

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.

Preparing for this activity

- Print copies of all student materials for each student, or prepare for students to access them electronically.

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 (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

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Credit and debt - Standard 3

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.

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.

TIP

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

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.
 - **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.

TIP

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

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 managing credit.

Measuring student learning

Students’ responses 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.

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.



 BUILDING BLOCKS STUDENT WORKSHEET

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.

Instructions

- 1 Read the "What is debt?" handout and highlight information about the possible consequences of having debt.
- 2 Read the story below and answer the questions about J.J.
- 3 Answer the reflection question.

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.



Questions about J.J.

1. How could J.J. have avoided getting into debt?
2. What might happen to J.J. if he doesn't figure out how to reduce or pay off his debt?
3. What are some things J.J. could do to reduce or better manage his debt?

Reflection question

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