

Unit 2: Borrowing money

Module CSWE II

Learning Outcome B2

Participate in a short casual conversation

Learning Outcome I1

Demonstrate understanding of a short written information text

Learning Outcome J1

Demonstrate understanding of an informal written text

Activity 1: No cash?

Read the scenario:

Vin's 10 year old fridge breaks down. He needs to buy a new one urgently but he doesn't have any cash.

Make a list of ways Vin could buy a new fridge.

Discuss your ideas as a class.



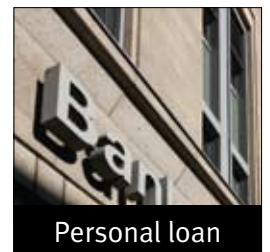
Activity 2: Different ways to borrow money

In the boxes below the definitions, write the way of borrowing money given in each image.



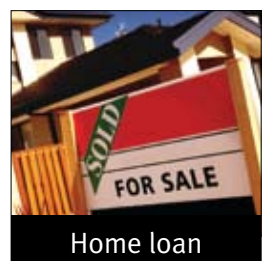
1. These are smaller amounts of money anyone can borrow from small money lenders (not banks or big lenders) which you pay back quickly with very high interest.

4. A type of credit card you can get at some stores that lets you buy things in that store now and then pay the store back later.



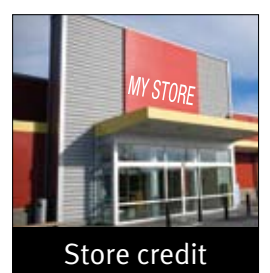
2. Money you can borrow from a bank or lender to help you buy a unit or a house.

5. A set amount of money you can borrow from a bank or other lender and pay back over a certain period of time with interest.



3. A card that gives you a set amount of credit which you can use to buy things now and then pay the money back to the credit card company later, with interest.

6. Money you can borrow from a lender through a car dealer to buy a car now and pay the money back with interest over a few years.



Check your answers at the end of the Unit.

Activity 3: Terms to use when borrowing money

These terms are used when we talk about borrowing money. Match each term below to its correct meaning.

interest (interest rate)	guarantor	loan	repayment or instalment	fees and charges	deposit
lender	debt	repossess	per annum (pa)	credit history	







1.	Information about previous times you borrowed money such as if you had problems repaying the money or if you still owe money. Credit reporting agencies collect this information and provide it to lenders so they can decide if they will risk lending money to you.	
2.	Money you owe to someone.	
3.	An amount of money you sometimes have to give to the company you are buying something from before you can borrow the rest of the money from a lender. Eg. you buy a fridge on credit from a store but you have to put down a \$100 deposit and borrow the rest of the money from a lender before you can take the fridge.	
4.	Someone who promises to pay back the money you borrow if you don't repay it yourself. If you are young or are on a low salary, you can usually only borrow money if someone 'goes guarantor' for you. Legally, the guarantor makes a contract with the lender.	
5.	The extra money you pay for borrowing money. For example, if you borrow money the lender will charge you interest for using that money. The interest can be fixed (stay the same till you finish paying it back or for a known period of time) or it can be variable (it may go up or down).	
6.	The money you pay back every month on the money you have borrowed. This can be for any loan, credit card or store finance and will usually include interest and any fees charged. There is a minimum repayment amount on credit cards and if you don't pay at least this amount each month you will be charged more interest and fees.	
7.	The company or person you borrow money from. This is usually a bank, a department store or a finance company but can also be a smaller money lender.	
8.	Money you borrow and pay back with interest.	
9.	These are amounts of money you pay a lender for establishing your loan, for providing regular access to the amount you borrowed or penalties for not obeying the rules of the loan. Some common names for these are establishment fees, monthly account fees, default fees, overdrawn account fees etc.	
10.	When you can't pay back the money you borrowed, the lender sometimes takes back (repossesses) the thing you bought with the borrowed money eg. the car, TV, house etc.	
11.	This means 'for the year'. Interest is usually calculated for the year. So, if the interest rate on the money you borrowed is 8% per annum, it means you must pay back the money you borrowed plus an extra 8% each year.	

Check your answers at the end of the Unit.

