

# LESSON PLAN

## *Debt Repayment Strategies*

- IT'S A -  
**MONEY  
THING®**

### INCLUDED IN THIS PACKAGE

- **LESSON PLAN** (2 pages)
- **ACTIVITY A** (1 page)
- **ACTIVITY B** (2 pages)
- **ACTIVITY C** (1 page)
- **QUIZ** (1 page)
- **ACTIVITY B ANSWER KEY** (1 page)
- **QUIZ ANSWER KEY** (1 page)

### COLLECT FROM YOUR LIBRARY

- **VIDEO 37** (Strategies for Debt Repayment)
- **HANDOUT 37** (Strategies for Debt Repayment)
- **PRESENTATION 37** (Strategies for Debt Repayment)





# LESSON PLAN

## Debt Repayment

GRADES

10 to 12

TIME

45 minutes



### OVERVIEW

Responsible debt repayment is a valuable skill when it comes to borrowing money. Without it, regular purchases can lead to extreme financial hardship. This lesson introduces students to three popular debt repayment strategies (the Snowball method, the Avalanche method and Consolidation) and a personal debt repayment plan.

### GOALS

- Help students identify consumer debt
- Help students understand the importance of debt repayment
- Introduce students to three popular debt repayment strategies
- Provide students with the framework to design their own debt repayment plan for future use

### OBJECTIVES

- Identify the positive and negative effects of taking on consumer debt
- Compare and contrast three debt repayment strategies: the Snowball method, the Avalanche method and Consolidation
- Practice using different strategies to prioritize consumer debt repayment

### ASSESSMENT

An optional quiz has been provided with this lesson plan (the quiz is not factored into the lesson's 45-minute runtime).

***Did you know?** According to a University of Nottingham study, those who struggle to pay off their debts are more than twice as likely to experience mental health problems, including depression and severe anxiety.*

### MATERIALS

- VIDEO 37**—Strategies for Debt Repayment
- HANDOUT 37**—Strategies for Debt Repayment
- PRESENTATION 37**—Strategies for Debt Repayment
- ACTIVITY A**—Group Brainstorm
- ACTIVITY B**—Debt Sort and Answer Key
- ACTIVITY C**—My Debt Repayment Plan
- QUIZ**—Debt Repayment Strategies and Answer Key

### PREPARATION

- Gather digital materials (video and presentation) and a whiteboard and markers (or similar setup)
- Print **HANDOUT 37** for each student
- Print one copy of **ACTIVITY A**
- Prepare **ACTIVITY B**: Print and cut out one set of six debt tiles for each group of three to four students
- Print **ACTIVITY C** for each student
- (Optional) Print **QUIZ** (Debt Repayment Strategies) for each student



# LESSON PLAN

## Debt Repayment Strategies

### TIMELINE

- 10 minutes** Intro and **ACTIVITY A**
- 5 minutes** Show **VIDEO 37** (*Strategies for Debt Repayment*)
- 15 minutes** Distribute **HANDOUT 37** and facilitate **ACTIVITY B**
- 10 minutes** Distribute **ACTIVITY C** and go over **PRESENTATION 37**
- 5 minutes** Wrap up
- (Optional)** Assessment: **QUIZ** (*Debt Repayment Strategies*)

### INSTRUCTIONS

1. Using **ACTIVITY A** as a reference, guide the class through a brainstorming session.
  - Ask your class for examples of debt and write their answers down on the board
  - Highlight any given examples of consumer debt
  - Brainstorm the pros and cons of debt
2. Introduce the topic: “Using debt responsibly gives you access to the benefits of borrowing money while limiting the negative consequences. A big part of using debt responsibly is knowing the best way to pay it off—especially if you have multiple sources of debt. Today, we’re going to look at three different strategies for debt repayment.”
3. Show **VIDEO 37**
4. Distribute **HANDOUT 37**
  - Students may use the handout to help them complete the next activity
5. Facilitate **ACTIVITY B**
  - Divide students into small groups
  - Assign a debt repayment strategy to each group: “Snowball” or “Avalanche”
  - Give each group a set of six debt tiles
6. Allow a few minutes for each group to sort their debt tiles according to their assigned strategy
7. Compare results as a class and discuss any variations (also see: Alternate Solutions in **ACTIVITY B** Answer Key)
6. Distribute **ACTIVITY C**
7. Go over **PRESENTATION 37**
  - Tell students they can use **ACTIVITY C** as a take-home worksheet for designing their own debt repayment plan for future use
8. Wrap up by sharing the following:
  - The Snowball method, the Avalanche method and Consolidation are three different debt repayment strategies
  - Debt repayment strategies help you decide which debt to pay off first
  - Think of ways to avoid or minimize carrying debt, such as budgeting and contributing to an emergency fund
9. (Optional) Distribute **QUIZ** for individual assessment. Decide whether or not students can reference their notes/handouts during the quiz.

