

Te whai hua - kia ora!

sorted

US 28099 (version 3)

Managing debt

Evaluate credit options and select debt management strategies to manage personal finances

LEVEL

3

CREDITS

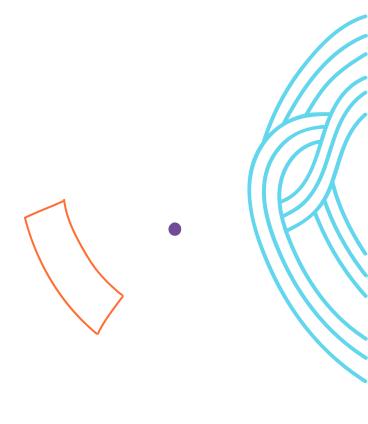
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THEMES

Debt
Investing
Goals

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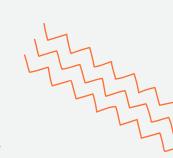
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 Credit options
- **Topic two:**Debt management strategies



Nau mai haere mai!

Welcome to the managing debt module.

This module will build your understanding of credit options and debt management strategies.



You will be assessed on how well you:

- evaluate credit options
- select debt management strategies
- manage personal finances



Evidence/Judgements Evidence/Judgements Evidence/Judgements for Achievement for Achievement with for Achievement with Merit Excellence You need to: As well as meeting As well as meeting the the requirements for requirements for Merit, in • evaluate features of two Achievement, you need your comparison of the credit options including two study funding to: credit card and one of: options, you must: o personal loan explain the credit options and selected justify the selection of o mortgage debt management the debt management o revolving credit strategies used to strategies with o student loan supporting examples to manage personal o buy now pay later show how they can be finances. used to manage • Features include: personal finances. o total cost of credit versus cash price o potential consequences of using credit • select and describe three debt management strategies including: o assessing advice and assistance o communication with creditors o interest rate considerations o debt consolidation o adjustments to lifestyle o use of hardship provisions o sale of non-essential items.

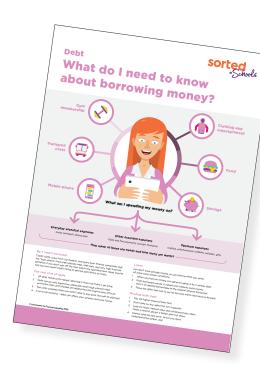
This module is about credit options and strategies to manage personal finances.

In this module you will explore:

Topic one: Credit options

 Topic two: Debt management strategies





Resources

There are lots of useful resources for credit and debt.

Sorted in Schools resources that have particular relevance to this module are:

- debt
- goals
- investing

You can find these resources on the **student activities** page of the Sorted in Schools website by clicking on Theme and selecting either Goals or Debt from the dropdown menu.

Other useful tools and websites include:

Sorted guide - Tackling debt

The Sorted.org website also provides information on specific tackling debt options.

Let's begin to explore credit options!

05

Topic one: Credit options

Learning outcome for topic one



Evaluate the features of credit options

Success criteria

You should complete all activities in this topic. They will help you to meet the assessment requirement of evaluating the advantages and disadvantages of credit options.

In this topic, we're going to evaluate the advantages and disadvantages of credit options.

Assessment tip:



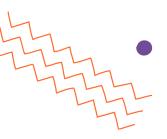
In your assessment, you need to evaluate features of credit options.

Credit options to include are credit card and one of the following:

- personal loan
- mortgage
- revolving credit
- student loan
- buy now pay later

Features of credit options to include:

- total cost of credit versus cash price
- length of time
- potential consequences of using credit

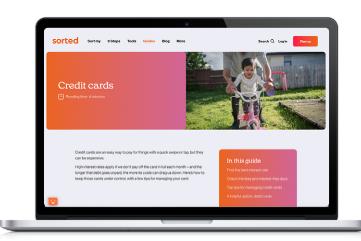


Activities: Credit card



This module will be of most use to you if you think about how the material it covers relates to your own life and aspirations.

- 1) Read the following: <u>Sorted guide</u>- Credit cards
- **2)** Complete the following table to identify the total cost of credit when using a credit card?



Calculate the estimated total cost of credit for purchasing a 50" TV for \$699 with a credit card charge of 20.95% pa interest and an annual fee of \$55. The minimum repayment is \$50 per month.

A	Cost of TV	
В	Credit card annual fee	
С	Total charge on credit card (HINT: C = A + B)	
D	Interest (HINT: D = C x 20.95%)	
E	Total cost of credit (HINT: E = C + D)	
F	Repayments timeframe (HINT: E / \$50)	

3)	Complete a summary of your findings from the above table.
• • • • •	

4)	Explain the term that banks advertise O – 180 interest free days. What are the potential consequences of having a credit card?
• • • • •	

5) Summarise your findings into advantages and disadvantages of having a credit card.

Advantages	Disadvantages



Activities: Personal Ioan



1) Research a NZ bank website e.g. <u>Westpac</u> or <u>BNZ</u> and answer the following questions regarding obtaining a personal loan:

Any deposit required?	
How long can you have a personal loan for?	
What are the interest rates?	
How much are the repayments?	
How frequent are the repayments?	
Are there any early repayment penalties?	
Any other charges?	
What are the consequences of having a personal loan?	

2) Summarise your findings into advantages and disadvantages of having a personal loan.

