs to be repaid by the borrower, generally with interest.

Individual or group work

- Ask students to read the “What is debt?” handout on their own and highlight information about the possible consequences of having debt.
- Distribute the “Avoiding debt” worksheet.
- Ask students to work independently or with a partner to read the story on the worksheet and answer the questions.
- Students will work independently to answer the reflection question.

Wrap-up

- Bring the class back together and ask students to share their answers to the questions about the story.
- Start a discussion about strategies people can use to avoid or reduce debt.
- Ask volunteers to share their answers to the reflection question.

Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including getting loans and managing credit. Suggested activities include “Understanding minimum payments” and “Building a good borrowing reputation.”

Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

Keep in mind that students’ answers may vary, as there may not be only one right answer. The important thing is for students to have reasonable justification for their answers.