Activity 4: Ways of borrowing money

A. For examples 1-6 in the table below say how the money was borrowed. Use each phrase in the top box once only.

home loan	credit card	personal loan	store credit	car finance / loan	pay-day loans
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	Example	Ways of borrowing money
1. 	I bought a used car. The car dealer gave me a \$12,000 car loan which I'm paying off over three years at 12.5% interest. They had to check how much I earn and my credit history.	
2. 	I had to go back to Vietnam last year. I put the air ticket on my card. I'm still paying it off. I also used my card to buy a few clothes for work. I can only pay the minimum monthly instalment of \$120 - that's all I can afford. The interest rate is about 20% so it's going to take a long time to pay off the card unless I stop buying other things on it and start putting more money into it.	
3. 	My job didn't start for 2 weeks but I needed \$250 to buy some new work clothes and pay a speeding fine. I took out a small loan which I had to pay back in 62 days. The interest was very high - 48% - and the loan was risky but I knew I'd have money in a few weeks to pay the loan back.	
4. 	My daughter bought a unit in Ashfield. She got a loan for \$250,000 at 9.4% interest. She had to put down a deposit of \$12,500.	
5. 	I bought a TV last month at a big department store. They gave me the credit and I have to pay it off in instalments every month. It will take me about 12 months to pay it off. The interest rate is 29% but I didn't need a deposit.	
6. 	I needed money to pay for my daughter's wedding. I borrowed \$5,000 from the bank at 10% fixed interest. My wife signed as guarantor. I think I'll be able to pay the loan off in 18 months.	

Check your answers at the end of the Unit.

B. In groups, discuss these questions:

1. What is similar about the various ways of borrowing money?
2. What is different about the various ways of borrowing money?
3. Why do people borrow money?
4. Can anyone borrow money? What do people usually need to be able to borrow money?
5. Why do we have to be careful about borrowing money?

Check your answers at the end of the Unit.



What you should know

The cost of borrowing money

Borrowing money costs money! It costs more than just the money you borrow or use because:

- You pay interest on the money you borrow or use. Interest charges can add a lot of money to the final price you pay.
- You usually pay fees and charges on the money you borrow. Fees and charges can often add extra unexpected amounts to the final amount you pay.

Before you borrow money, think about how much it is going to cost to pay back all the money plus interest. Yes, it's nice to get things (car / TV / fridge / clothes etc.) now but what will you really be paying for it?

Ask yourself:

Can I really afford the repayments? What if I lose my job? What if my rent goes up? Will I be able to keep up the repayments?

Before you sign anything, shop around and compare different ways of borrowing money. Compare interest rates. Talk to your family and friends about borrowing money.

Be aware of fees and charges. These are listed in the terms and conditions of the contract you sign. Ask the lender what sorts of fees apply to the loan and for what reasons you will pay them. Ask if there are any penalty fees. For some types of loans, such as smaller loans, the fees can be very high. Some loans will charge you high fees if you miss a payment (default fees) or if you pay the loan back early (termination or early termination fees).

Remember that if you sign anything it is probably a contract which is legally binding.

Read the contract carefully:

- Is the interest rate fixed or variable? In other words, can the lender vary the interest rate?
- Will you have to pay termination fees or penalties?
- Will you be charged if you pay late?
- Can you make extra payments? (If you can afford to pay more than the minimum repayment you can pay less interest).

Language note

Sometimes verbs in English are followed by a preposition. These are called phrasal verbs. A phrasal verb often has a meaning which is different from the original verb. Some phrasal verbs can not be separated. Others can be separated.

Phrasal verbs are very common when we talk about money.

pay back sign up for
take out **a loan** get out of
pay off

keep up
repayments default on
fall behind on



Activity 5: Ali's story



A. Listen to Ali's story.



B. Answer these questions below:

- What method of borrowing money did Ali use?
 A. Personal loan
 B. Car dealership finance
 C. Other
- Why didn't he use cash to buy the car?
 A. He didn't have enough cash to buy a car.
 B. He needed the car urgently.
 C. Both A and B.
- Why do you think Ali could not afford the repayments on the loan?
 A. He probably didn't earn enough money to pay off \$15,000 plus interest.
 B. His living expenses probably didn't leave him enough to pay off the loan plus interest.
 C. Both A and B are possible.
- What was the problem with his friend going guarantor on the loan?
 A. He probably didn't understand what it meant.
 B. He may not have been able to pay off the loan either.
 C. Both A and B are possible.
- Why was the car going to be repossessed?
 A. Ali was behind with the repayments on the loan.
 B. He probably wasn't able to make other arrangements with the lender eg. extending the term of the loan or postponing repayments for a while.
 C. Both A and B are possible.
- Will Ali still owe the money on the loan if the car is repossessed?
 Yes
 No
 I don't know

Check your answers at the end of the Unit.



