LOAN ZONE - What is credit?

School year levels Years 6 - 8
Age group 10 - 12 years

Summary – Loans, terns and interest

When you want to borrow money, it's important to know what your loan is going to cost and make sure you can afford to pay it back. The Loan Zone game offers the player a range of scenarios and challenges them to decide which loan is best in each situation. Factors that must be taken into account include the amount of time it will take to repay the loan, the size of the weekly payments and the amount of interest they will have to pay on the loan.

Background information

Loans, also known as credit, enable people to purchase items with other people's money. It's like using income you have yet to earn, today. There is risk involved, and loans need to be used wisely in case you do not earn that income. Credit is not free, as borrowers must pay for the use of borrowed money. Credit has its advantages and disadvantages: it can be a means to a positive outcome, or a trap. Young people may get into financial difficulties by using credit via credit cards or loans.

The Learning

Loans involve a cost, and create risks for both the borrower and lender. The lower the interest rate and the shorter the term of repayments, the lower the cost of the loan will be. These factors should be taken into account when you sign up for a loan.

Loans involve taking on risk; the risk is that the future income to repay the loan may not be there when it is needed. Defaulting on loans takes away your future borrowing ability and gives you a bad financial record. Failure to pay loans is an offence, remedied by law. It is important to keep a good financial record with banks.

Key financial concepts

The consequences of financial decisions lie in the future
- Credit costs are future costs.

Financial decisions impact on the income, wealth creation and well-being of themselves and others
- Use of credit requires informed decisions as it affects future choices regarding income, wealth creation and wellbeing.

Risk is part of financial planning and needs to be understood and managed
- Taking out loans increases the risks associated with having to make weekly or monthly payments.

Curriculum Links

Curriculum achievement objective level Level 3 - 4

Achievement objectives

Health and Physical Education
- Identify and use safe practices and basic risk management strategies (level 3).

Mathematics
- Explore computation and estimation (level 3)
- Make sensible estimates and give reasonable answers (level 4).

Essential skills

Numeracy skills
Calculate accurately.

Problem solving skills
Think critically, reflectively and logically.

Information skills
Organise, analyse, synthesise, evaluate and use information.

Communication skills
Become competent in using new information and communication technologies.

Guided questions for Loan Zone players

In the game, what did you borrow money for?

Would you have borrowed money for these in real life?

What would you buy that you would borrow money for?

What are some of the items that your family would be willing to borrow money for?

When you make payments over the weeks, what are you paying for?

Why must you repay the loan?

Why should you have to pay interest on the loan?

What are the consequences of borrowing money now on your choices in the future?

Can you suggest some other ways to get the things you want other than borrowing now? What could you negotiate with your caregiver, or do on your own? This must be legal.

If your friend borrowed money from you, what would you do to make sure that the loan was repaid?