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LESSON 1 OUTLINE

Lesson 1
The Cost of a Loan

You will need:

- Do You Need It? - Interactive Storybook
- **RESOURCE 1.1**
  Factsheet: Loans for each group/pair
- **RESOURCE 1.2**
  Matching Loan Definitions sheet per pair

Lesson Outcomes

Children will determine the best option when borrowing money to purchase an item.

The Activity

- Begin the session by finding out what the children already know about loans to generate a definition together.
- Generate discussion further by asking the children, "What things do people get loans for?" and "Where do loans come from?" These ideas can be given verbally or written, then shared to establish prior knowledge.
- Provide the task sheet: Matching Loan Definitions, to allow the children to be familiarised with the vocabulary of loans. Children are to sort the terms with the definitions. Check these are correct using the Factsheet: Loans.

Take the quiz here

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FACTSHEET: LOANS

What is a loan?

A loan, also called credit, is usually money lent to you for a fixed amount of time, from a few weeks to years, depending on the type of loan and what it is for e.g. TV, car, Mortgage, often by a bank or another lender. You always have to pay the money back. This can be in instalments.

What is debt?

If you owe money on credit, this is called being in debt. If you have more debt than you can afford – perhaps because you've lost your job – this is often called bad debt. Several organisations offer free help to people in bad debt.

What is a secured loan?

You can only get a secured loan if you have collateral. This means something is pledged as security for repayment of a loan. So for example, if the borrower doesn't make the repayments on a car loan, the car can legally be taken off them. The same applies with a mortgage loan on a house, where if repayments aren't made, the house will be taken off them. Lenders take into account how much the borrower can afford to pay back each month.

What is an unsecured loan?

Lenders trust the borrower to pay the loan back. There is no specific item that has been agreed that the lender can take from the borrower if they fail to pay back the loan. If the agreed payments aren't made, it could possibly make the loan even bigger.

What are interest rates?

Interest rates, also known as APR (which stands for Annual Percentage Rate) is the interest the borrower pays annually on a loan in order for the lender to make profit on the money being borrowed. Interest is what you pay extra in return for having borrowed money. It is calculated in different ways to allow those who borrow to be able to compare the cost of different loans on offer. The total payment with APR will be a percentage greater than the original loan.

What is a loan shark?

A person/people who offer loans with extremely high interest rates. These loans are unsecured. Loan sharks can enforce repayments of the loan by threatening the borrower.

What is a bank loan?

Money that is borrowed from a bank and is paid back over an agreed period with an agreed percentage of interest (APR).

What is a Payday loan?

This is a small, short term unsecured loan that must be paid back on the next months payday or an agreed date. If the payment isn't made on time, the interest rate goes up dramatically. This can make the loan very expensive.

Credit Reference Agencies

Information about any credit you take out and how you manage it is registered centrally with companies called credit reference agencies. This allows banks and lenders to check your credit history before agreeing to give you more credit.

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MATCHING LOAN DEFINITIONS ACTIVITY

KS2 | DO YOU NEED IT?

✂ Cut up the question cards and the definition cards

- Match the question with the definition to generate discussion
- Incorporate the factsheet: Loans to aid the task to check answers

What is a loan?	What is a debt?	What is a secured loan?
What is an unsecured loan?	What are interest rates?	What is a loan shark?
What is a bank loan?	What is a Payday loan?	What is a Credit Reference Agency?

This is money lent on a temporary basis.	If a borrower owes money on a loan.	A type of loan that you need to have collateral for.
A type of loan that if the agreed payments aren't made, it could possibly make the loan even bigger.	Also known as Annual Percentage Rate (APR).	A person/people who offer loans with extremely high interest rates which are unsecured.
Money that is borrowed and is paid back over an agreed period, with an agreed percentage of interest (APR).	This is a small, short term, unsecured loan that must be paid back on an agreed date.	These are companies that enable banks and lenders to check a borrower's credit history before agreeing to give them a loan.

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