What you should know

Problems with borrowing money

If you fall behind with your repayments you should immediately talk to the lender to try to change the contract. Ask if you can pay back the money over a longer period of time and reduce the repayments. Or ask if you can postpone the repayments for a while.

If you are in trouble and the lender will not change the contract you can get advice from the Office of Fair Trading on **13 32 20**.

Before a lender can repossess (take back) goods from you they must give you 30 days notice in

writing. Sometimes they must first get a court order. If your goods are repossessed, you may still have to pay back whatever is left over from the money you borrowed. If you get a letter saying your goods are going to be repossessed and you don't know what to do, contact the Office of Fair Trading for advice.

There are places that can give you advice with money and credit problems, for example, the Credit Helpline on **1800 808 488**. You can find more information on help with credit problems at **www.fairtrading.nsw.gov.au** under *Consumers - Using Credit*. Look for the *Help with credit problems* fact sheet.

Activity 6: Problems

A. Read each of these situations and discuss the questions in groups.

Story 1

No deposit, no interest for 24 months: hurry, hurry, hurry!

Two years ago my husband and I bought a new lounge. We got it on one of these 24 months no deposit, no interest deals because we thought we could easily pay it off in 24 months. It looked like a good deal.

Everything was okay for the first few months but then our rent went up, the cost of fuel and groceries went up and suddenly we were struggling to keep up the regular repayments. At the end of the 24 months we hadn't paid off the full amount on the lounge and we had to start paying very high interest.



Story 2

More if you want it - \$4,000 credit card limit

A year ago I took out a credit card with the bank after I got a letter from them offering me a credit card. I used the card to buy a computer. I was doing an IT course at TAFE and needed a computer at home. I managed to pay off the credit card in 12 months. Then I got a letter from the bank offering me a \$4,000

credit limit. I didn't ask for it and I knew I could get into trouble if I owed the bank that much money but I accepted the offer. I thought it would be useful in an emergency. I still have a lot of family overseas and thought if there was an emergency and I had to go back for a funeral or a wedding, the credit would be useful. The problem is I kept using the credit card for extra little luxuries, like clothes and a hi-fi. At the moment I'm

struggling to meet the minimum monthly repayments and at this rate it's going to take me years to pay off the \$3,000 I owe on the card.



Story 3

Loan sharks are biting!

Last month my car broke down. I took out a pay-day loan so that I could pay to get it fixed. I couldn't find a bank that would lend me money because I earn so little. I was desperate so I took one of those risky short-term loans at a

very high interest rate - 48% - thinking I would be able to pay it back at the end of the month. But by the end of the month I only managed to pay back half and with the default fees, late fees and interest I now owe more than \$300. I don't know how I'm ever going to pay back the money. I'll never do this again.



B. For each story, answer these questions:

1. What way of borrowing money does the story describe?
2. Why did the person in the story choose to borrow money in this way?
3. What problem does the story warn us about when borrowing money this way?
4. Do you see any other problems borrowing money this way?
5. Has anything similar happened to you or someone you know? What happened?



What you should know

No Deposit - No Interest

These deals have become very popular. Sometimes people sign up for a deal but are not aware of the real costs.

Some deals require you to make regular repayments but if you only make the minimum repayment the finance company suggests you will probably not be able to pay off the debt in the interest-free period and you will have to start paying very high interest.

Other versions of these deals require no repayments at all until the end date of the interest free period. If you don't pay back the full amount at this time whatever you leave owing will attract a high interest rate.

Either way, if you can't pay off the money you borrowed (credit) by the due date, you can end up owing much more than the original price of the goods.

