What is debt?

**Note for parents and caregivers:**

Below are some quick instructions for this activity. Work through the questions together!

* Read the “what is debt?” handout and highlight and keep in mind information about the possible consequences of having debit
* Read the story in the following worksheet, “Avoiding debt”
* Answer the reflection questions in the section “Talk about it”

**Part I. Read handout “What is debt”**

Debt is money you owe a person or a business. It’s when you’ve borrowed money you’ll need to pay back. Usually, people borrow money when they don’t have enough to pay for something they want or need. If you do borrow money, it’s best to have a plan for how you’ll pay it back.

**How can I avoid or limit debt in my life?**

Making careful choices about spending and borrowing can help you avoid debt. Avoiding debt can help build your financial well-being. Financial well-being means having control over your money and being able to make choices that allow you to enjoy your life. To achieve financial well-being, it’s good to plan ahead, manage your spending, spend less than you earn, and have a plan to save money each month. One way to do this is by creating 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 so that you don’t need to borrow money.

Before you borrow money to buy something, it can be helpful to make sure what you’re buying is something you really need. Or perhaps you wait to buy things until you know you have the money to buy them. Or you decide not to get the fanciest phone because it’s outside of your budget. All these decisions can help you pay for what you need and want without having to borrow money and go into debt.

**Is it okay to have debt?**

Sometimes it’s okay to have debt. For example, it may be okay to borrow money to further your education or to get a reliable car to get you to work. When thinking about taking out debt, a good rule to live by is to make sure you earn more money than you spend each month. In fact, before a person or a company lends you money, they may review your finances to be sure you’ll be able to repay the money you borrowed.

However, sometimes people spend more money than they earn, so

they have to borrow money to get things they need or want. When this is a regular habit, it can be difficult to achieve financial well-being because it becomes hard to pay back the borrowed money. In these cases, debt may not be a good option.

**How do I know if I have too much debt?**

Borrowing too much money can result in excessive debt, which can make it harder to manage your finances and pay your monthly bills. It may also hurt your credit rating and your reputation as a borrower. Here are a few signs that you may have too much debt:

* You don’t know how much you owe.
* You spend more money than you make.
* You struggle to make the minimum payments on your debt.
* You miss some required payments.
* You can’t buy things you need.
* You don’t have a good borrowing reputation with lenders.
* You’re not able to save money.

**How can I get out of debt?**

To get out of debt, it can help to make a budget. A budget can help you change your spending habits so you spend less money, stop taking on more debt, and work on paying down the debt you already have.

It can also help to think of ways to earn extra money each month. This can include getting a new job, getting a side gig to make more money (such as running errands, doing yard work, cleaning, babysitting), or selling stuff you no longer need (old equipment, clothes, etc.).

If you’re struggling to pay back loans, it can be helpful to contact the people you’ve borrowed money from. Explain what’s going on and try to work out a new payment plan with lower payments that are easier to manage.

Avoiding debt

Borrowing money causes debt. Avoiding debt can make it easier to have control over your money and make choices that allow you to enjoy your life.

**Part II. Read: “A story about debt”**

J.J. was the best baseball player on his college team. Major league scouts followed him, and it looked like there’d be a bidding war for him to join the majors. So he was surprised and disappointed when he found himself having to join an independent league team after graduating because he didn’t yet have an offer from a major league team.

His family and friends told him it was just a matter of time before he got his big break, and he wanted to believe them. He was so confident he’d be making more money that he took out a big car loan to buy a brand-new SUV. He maxed out his credit cards to buy furniture, clothes, and gear to look the part of a professional ballplayer. As time went by, he was spending more money than he made each month. It was hard for him to make the minimum payments on his loans and credit cards. He was often late on bills and loan payments because he didn’t have the money. Things got so bad, he lost track of what he owed. He even avoided going to the doctor when he hurt his knee at practice because he couldn’t pay the bill. He tried to get another credit card to get by, but he couldn’t because of his poor borrowing reputation.

**Part III. Talk about it**

How could J.J. have avoided getting into debt?

What might happen to J.J. if he doesn’t figure out how to reduce or pay off his debt?

What are some things J.J. could do to reduce or better manage his debt?

What choices could you make to avoid getting into debt in your own future?

Note: The handout and worksheet were adapted from the Consumer Financial Protection Bureau’s Building Blocks student worksheet: “Avoiding debt.”