



MAKE MONEY MAKE SENSE



Debt Activity

| Teaching aims of the session | Possible teaching activity | Learning outcomes |
|---|--|--|
| <p>To explain the concept of debt, what it is and how to avoid it.</p> <p>To explain the consequences of debt.</p> <p>To explain to students the importance of money management and the potential consequences if money is not managed properly.</p> <p>To enable students to understand the possible influences and reasons for debt and what to do if they get into debt.</p> | <p>Suggested Activity</p> <p>Activity 1 (see below) Debt case study video and debt case study text</p> <p>Debt quiz</p> | <p>Students will understand what debt is and how to avoid it.</p> <p>Students will be able to identify the possible reasons for getting into debt</p> <p>Students will understand the difference between essential spending and non-essential spending.</p> <p>Students will understand the importance of budgeting and the potential consequences of not.</p> <p>Students will understand what steps need to be taken if they do get into debt.</p> |



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Debt Activity 1

Debt case study – based on a true story.

You will find the video in the teachers section of the website

I'm a 22 year old single male and I live with my parents now. I didn't used to but because of my debt problems I've have to move back in for a while, hopefully just for a short time until I get things sorted out.

When I was 18 I went to University in Manchester. I got a student loan but that wasn't enough to live on so I borrowed £1000 from a bank. I got a credit card too, which was really handy to use. I used to go out a lot when I was at Uni, with my mates, drinking and generally having a good time. Now that I look at the amount I owe on the credit card I can't believe where it's all gone. I've got nothing to show for it.

I also got behind with my rent for my student lodgings which was at the halls of residence. They didn't hassle me about it much at the time so I let it slide. Overall I was just thinking that these things wouldn't matter because when I finished my degree I would get a good job and it would be easy enough to pay all these things off. The student loan doesn't have to be paid off for a while and when you're spending the money you're not thinking about how you're gonna pay it back or what the problems could be in a few years time. I was too busy just enjoying myself, I had a great time. So did everyone else. We all spent a fair amount, but I didn't have a clue what background some of my mates came from and maybe their parents could afford to pay for stuff for them and so they didn't have to borrow money on credit cards.

So I left Uni and got a job through an agency which I was told would be permanent after three months. The money was good so I thought, "Great, now things are gonna start sorting themselves out." So I bought a car which I needed to get to work, just a kind of second hand run-around thing, nothing flash. I got a loan of £1000 from the same bank I got the other loan from and I started paying that off at around £80 a month. About a couple of weeks after I bought it I had a crash, which was a nightmare, not a write-off but about £300 worth of damage which the insurance covered but I had to spend some time sorting it out and take time off work. They didn't like that but I got through it without getting behind on the training and it was OK.

Anyway, after 3 months of working, the agency wrote to me and said I wasn't going to be offered a permanent contract. So I lost my job, just like that. So I signed on and claimed Jobseeker's allowance and I get £55.65 a week which is about £240 a month.



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Last week I got a letter from Uni saying I owed them £1265 rent which I hadn't paid while I was there. That really freaked me out, I'd pretty much forgotten about that and it arrives right now when I've got hardly any money coming in.

The other thing was that I'd exceeded my credit card limit which was £1500 without getting their permission, which I didn't realise I'd done. So they charged me £50 automatically just for doing that. And the minimum payment is about £70 which I couldn't pay this month so they charged me some more and even if I do pay the minimum this month that only pays about a half of the interest they charge each month.

Now, I'm supposed to have Payment Protection Insurance on my credit card which means that if I lose my job involuntarily they pay my credit card minimum for a year. But when I spoke to them they asked me all these questions about whether the job was permanent or temporary and they're going to send me a form. I think they might say that because the job wasn't permanent I don't get the insurance cover which means they'll still be charging me for all this stuff.

I sold my car back to the garage and they gave me £400 for it which leaves me about £500 left to pay on the loan. Then I've got the second loan of £1000, the rent from Uni which is £1265 and my credit card bill which is now at about £1600. Out of the £55.65 a week I get, I pay something to my Dad each week for lodgings but I haven't got enough left to pay off the minimum amounts each month so I'm really starting to worry about it. I seem to be struggling just to stay afloat, I'm not actually paying anything off.

That's when my Dad suggested I go to Citizens Advice.....

Consider the following:

- 1) What caused this person to get into debt problems? Was there one single factor or a combination?
- 2) What factors could have influenced this person's spending when at University?
- 3) What effect did the car crash have?
- 4) What could he have done differently?

Suggested answers:

What caused this person to get into debt problems? Was there one single factor or a combination?

Excessive spending increased the amount borrowed.

He may not have considered the possible cost of borrowing.

Losing his job is the main cause of the problem. He may have been able to keep up repayments if offered a permanent post.



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What factors could have influenced this person's spending when at University?
Peer pressure. Bank / credit card sales techniques.

What effect did the car crash have?

Taking time off may have jeopardised his chances at work.

A random incident such as a car accident can have much wider implications.

Debt is often the result of a sudden change of circumstances.

What could he have done differently?

Borrowed less?

Asked for his credit card limit to be raised?

Budgeted?