Important information that you should know:

- Calculate the repayments yourself.
- Check the fees and charges.
- Check the end date of the interest-free period.
- Check the interest rate.

And make sure you pay it off in full by the end date of the interest free period!

Credit limit increases

Sometimes banks or other credit card companies offer to increase your credit card limit or they offer you a very high credit limit to start off with. You might think it's great because you can go and buy that thing you've been wanting for some time. Saying no to something you would really like isn't easy! But think very carefully before you increase your credit limit as interest and fees for these cards can be expensive if you don't pay them off. It can mean more debt and sometimes more problems.

High cost loans

There are money lenders who offer small amounts of money at very high interest rates. In NSW lenders may not charge more than 48% interest. It is usually people who are on low incomes or benefits, have poor credit histories or desperately need money who will borrow money this way.

People can quickly get into a debt trap. They borrow the money because they are desperate, then they can't afford to pay it back. They start to owe more and more because of the very high interest rates and fees and charges. The more they owe, the harder it gets to pay back the loan. Often they are forced to borrow a second time at a higher rate in order to pay back the first loan.

Sometimes these lenders are called 'loan sharks'. They might use words like 'instant cash' to advertise their service. If people can't pay back the money, these lenders repossess the goods put down as security. For example, they will take your car or your furniture. Sometimes they repossess your possessions for loans of just a few hundred dollars.

What can you do instead of using high cost loans?

There are various places where you can get help with money in an emergency:

- Centrelink
- No Interest Loan Schemes (NILS) or Low Interest Loan Schemes (LILS) run by community groups
- Charities such as the Salvation Army or St Vincent de Paul.

If you are having trouble managing your debts and finance and are in financial hardship you can also get help from a financial counsellor who can help you budget and plan your debts and repayments. The Financial Counsellors Association can be contacted at www.financialcounsellors.asn.au or the Credit and Debt Hotline on **1800 808 488**.

You can find more information on these alternatives to high cost loans (credit) at www.fairtrading.nsw.gov.au under *Consumers - Using Credit* or call the Office of Fair Trading on **13 32 20**.

Activity 7: The real meaning of borrowing money

Answer these questions with a partner.

1. Why is it dangerous to think about borrowing money in this way?

BUY NOW, PAY LATER

2. Make up your own statement to show what you think about borrowing money.

Share your answers as a class.

Check the answer at the end of the Unit.

Project

Recount a personal experience you've had with borrowing money:

- What way of borrowing money was it? (loan, credit card, store card, other?)
- Why did you borrow money?
- How did you repay the money you borrowed?
- Did you have any problems repaying the money you borrowed?
- What would you do differently if you experienced this problem again?
- What advice would you give to someone who finds themselves in this situation?

Share your stories with your teacher and your classmates.

Extension

Teachers may use the following ideas to extend learners' understanding of the topics covered in the Unit:

- Make a list of the advantages and disadvantages of borrowing money.
- Find newspaper articles about problems with borrowing money in your local newspaper. Discuss them with your classmates.
- Look at a credit card or bank loan statement. Discuss the information on the statement with a partner.
- Look at credit card or loan application forms. Practise filling one in.
- Find examples of advertisements for 'loan shark' lenders. Share these with your class.

Unit answers

Activity 2

A sign for 'INSTANT CASH!' with text: 'Need money urgently? Don't have a job? We can help!' Pay-day loans	<p><i>These are smaller amounts of money anyone can borrow from small money lenders (not banks or big lenders) which you pay back quickly with very high interest.</i></p> <p><u>1. Pay-day loans</u></p>
A 'FOR SALE' sign in front of a house. Home loan	<p><i>Money you can borrow from a bank or lender to help you buy a unit or a house.</i></p> <p><u>2. Home loan</u></p>
A blue credit card. Credit card	<p><i>A card that gives you a set amount of credit which you can use to buy things now and then pay the money back to the credit card company later, with interest.</i></p> <p><u>3. Credit card</u></p>
A storefront with a sign that says 'MY STORE'. Store credit	<p><i>A type of credit card you can get at some stores that lets you buy things in that store now and then pay the store back later.</i></p> <p><u>4. Store credit</u></p>
A building with a sign that says 'BANK'. Personal loan	<p><i>A set amount of money you can borrow from a bank or other lender and pay back over a certain period of time with interest.</i></p> <p><u>5. Personal loan</u></p>
A row of cars in a dealership. Car finance	<p><i>Money you can borrow from a lender through a car dealer to buy a car now and pay the money back with interest over a few years.</i></p> <p><u>6. Car finance</u></p>

