


Why borrowing can cost you more (Yr 7–10)

 30-45 mins

Learn how interest rates and fees affect the money you borrow and why they may be more expensive in the long run. This resource has been developed with [ABC education](#).

Outcomes

Students:

- Understand the purpose and language of borrowing money.
- Use technology to calculate and compare loan options.

Curriculum links

Mathematics (Year 7-10)

- Solve a range of problems involving rates and ratios, with and without digital technologies (ACMNA 188)
- Understanding that financial decisions can be assisted by mathematical calculations. (ACMNA211)

Economics and Business

- Factors that influence major consumer and financial decisions and the short- and long-term consequences of these decisions (ACHEK053).

Required resources

- ABC Video: [My five cents: Why borrowing can cost you more](#) (2:07) – video transcript available on page 2.
- Moneysmart [Personal loan calculator](#)

Discovery (15 mins)

Borrowing concepts

Reflect on the following:

- Have you ever lent money to your friends (at the canteen line)? Did you get the money back?
- What makes us buy things we can't afford?
- How much debt do you think is 'too much'?
- Does good debt exist? Why/Why not? If yes, what are types of good debt?

Watch ABC video: [My five cents: Why borrowing can cost you more](#) (2:07)

- List the terms that stand out to you as you watch the video eg. credit card, borrow, debt, interest, minimum repayment, fees, penalty, buy now, pay later, dishonouring.
- Search definitions of these words using the search function on [moneysmart.gov.au](#)

Get practical (30 mins)

Real-life examples

Use the Moneysmart [Personal loan calculator](#) and use the 'How can I repay my loan sooner?' section to complete the following exercises.

Exercise 1: Tunde takes out a loan for \$1,000 at 16% interest. Her repayments are \$25 monthly, with no monthly fees.

- How long will it take Tunde to repay the loan?
- How much interest does she pay on the loan?

Exercise 2: Tunde compares an alternative scenario. She increases her monthly repayments to \$50.

- How long will it take Tunde to repay the loan?
- How much interest does she pay on the loan?
- How much does she save by increasing her monthly repayments?

Exercise 3: Tunde works a few extra shifts and decides to only borrow \$500 instead \$1,000. Write a short response justifying how borrowing \$500 is the better option. (Hint: use your responses for Exercise 1 and 2 and the calculator.)

Video transcript - My five cents: Why borrowing can cost you more

[music plays]

Gen Fricker: You're, broke. Why! But you still have to live. What about using a credit card? Just to tide you over? Credit can be handy, but when you borrow money, you create debt. If you can't pay it back in time, you'll be charged interest and your debt will slowly grow.

Tunde has been lusting after a designer handbag that is amazingly half price. She has no cash right now, so she buys it on her credit card for 1000 bucks. Credit Card companies let you borrow money, but they charge a high rate of interest.

Let's say Tunde's rate is 16%. If she just pays the minimum repayment of \$25 per month, it would take Tunde nearly five years to pay off her handbag and it would end up costing over \$400 more. However, if she pays \$100 each month, she can pay the full debt in 11 months with only \$65 in interest. Better still if Tunde had waited and saved up the cash, she'd only pay the true price of \$1,000.

Fees for borrowing money can also sneak up on you. Tunde has to pay a yearly fee just to use the credit card and she'll get charged a penalty if she doesn't make the minimum repayment.

So what about buy now, pay later services that let you buy something right now and pay it off in instalments over several weeks. It seems like they only charge a small fee, but if you miss a payment because there isn't enough money in your account, they charge you a much bigger one. Plus your bank will charge you too for dishonoring the debt.

My five cents is borrowing is easy, but getting out of debt can be really hard. It's hard to remember when something is begging you to buy it, but the true cost of borrowing money, it might be way more than it's worth.