### NOTES

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# ACTIVITY A

## Debt Repayment Strategies

### GROUP BRAINSTORM

**Directions:** Ask the class the following questions and write their answers down on the board. Use the charts below to help guide the discussion.

#### 1. What are some examples of debt?

*Most examples that students provide will likely be forms of consumer debt.*

EXAMPLES OF DEBT	
<p><b>Consumer Debt</b> <i>Money borrowed from a lender to pay for personal, family or household goods or services</i></p>	<ul style="list-style-type: none"> <li>• Credit card debt</li> <li>• Student loans</li> <li>• Personal loans</li> <li>• Auto loans</li> <li>• Medical debt</li> <li>• Home equity loan</li> <li>• Mortgages</li> <li>• Payday loans</li> <li>• Line of credit</li> </ul>
<p><b>Non-Consumer Debt</b> <i>Everything else; generally business-related</i></p>	<ul style="list-style-type: none"> <li>• Business loans</li> <li>• Tax debt</li> </ul>

#### 2. What are the pros and cons of consumer debt?

*The cons should outnumber the pros to highlight why debt repayment is a valuable financial skill.*

CONSUMER DEBT	
<b>PROS</b>	<ul style="list-style-type: none"> <li>• Debt can help finance future benefits (e.g., education)</li> <li>• Debt allows you to make large purchases that you can't afford all at once (e.g., house, car)</li> <li>• Debt can provide access to money in emergency situations (e.g., medical treatment)</li> </ul>
<b>CONS</b>	<ul style="list-style-type: none"> <li>• Debt is expensive (high cost of borrowing; high interest rates/annual percentage rate)</li> <li>• Debt "steals" money from other life goals</li> <li>• Debt spirals; you may need to borrow more money to make the monthly payments on your loans</li> <li>• Debt takes a long time to repay; a single purchase can result in months or years of sacrifice</li> <li>• Money stress can negatively affect your physical and mental health</li> <li>• Being in debt puts stress on your relationships with family and friends</li> </ul>



# ACTIVITY B

## Debt Repayment Strategies

### DEBT SORT

Directions: Cut out one set of debt tiles (6 tiles total) for each group. Tell groups to use the debt repayment strategy assigned to them (“Snowball” or “Avalanche”) to sort the tiles from highest to lowest priority.

## MORTGAGE



Jen loves everything about her new home—except for the green wall-to-wall shag carpet

**3.40%**

INTEREST RATE

**\$195,000**

BALANCE

**\$1,100/mo.**

MINIMUM PAYMENT

## STUDENT LOAN



Majoring in Poultry Science seemed like such a great idea at the time...

**4.53%**

INTEREST RATE

**\$14,370**

BALANCE

**\$50/mo.**

MINIMUM PAYMENT

## MEDICAL DEBT



With no emergency fund in place, Jen took on debt when her cat broke its leg surfing (he's a real daredevil)

INTEREST RATE

**0.00%**

BALANCE

**\$2,500**

MINIMUM PAYMENT

**\$200/mo.**



# ACTIVITY B

## Debt Repayment Strategies

### DEBT SORT

Directions: Cut out one set of debt tiles (6 tiles total) for each group. Tell groups to use the debt repayment strategy assigned to them (“Snowball” or “Avalanche”) to sort the tiles from highest to lowest priority.

### RETAIL CREDIT CARD



The cashier advised Jen to open a store credit card to qualify for a discount on her brand-new phone

**29.99%**

INTEREST RATE

**\$1,000**

BALANCE

**\$55/mo.**

MINIMUM PAYMENT

### CREDIT CARD



Jen missed a payment two months ago and has been carrying a balance on her credit card ever since

**16.91%**

INTEREST RATE

**\$384**

BALANCE

**\$10/mo.**

MINIMUM PAYMENT

### CAR LOAN



\*Jen's interest rate is 2.99% for another 6 months; then it jumps up to 8.05%

INTEREST RATE

**2.99%\***

BALANCE

**\$16,500**

MINIMUM PAYMENT

**\$50/mo.**



# ACTIVITY C

## Debt Repayment Strategies

### MY DEBT REPAYMENT PLAN

Directions: Use this page to design your own debt repayment plan for future use.

# 1

## LIST ALL OF YOUR DEBTS

For each debt, write down the **balance**, the **interest rate** and the **minimum monthly payment** (save the Rank boxes for Step 2).