Activity 3

1.	<i>Information about previous times you borrowed money such as if you had problems repaying the money or if you still owe money. Credit reporting agencies collect this information and provide it to lenders so they can decide if they will risk lending money to you.</i>	<i>credit history</i>
2.	<i>Money you owe to someone.</i>	<i>debt</i>
3.	<i>An amount of money you sometimes have to give to the company you are buying something from before you can borrow the rest of the money from a lender. E.g. You buy a fridge on credit from a store but you have to put down a \$100 deposit and borrow the rest of the money from a lender before you can take the fridge.</i>	<i>deposit</i>
4.	<i>Someone who promises to pay back the money you borrow if you don't repay it yourself. If you are young or are on a low salary, you can usually only borrow money if someone 'goes guarantor' for you. Legally, the guarantor makes a contract with the lender.</i>	<i>guarantor</i>
5.	<i>The extra money you pay for borrowing money. For example, if you borrow money the lender will charge you interest for using that money. The interest can be fixed (stay the same till you finish paying it back or for a known period of time) or it can be variable (it may go up or down).</i>	<i>interest (interest rate)</i>
6.	<i>These are amounts of money you pay a lender for establishing your loan, for providing regular access to the amount you borrowed or penalties for not obeying the rules of the loan. Some common names for these are establishment fees, monthly account fees, default fees, overdrawn account fees etc.</i>	<i>fees and charges</i>
7.	<i>The company or person you borrow money from. This is usually a bank, a department store or a finance company but can also be a smaller money lender.</i>	<i>lender</i>
8.	<i>Money you borrow and pay back with interest.</i>	<i>loan</i>
9.	<i>The money you pay back every month.</i>	<i>repayment or instalment</i>
10.	<i>When you can't pay back the money you borrowed, the lender sometimes takes back (repossesses) the thing you bought with the borrowed money eg. the car, TV, house etc.</i>	<i>repossess</i>
11.	<i>This means 'for the year'. Interest is usually calculated for the year. So, if the interest rate on the money you borrowed is 8% per annum, it means you must pay back the money you borrowed plus an extra 8% each year.</i>	<i>per annum (pa)</i>

Activity 4

A.

<i>Ways of borrowing money</i>	
1.	<i>car finance / loan</i>
2.	<i>credit card</i>
3.	<i>pay-day loans</i>
4.	<i>home loan</i>
5.	<i>store credit</i>
6.	<i>personal loan</i>

B.

1.	<i>What is similar about the various ways of borrowing money?</i>	<p><i>There is interest to be paid.</i></p> <p><i>There is a fixed amount of money borrowed.</i></p> <p><i>The money will be paid back over time.</i></p>
2.	<i>What is different about the various ways of borrowing money?</i>	<p><i>The amount of money borrowed.</i></p> <p><i>The amount of interest.</i></p> <p><i>The length of time to pay back the money.</i></p> <p><i>Whether a deposit is needed or not.</i></p> <p><i>Who can borrow the money (eg. do you have a job? Do you have a credit history?).</i></p> <p><i>Whether a guarantor is needed or not.</i></p>
3.	<i>Why do people borrow money?</i>	<p><i>They don't have the cash to pay for what they need.</i></p> <p><i>Sometimes the amount of money they need is very big.</i></p>
4.	<i>Can anyone borrow money? What do people usually need to be able to borrow money?</i>	<p><i>No, they usually need a job and a good credit history and sometimes, a deposit.</i></p>
5.	<i>Why do we have to be careful about borrowing money?</i>	<p><i>It costs money because of the interest.</i></p> <p><i>It is sometimes easy to use more money than we can afford to pay back.</i></p> <p><i>Our circumstances might change (eg. lose a job) and we may not be able to afford to pay back the borrowed money.</i></p>

Activity 5

1.

B. Car dealership finance

2.

C. Both A and B.

3.

C. Both A and B are possible.

4.

