



GRADE 6+

# Borrowing Money | Lesson Plan

How do loans work, and how can I borrow money responsibly?

Students learn about how loans work and the risks and rewards of borrowing money.

## Learning Objectives:

- Describe what a loan is.
- Define key terms associated with borrowing, including loan, principal, interest, collateral, secured loan, and down payment.
- Explain what the interest rate on a loan is and how banks use interest to make money.
- Explain that loans can be secured with collateral and that collateral is a piece of property that the lender can sell to recover all or part of a loan if the borrower fails to repay.
- Understand that failure to repay a loan has significant consequences for borrowers, such as negative entries on their credit report, repossession of property (collateral), etc.
- Describe ways in which they can borrow money responsibly.

## Key Vocabulary:

- **Loan:** A loan is a contract between a borrower and a lender, and if it is not paid back, the borrower will be in legal trouble.
- **Principal:** The borrower must pay back the principal, which is the amount of money borrowed.
- **Interest:** The borrower must also pay back interest, which is an extra fee charged for borrowing money. This is how banks make their money.
- **Collateral:** The bank may require collateral, something valuable that you already own, which the bank will claim if you don't pay the loan. Stocks, bonds, cars, and savings accounts are examples of collateral. If you fail to pay the loan, the bank will take and sell your collateral to get their money back.
- **Secured Loan:** A secured loan is a type of loan backed by other assets (collateral).
- **Down Payment:** Money paid in advance to lower the amount borrowed.

**Educational Standards:** Financial Literacy, Personal Finance, Life Skills

## What You'll Need

- Video: [Ca\\$h Cour\\$e: Borrowing Money](#)



Scan to watch video.

- Worksheet: *Ca\$h Cour\$e: Borrowing Money* ([Download PDF](#))
- *Optional:* Take-Home Assignment attached to this lesson plan (*Borrowing Money to Buy Your Dream Car!*).

## Lesson Plan (45 mins.)

### Warm-Up: (5 mins.)

1. Present the students with the following scenario for discussion: *What could I do if I needed a pen to write with and didn't have one right now?* (Borrow one.) Borrow a pen from a student. Proceed by asking: *What if you lent me this pen, and I either lost it or never gave it back to you? Would you trust me to borrow something from you again? What if I needed to borrow something more valuable, like your cell phone or iPad? What could you do to ensure I returned your item to you?* (Guide the students to the idea of collateral—a person might need to give the lender a valuable item of their own that they would keep if the borrower fails to return the borrowed item.)
2. Ask: *What does it mean to borrow? Why would you need to borrow money? Where can you borrow money from?*

### Watch and Apply: (25 mins.)

1. State: *We will watch this video and see what we can learn about borrowing money when making larger purchases. Then we'll answer some questions to see what we've learned!*
2. Watch the video, *Ca\$h Cour\$e: Borrowing Money*.

### Wrap-Up: (15 mins.)

1. Distribute the *Ca\$h Cour\$e: Borrowing Money* Worksheet. Have students complete a no- or low-stakes assessment.
2. After the assessment (you may choose to collect or not), work through the questions as a class and discuss any areas where students needed help, still needed to complete it, or had questions.
3. Discuss: *What did you learn about borrowing money? What is the interest rate on a loan? How do banks use interest to make money? What is collateral, and why are some loans secured with collateral? What are some ways you can borrow money responsibly?*
4. *Optional:* Explain the additional take-home assignment attached to this lesson plan (*Borrowing Money to Buy Your Dream Car!*). Based on their salary, students can

calculate how long it would take them to pay off a loan for their dream car. Give the students a hypothetical monthly income, or let them work their own personal financial numbers.

### Don't have time for the full lesson? Quick Activity (10-15 mins.)

- Distribute the worksheet and allow students to complete it while they follow along with the video.
- Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.

Name \_\_\_\_\_

Date \_\_\_\_\_

## **Borrowing Money to Buy Your Dream Car!**

*Directions: Calculate and construct a plan to determine how long it will take to pay off a loan for your dream car!*

**Part 1: First, we need to calculate how much you will earn from your job. That will help you determine how much you can spend on your car. Get your parent's help to go online and research two jobs that interest you online to see how much they pay.**

Job Title	Yearly Salary	Monthly Salary (Yearly Salary divided by 12 months)
	\$	\$
	\$	\$

**Part 2: Research two cars you would like to buy. Write down how much they cost.**

Car (Model/Make/Year)	Price
	\$
	\$

**Part 3: You have qualified for a loan from your bank. They will charge 10% interest on the amount you borrow. For each car, calculate the 10% interest for the loan (multiply the cost of the car by 0.1) and then find the total amount you would pay back (add the 10% of the price to the full price to get the total amount owed).**

Car (Model/Make/Year)	10% of the Price	Total Amount Owed
	\$	\$
	\$	\$

**Part 4: It is said that your car payment should be 10% of your monthly pay. Calculate how much that is for each job you listed (multiply your monthly pay by 0.1), and figure out how many months it will take to pay back the loan (divide the total amount owed by 10% of your monthly pay).**

Job Title	10% of Monthly Pay	How many months to pay back?
	\$	
	\$	