# Role-playing borrowing and lending

Students take on the role of a borrower or a lender to pose questions, apply formulas to calculate interest, and evaluate data to inform borrowing and lending decisions.

## Learning goals

### Big idea

Borrowers with a strong credit history often qualify for lower interest rates.

### Essential questions

- What are some questions to ask a lender to better understand the risks and benefits of borrowing money?
- How does your credit history affect the interest rate you're offered on loans?

### Objectives

- Understand the key information both borrowers and lenders need to know to make informed loan decisions
- Analyze loan offers and determine the best one for a borrower

### NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

**KEY INFORMATION**

**Building block:**

⚙ Executive function

🌱 Financial knowledge and decision-making skills

**Grade level:** High school (9–12)

**Age range:** 13–19

**Topic:** Borrow (Getting loans, Managing credit)

**School subject:** CTE (Career and technical education), Math, Social studies or history

**Teaching strategy:** Competency-based learning, Simulation

**Bloom's Taxonomy level:** Apply, Evaluate

**Activity duration:** 75–90 minutes

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**National Standards for Personal Financial Education, 2021**
Managing credit: 8-1, 8-2, 12-1, 12-2, 12-4, 12-7, 12-8, 12-9

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

Consumer Financial Protection Bureau

To find this and other activities, go to:
consumerfinance.gov/teach-activities

## What students will do

- Assume the role of a borrower or lender in a simulation activity about the loan process.

- Calculate interest paid by the borrower or earned by the lender.

- Reflect on the experiences of the borrower or lender.

## Preparing for this activity

☐ While it's not necessary, completing the "Reading about credit scores," "Describing credit scores," or "Calculating loan payments" activities first may make this one more meaningful.

☐ Print copies of all student materials, or prepare for students to access them electronically.

    ◦ Note that this activity has two worksheets, one for students who will play lenders and one for students who will play borrowers.

☐ Consider printing your own copy of the "Lenders and borrowers fact sheet" in this guide to review during the role-plays.

☐ Make sure students have access to calculators.

### What you'll need

**THIS TEACHER GUIDE**

- **Role-playing borrowing and lending** (guide)
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**STUDENT MATERIALS**

- **Role-playing borrowing and lending** – You're the lender (worksheet)
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- **Role-playing borrowing and lending – You're the borrower** (worksheet)
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- **Lenders and borrowers fact sheet** (in this guide)

- **Optional: All about credit scores** (handout)
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- **Calculators**

# Exploring key financial concepts

When a person borrows money, they're charged interest on the amount of money they borrow. The lender charges interest for the service they provide and the risk they take in making the loan. The amount of interest charged depends on the interest rate, which is the percentage of the amount borrowed that a financial institution charges for letting you use its money. Most lenders charge interest and impose other costs, which generate a calculation called APR (annual percentage rate). The APR is the cost of borrowing money on a yearly basis. Since all lenders must provide the APR, you can use the APR to compare rates on loans. Be sure that you're comparing APRs to APRs and not to interest rates. The two terms are not the same.

**TIP**

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

The interest rate offered to a borrower typically reflects the degree to which the lender sees the borrower as a credit risk. People who have never borrowed money from a lender before may have no credit history, so the lender has no evidence to show whether they pay back loans as agreed. In this case, the lender is likely to charge a higher interest rate. Over time, as borrowers develop a repayment history, lenders may be willing to offer them a lower interest rate (and a lower APR) on loans.

# Teaching this activity

## Whole-class introduction

- Ask students to brainstorm key things to consider when shopping for a loan.
  - What might lenders be most interested in? What concerns and questions might they have?
  - What might borrowers be most interested in? What concerns and questions might they have?
- Read the "Exploring key financial concepts" section to students.
- Be sure students understand key vocabulary:
  - **APR (annual percentage rate):** The cost of borrowing money on a yearly basis, expressed as a percentage rate.
  - **Borrower:** A person or organization that borrows something, especially money from a bank or other financial institution.
  - **Credit:** Borrowing money, or having the right to borrow money, to buy something. Usually it means you're using a credit card, but it might also mean that you got a loan.

- **Credit score:** A number created from a scoring model that uses information from your credit history.

- **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.

- **Loan:** Money that needs to be repaid by the borrower, generally with interest.

## Group work

- Distribute the "Lenders and borrowers fact sheet" in this guide.
  - Consider sharing the "All about credit scores" handout with students if you want them to have more information about credit scores.

