




Reasons for a Loan

Name: _____ () Class: _____ Date: _____

Activity 1

Good debt?

The people in the following cases are planning to borrow money for different reasons. Think about which case has an actual need to get a loan, and provide supporting reasons for your decision. Then, discuss with classmates in groups. The teacher will then assign a case to each group and a student will need to explain whether the debt is good or bad.

 <p>I need a large amount of money to pay for the tuition fee for my university degree.</p>	
 <p>The stock market is now blooming. I want to invest in stocks but I do not have enough savings. Therefore, I plan to borrow money and use it to invest.</p>	
 <p>I am an entrepreneur and I am planning to borrow money to buy a van to deliver goods.</p>	
 <p>I would like to buy a new mobile phone, but my parents do not give me enough pocket money. I intend to borrow money to buy it.</p>	

1. Is borrowing money free? What costs does it include? What are the responsibilities of the borrower?

2. What are the consequences of late repayment?

Activity 2

Matching different sources of borrowing

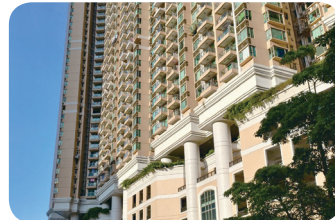
Read the information about the following types of borrowing (credit cards, personal loans, mortgage, cash advances). Discuss which type of loan(s) can be used in the following situations and list the reasons. Can you think of alternative actions to borrowing? If so, describe and explain them. Then discuss with classmates in your group.

Credit card spending



It is a non-cash payment method. The cardholder does not need to pay cash when purchasing with the credit card. Repayment is needed before the due date on the statement.

Mortgage



It is an act of providing some private asset as a guarantee for a debt.

Personal loan



A loan issued by a bank or financial institution to a borrower for personal consumption or other use.

Credit card cash advances



Financial institutions allow its account holders to withdraw within the pre-agreed limit.

Situation 1: Interested in buying a 500sq ft private residential flat, already has sufficient money for the down payment



Suitable way(s) of borrowing:

Reason:

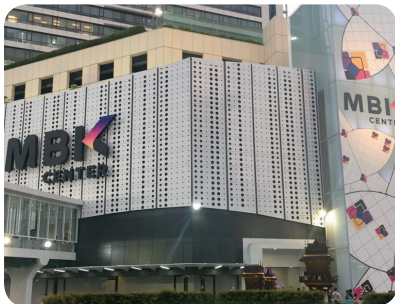
Situation 2: A family member has been injured in a car accident and urgently needs a large amount of money for surgery



Suitable ways of borrowing:

Reason:

Situation 3: A family travels to Thailand for a four-day holiday and needs to pay for the hotel fee and shopping



Suitable way(s) of borrowing:

Reason:

Situation 4: Lost all cash while travelling, and the use of credit card is not popular in the travelling country



Suitable way(s) of borrowing:

Reason:

1. Give an example of a good debt and a bad debt respectively.

	Good debt	Bad debt
Example		

Summary

- ♦ Avoid borrowing for non-necessary daily expenses.
- ♦ Understand borrowing comes with costs, such as additional interest.
- ♦ Only borrow what you need and when you can repay.
- ♦ Understand different types of borrowing (including credit cards, personal loans and mortgage loans). The borrower should adopt the most appropriate way of borrowing when there is a need.

Extension activity

The Annualised Percentage Rate (APR) is a reference rate which includes the basic interest and other related fees and charges (such as handling charges and service charges) charged on a loan (such as credit cards and personal loans). Collect data to complete the following table and compare the Annualised Percentage Rate for different loans.

	Credit card name	Personal loan name
	Credit card spending	Personal loans
Annualised Percentage Rate (%)		