C. Both A and B are possible.

5.

C. Both A and B are possible.

6.

Yes

Activity 6

B.

Story 1

1.	<i>What way of borrowing money does the story describe?</i>	<i>Store credit</i>
2.	<i>Why did the person /people choose to borrow money in this way?</i>	<i>They thought the deal (no deposit, no interest and no repayments for 24 months) sounded good and they thought they would be able to pay it back in 24 months.</i>
3.	<i>What problem with borrowing money in this way does the story warn us about?</i>	<i>It warns us about the danger of not paying back the money in the contract period (eg. 12 months, 24 months etc.) because the interest becomes very high. You can end up owing a lot more than you expected.</i>
4.	<i>Do you see any other problems with this way of borrowing money?</i>	<i>The items in these types of deals can be more expensive. You can be tempted to buy things you can't really afford. You think you don't have to start paying for a long time.</i>
5.	<i>Has anything similar happened to you or someone you know? What happened?</i>	<i>(Share your stories.)</i>

Story 2

1.	<i>What way of borrowing money does the story describe?</i>	<i>Credit cards</i>
2.	<i>Why did the person /people choose to borrow money in this way?</i>	<i>Their bank offered them a credit card.</i>
3.	<i>What problem with borrowing money in this way does the story warn us about?</i>	<i>It warns us about accepting offers to extend the credit limit.</i>
4.	<i>Do you see any other problems with this way of borrowing money?</i>	<i>It is easy to keep buying things on the credit card. If you only pay the minimum instalments on the card, it can take a very long time to repay the debt. Eg. If you pay off \$100 a month on \$2,000 credit at 20% interest per annum, it can take 7 years to pay off the debt.</i>
5.	<i>Has anything similar happened to you or someone you know? What happened?</i>	<i>(Share your stories.)</i>

Story 3

1.	<i>What way of borrowing money does the story describe?</i>	<i>Pay-day loans</i>
2.	<i>Why did the person /people choose to borrow money in this way?</i>	<i>She /he couldn't borrow money any other way because she /he didn't have a job.</i>
3.	<i>What problem with borrowing money in this way does the story warn us about?</i>	<i>The extremely high interest rates that these types of lenders sometimes charge. They usually charge 48% interest per annum (the maximum rate allowed in NSW).</i>
4.	<i>Do you see any other problems with this way of borrowing money?</i>	<i>The lender can try to repossess your goods if you don't pay back the money in time. They sometimes take goods worth more than you owe (but should return the difference once they sell the goods). There are usually no credit checks to get this type of loan. It is often people who can't really afford to borrow money that use these loans and then get into difficulties when they need to pay them back.</i>
5.	<i>Has anything similar happened to you or someone you know? What happened?</i>	<i>(Share your stories.)</i>

Activity 7

1.

Possible answers include:

- *It shows that you think it's easy to pay back money you borrow*
- *It shows that you want to buy things now rather than saving or waiting until you can afford them*
- *It shows that you are happy to worry about the repayments later and think you'll be able to afford it later*
- *It shows that you don't worry that your situation might change later and that you might not be able to afford to pay back the money you borrowed.*

2. *Share your answers as a class.*

Transcripts

Activity 5: Ali's story

My name is Ali. I came to Australia 18 months ago as a refugee with my five children and my wife. When I found a job as a factory worker I realised I must buy a car. The factory was far from my home and there was no public transport. I didn't have any money saved. It would take a very long time to save enough money to buy a car. The money we received from Centrelink and my new job was just enough to pay the rent and buy food. We had very little money left at the end of the month for other expenses. I went with a friend to a car dealer which advertised that they could arrange finance. I found a car for \$15,000 which I thought I could afford and had my finance arranged for me at the dealer. The finance company asked for a guarantor for the loan as they considered my loan a risk. I signed the papers and my friend signed as a guarantor as he had a job but he didn't understand what this meant. The car was helpful for getting to work but I soon realised that even with my job and the government benefits I couldn't afford the repayments on the loan. I started falling behind and the interest charges were getting more and more each month. Then I got a letter from the lender saying they were going to repossess the car. I was in a lot of financial trouble. I then found out what 'going guarantor' meant and began to worry if my friend would end up owing money to the lender too.