- Tell students that they'll pretend to be lenders or borrowers.
- Split the class into two groups: lenders and borrowers.
- Explain that for each round, students will play the role of a lender or a borrower.
- Distribute the appropriate "Role-playing borrowing and lending" worksheets to the lenders and the borrowers.
- Explain that the lender will:
  - Interview potential borrowers by asking questions in the worksheet's lender section.
  - Make sure the type of loan the borrower is requesting matches what the lending institution is willing to provide.
  - Determine the risk associated with each potential borrower.
  - Decide whether to make an offer with a specific APR and length of time and record details OR decline to make an offer due to risk factors.
  - Calculate how much interest their lending institution would receive from the loan offers they make.
  - Reflect on their experience as lenders.

- Explain that the borrower will:
  - Seek a loan for a particular purpose.
  - Interview lenders in hopes of obtaining a favorable loan offer.
  - Be prepared to answer questions asked by the lender and record the details of any offers they receive from a lender.

- Calculate how much interest they'll pay if they accept any loan offers they receive.

- Reflect on their experience as borrowers.

- Optional: Have two students model a role-playing scenario.

- Ask all students in the lender group to count off from 1 to 6, starting again at 1 each time 6 is reached. The number they call will be the number of the lender on the fact sheet that they will play.

- Ask all students in the borrower group to count of from 1 to 12, starting at 1 each time 12 is reached. The number they call will be the number of the borrower on the fact sheet that they will play.

- Group students together into pairs that include a lender and borrower.

- Give them 5 minutes for the loan interview. The borrowers and lenders will follow the directions on their worksheets and record the results in the tables provided.

- After 5 minutes, ask students to switch to a new partner.

  - Because lender and borrower numbers might be used by more than one student, students should switch partners if necessary to avoid repeating scenarios.

- Try to get through at least three pairings.

- Once the interviews are over, ask students to make their calculations, analyze their experiences, and respond to the reflection questions.

## Wrap-up

- Bring students together and ask them to share their answers to some of the reflection questions.

- Ask borrowers:

  - How did your credit history affect the offers you received?

  - For loan offers you would accept, what factors did you consider when making that choice?

  - If a lender wouldn't give you a loan, how did that feel?

- Ask lenders:

  - How did you determine which loan candidates were a good risk for your lending institution?

  - What factors did you take into consideration when determining whether or not to offer a loan?

- If you turned down an applicant, how did that feel?

- If time allows, ask lenders and borrowers to share specifics about the loans they offered or accepted and discuss any differences they notice.

## Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including getting loans and managing credit. Suggested activities include "Determining how down payments affect loans" and "Shopping in Credit City".

## Measuring student learning

Students' role-plays and their answers on their worksheets and during discussion can give you a sense of their understanding. **Keep in mind that students' answers may vary.** The important thing is for students to have reasonable justification for their answers.

# Lenders and borrowers fact sheet

Here are brief descriptions of several fictitious lenders and borrowers to use for the role-play.

## Lender descriptions

| 1. Western Lending | 2. Southern Bank |
|---|---|
| <ul><li>Specializes in auto loans and mortgages</li><li>Prefers borrowers who will provide a down payment</li><li>Offers loans from 3 to 6 percent APR</li><li>Loans from 6 months to 30 years</li><li>No penalty for early payoff</li></ul> | <ul><li>Specializes in loans for borrowers with no previous credit history</li><li>Offers loans from 8 to 12 percent APR</li><li>Loans from 1 to 5 years</li><li>Penalty for paying off loan early</li></ul> |
| 3. Northern Bank | 4. Eastern Credit Union |
| <ul><li>Specializes in personal loans over $10,000</li><li>Requires borrowers to provide a down payment</li><li>Offers loans from 6 to 8 percent APR</li><li>Loans up to 20 years</li><li>No penalty for early payoff</li></ul> | <ul><li>Specializes in personal loans for borrowers with good to excellent credit</li><li>Offers loans from 3 to 6 percent APR</li><li>Loans up to 40 years</li><li>No penalty for early payoff</li></ul> |
| 5. Midwestern Credit Union | 6. Southwest Lending Inc. |
| <ul><li>Specializes in personal loans for all borrowers</li><li>Requires down payments on all loans</li><li>Offers loans from 4 to 10 percent APR; currently offering 6 months no interest</li><li>Loans up to 20 years</li><li>No penalty for early payoff</li></ul> | <ul><li>Specializes in auto loans, mortgages, and education loans for all borrowers</li><li>Prefers borrowers who will provide a down payment</li><li>Offers loans from 4 to 10 percent APR; currently offering 6 months no interest</li><li>Loans up to 20 years</li><li>Penalty for paying off loan early</li></ul> |