**DEBT:** \_\_\_\_\_  
\_\_\_\_\_

**BALANCE:** \_\_\_\_\_

**INTEREST RATE:** \_\_\_\_\_

**MIN. PAYMENT:** \_\_\_\_\_ /mo.

RANK

**DEBT:** \_\_\_\_\_  
\_\_\_\_\_

**BALANCE:** \_\_\_\_\_

**INTEREST RATE:** \_\_\_\_\_

**MIN. PAYMENT:** \_\_\_\_\_ /mo.

RANK

**DEBT:** \_\_\_\_\_  
\_\_\_\_\_

**BALANCE:** \_\_\_\_\_

**INTEREST RATE:** \_\_\_\_\_

**MIN. PAYMENT:** \_\_\_\_\_ /mo.

RANK

**DEBT:** \_\_\_\_\_  
\_\_\_\_\_

**BALANCE:** \_\_\_\_\_

**INTEREST RATE:** \_\_\_\_\_

**MIN. PAYMENT:** \_\_\_\_\_ /mo.

RANK

# 2

## CHOOSE A STRATEGY

Use a debt repayment strategy to help you rank your debts from Step 1. Assign a #1 rank to the debt you want to pay off first.



**The Snowball method:** Debts are arranged from smallest balance to largest balance



**The Avalanche method:** Debts are arranged from highest interest rate to lowest interest rate



**Consolidation:** A new loan is taken out and the borrowed money is used to pay off all your other debts. See your credit union for more information.

# 3

## ADD 'EM UP

$$\boxed{\phantom{000}} + \boxed{\phantom{000}} = \boxed{\phantom{000}}$$

Sum of all your minimum payments (from Step 1)

Additional amount of money to repay debt each month (you decide how much)

Monthly total to budget for debt repayment

# 4

## PAY 'EM OFF

Every month, the highest ranking debt on your list gets its minimum payment + the additional amount you determined in Step 3. The other debts get their minimum payment only.

When you pay off a debt, do a happy dance and add its minimum payment to the additional amount you determined in Step 3. Continue paying off your debts according to their rank.



# QUIZ

## Debt Repayment Strategies

NAME: \_\_\_\_\_

TOTAL /7 pts
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### MULTIPLE CHOICE

Directions: CIRCLE the best possible answer from the given options.

- Which of the following is an example of consumer debt?
  - credit card debt
  - a mortgage
  - a student loan
  - all of the above
- An unexpected expense can force you to take on more debt unless you have:
  - stock market investments
  - an emergency fund
  - a payday loan
  - the Avalanche method

/2 pts

### FILL IN THE BLANKS

Directions: Fill in the blanks using either THE SNOWBALL METHOD, THE AVALANCHE METHOD or CONSOLIDATION.

- \_\_\_\_\_ arranges and repays debts in order of highest interest rate to lowest interest rate.
- \_\_\_\_\_ is a debt repayment strategy in which a new loan is taken out to pay off all of your other debts.
- \_\_\_\_\_ arranges and repays debts in order of lowest balance to highest balance.
- \_\_\_\_\_ is mathematically the most powerful debt repayment strategy.
- \_\_\_\_\_ is a popular debt repayment strategy for beginners because the ability to quickly pay off small debts is motivating.