# Borrower descriptions

| Borrower #1 | Borrower #2 |
|---|---|
| <ul><li>Seeks $10,000 college loan</li><li>Will not provide a down payment</li><li>Expected to repay the loan in 10 years</li><li>No credit history, but parents are willing to cosign on a loan</li><li>College student working weekends at local restaurant</li><li>Monthly net income is $1,000</li><li>No credit history, so no current credit score</li></ul> | <ul><li>Seeks $15,000 car loan</li><li>Will make a down payment of $2,000</li><li>Expected to repay the loan in 6 years</li><li>Usually pays off loans early and has never missed a payment</li><li>Paralegal at law office</li><li>Annual salary of $49,960</li><li>Monthly net income is $2,869</li><li>Credit score: 780 FICO score (excellent rating)</li></ul> |
| **Borrower #3** | **Borrower #4** |
| <ul><li>Seeks $30,000 home improvement loan</li><li>Will not provide a down payment</li><li>Expected to repay the loan in 10 years</li><li>Has missed a payment or two on previous loans</li><li>Paper mill worker for 20 years</li><li>Annual salary of $49,480</li><li>Monthly net income is $2,854</li><li>Credit score: 720 VantageScore (good rating)</li></ul> | <ul><li>Seeks $8,000 loan for Hawaiian vacation</li><li>Will not provide a down payment</li><li>Expected to repay the loan in 10 years</li><li>Has missed a payment or two on previous loans</li><li>Teacher</li><li>Annual salary of $58,780</li><li>Monthly net income is $3,445</li><li>Credit score: 680 FICO score (good rating)</li></ul> |
| **Borrower #5** | **Borrower #6** |
| <ul><li>Seeks $3,000 loan to attend a high school reunion</li><li>Will not provide a down payment</li><li>Expected to repay the loan in 5 years</li><li>New borrower who has only had one previous experience with a loan; still paying it off</li><li>First job out of high school, customer service representative at local bank</li><li>Annual salary of $25,980</li><li>Monthly net income is $1,375</li><li>Credit score: 670 FICO score (good rating)</li></ul> | <ul><li>Seeks $5,000 loan for elective surgery</li><li>Will provide a down payment of $100</li><li>Expected to repay the loan in 5 years</li><li>Has typically had one or two late payments every year on previous loans</li><li>Full-time retail worker</li><li>Annual salary of $23,210</li><li>Monthly net income is $1,175</li><li>Credit score: 650 VantageScore (fair rating)</li></ul> |

| Borrower #7 | Borrower #8 |
|---|---|
| <ul><li>Seeks $125,000 loan for a house</li><li>Will provide a down payment of $12,000</li><li>Looking for a 30-year mortgage loan</li><li>Worked to develop positive credit history while in college</li><li>Emergency room nurse (with BSN degree) Annual salary of $70,000</li><li>Monthly net income is $4,109</li><li>Credit score: 740 VantageScore (good rating)</li></ul> | <ul><li>Seeks $3,000 loan to purchase a purebred dog</li><li>Will provide a down payment of $200</li><li>Not sure how long it will take to pay back the loan</li><li>History of paying loans on time</li><li>Currently has three outstanding loans</li><li>Prep cook in fast food restaurant</li><li>Annual salary of $25,180</li><li>Monthly net income is $1,317</li><li>Credit score: 750 FICO score (very good rating)</li></ul> |
| Borrower #9 | Borrower #10 |
| <ul><li>Seeks $5,000 loan for a car repair bill</li><li>Will not provide a down payment</li><li>Expected to repay the loan in 3-5 years</li><li>Has a history of late payments</li><li>Entry-level dock worker</li><li>Annual salary of $25,870</li><li>Monthly net income is $1,367</li><li>Credit score: 550 FICO score (fair rating)</li></ul> | <ul><li>Seeks $2,000 loan for a new laptop</li><li>Will provide a down payment of $100</li><li>Expected to repay the loan in 1 year</li><li>Making payments on one car loan</li><li>Insurance agent</li><li>Annual salary of $52,460</li><li>Monthly net income is $3,027</li><li>Credit score: 920 VantageScore (excellent rating)</li></ul> |
| Borrower #11 | Borrower #12 |
| <ul><li>Seeks $4,500 loan for a big-screen TV</li><li>Will provide a down payment of $200</li><li>Not sure how long it will take to pay back the loan</li><li>No current debt but paid off previous loans on time</li><li>Operations management trainee at car rental company</li><li>Annual salary of $41,023</li><li>Monthly net income is $2,301</li><li>Credit score: 700 VantageScore (good rating)</li></ul> | <ul><li>Seeks $50,000 loan to start pet-grooming business</li><li>Will not provide a down payment</li><li>Not sure how long it will take to pay back the loan</li><li>Currently paying on a car loan</li><li>Currently working in local vet office</li><li>Annual salary of $23,610</li><li>Current monthly net income is $1,204</li><li>Credit score: 739 FICO score (good rating)</li></ul> |