/5 pts



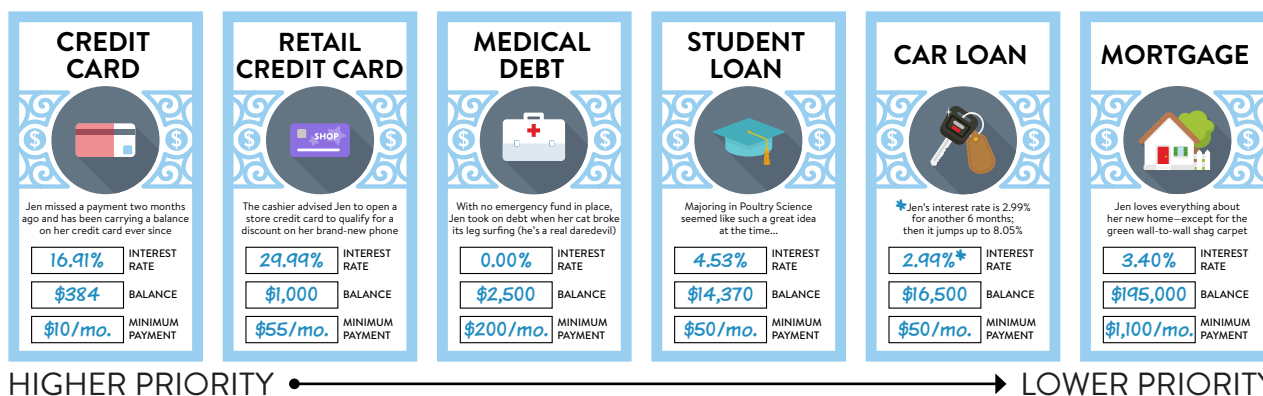
- IT'S A -  
**MONEY  
THING**

# ACTIVITY B ANSWER KEY

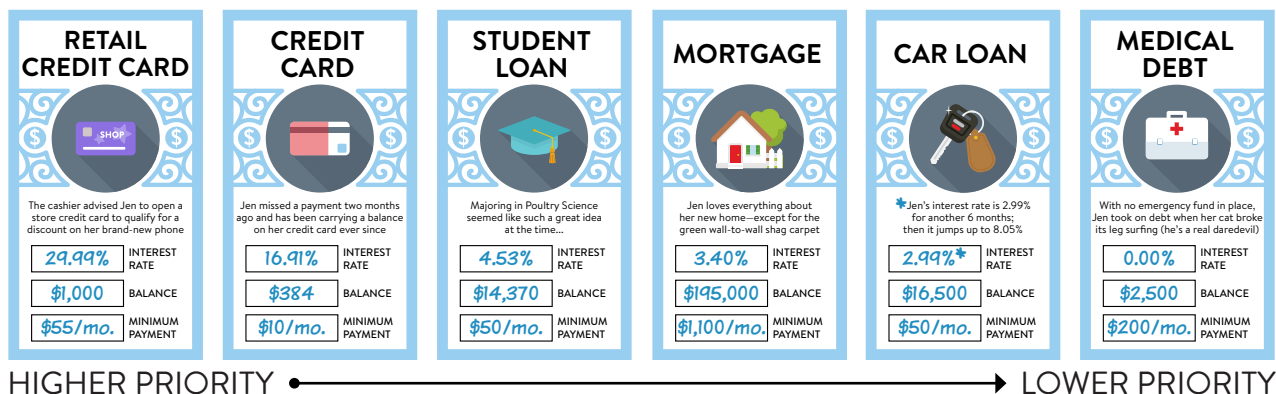
## Debt Repayment Strategies

### DEBT SORT

#### Solution 1: The Snowball Method (smallest balance to largest balance)



#### Solution 2: The Avalanche Method (highest interest rate to lowest interest rate)

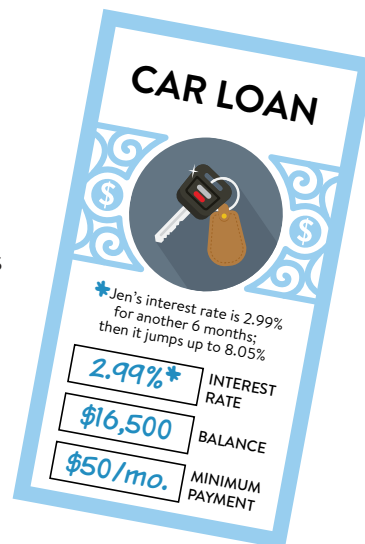


#### Alternate Solutions: The Car Loan Tile

Ask students if they noticed anything special about the Car Loan tile. The Car Loan tile reveals that the interest rate will increase in six months. Does this information change the tile's position in the lineup? Discuss as a class.

- Snowball groups might consider placing Car Loan before Student Loan (in 4th place); although it technically contradicts the Snowball method, there is an advantage to paying off the higher interest rate loan first
- Avalanche groups should consider placing Car Loan after Credit Card (in 3rd place)

The Snowball and Avalanche methods are both effective *guidelines* for building a debt repayment plan. The Car Loan tile helps illustrate that, in some circumstances, it's wise to make exceptions.





# QUIZ ANSWER KEY

## Debt Repayment Strategies

### MULTIPLE CHOICE

Directions: CIRCLE the best possible answer from the given options.

- Which of the following is an example of consumer debt?
  - credit card debt
  - a mortgage
  - a student loan
  - all of the above
- An unexpected expense can force you to take on more debt unless you have:
  - stock market investments
  - an emergency fund
  - a payday loan
  - the Avalanche method

/2 pts

### FILL IN THE BLANKS

Directions: Fill in the blanks using either THE SNOWBALL METHOD, THE AVALANCHE METHOD or CONSOLIDATION.

- THE AVALANCHE METHOD arranges and repays debts in order of highest interest rate to lowest interest rate.
- CONSOLIDATION is a debt repayment strategy in which a new loan is taken out to pay off all of your other debts.
- THE SNOWBALL METHOD arranges and repays debts in order of lowest balance to highest balance.
- THE AVALANCHE METHOD is mathematically the most powerful debt repayment strategy.
- THE SNOWBALL METHOD is a popular debt repayment strategy for beginners because the ability to quickly pay off small debts is motivating.

/5 pts