Advantages	Disadvantages



Activities: Mortgage



1) Read the following article <u>Sorted guide - Different types of mortgages and</u> **how they work** and answer the following questions about mortgages:

Any deposit required?	
What is the term of length of the mortgage?	
What are the interest rates?	
What repayments are required?	
How frequent are the repayments?	
Are there any early repayment penalties?	
Any other charges?	
What are the consequences of having a mortgage?	

2) Summarise your findings into advantages and disadvantages of having a mortgage.

Advantages	Disadvantages



Activities: Revolving credit



1) Read the following article <u>Sorted guide - Different types of mortgages and</u> **how they work** and answer the following questions about revolving credit loan:

Any deposit required?	
What is the term of length of the loan?	
What are the interest rates?	
What repayments are required?	
How frequent are the repayments?	
Are there any early repayment penalties?	
Any other charges?	
What are the consequences of having a revolving credit?	

2) Summarise your findings into advantages and disadvantages of having a revolving credit.

Advantages	Disadvantages

Activities: Student Ioan



1) Read the following <u>Sorted guide - student loans</u> and answer the following questions:

Any deposit required?	
What is the term of length of the loan?	
What are the interest costs if any?	
What repayments are required?	
How often do you make repayments?	
Are there any early repayment penalties?	
Any other charges?	
What are the consequences of having a student loan? (HINT: going overseas)	

2) Summarise your findings into advantages and disadvantages of having a student loan.

Advantages	Disadvantages

Activities: Buy now pay later

1) Research <u>Sorted guide - buy now pay later</u> and answer the following questions:

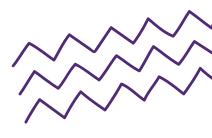
Any deposit required?	
What is the term of length of the contract?	
What are the interest costs?	
What repayments are required?	
How frequent are the repayments?	
Are there any early repayment penalties?	
Any other charges?	
What are the consequences of entering a buy now pay later contract?	

2) Summarise your findings into advantages and disadvantages of entering a buy now pay later contract.

Advantages	Disadvantages

Before moving on to topic two, check that you understand:

- Features of a credit card
 AND
- Features of **ONE** other credit option





Topic two: Debt management strategies

Learning outcomes for topic two

Understand how to select debt management strategies to manage personal finances.

Success criteria

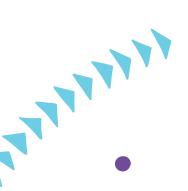
You should complete all activities in this topic. They will help you to meet the assessment requirement of selecting and describing debt management strategies.

Assessment tip:



In your assessment, you need to select and describe THREE debt management strategies. Debt management strategies may include:

- · accessing advice and assistance
- communication with creditors
- interest rate considerations
- debt consolidation
- · adjustments to lifestyle
- use of hardship provisions
- sale of non-essential items





Accessing advice and assistance

Managing money can be challenging, and not all of us have the time to sort out the more complicated details. That's when it's time to call in the experts and get some help.

www.sorted.org.nz

There are many different places you can go for assistance to give you advice on how to manage your debt. Financial capability services can:

- Understand your financial situation
- Organise your debt
- Advocate for you with your lender if required
- Help plan for your future
- Get you in touch with a local budgeting service

Activities



This module will be of most use to you if you think about how the material it covers relates to your own life and aspirations.

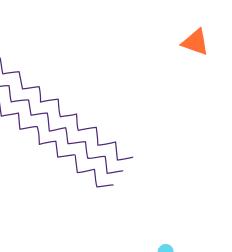
1) Which organisations can assist you with advice on debt management?

Sorted.org.nz	Money Talks
MoneyHub	Citizens Advice Bureau
Ministry of Social Development	Bell Gully Lawyers
Inland Revenue	NZ Police
Westpac Bank	



2) Complete the following justification of how accessing advice and assistance can manage personal finances.

repayments		spending		later		savin	igs		credit
budg	get	credi	t advisor		inter	rest		hints	
By creating a		thro	ough the h	nelp of a	comn	nunity	/ budg	et	
		_ they wou	ıld teach y	ou how	to pla	n for	the fix	ed nec	essary
	an	d then also	plan for _				This wo	ould inc	clude
paying off var	ious		cards	and buy	now	рау _			
options and th	nerefor	e reducing _		an	d spe	nding	on the	ese cre	dit
options. A cor	nmunit	y budget ac	dvisor cou	ld also p	rovide	e		on ho	w to
save money o	n the b	udget and r	maybe abl	e to repa	ay mo	re on	debt		



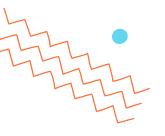


Communication with creditors

If you find yourself in financial difficulty, you should contact the lender as soon as possible. They may be able to work out a new repayment plan. It is important to take ownership of the default or potential default in payment and be honest. It is also strongly recommended that you offer a solution on how to fix the default.

Activities 🗐

Send Cc	
Subject	
To Whom it May Concern My name is Harry Hopeful and I am sorry that I hav Can you please send my future phone bills to the for and I will organise to repay \$50 each week on the organise to repay \$50 each week organise	butstanding debt.
Regards Harry	



1)

Interest rate considerations

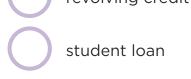
Most debts will come with interest costs. But you could manage this debt by looking at the interest rates for your various debts. Managing debt could be done by focusing extra money on repaying debt that costs you the most, commonly known as debt avalanche or focus extra money on the debt with the smallest balance, commonly known as a debt snowball.

Activities

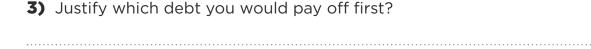


- How to get out of debt quickly
- **2)** Rank the following credit options as to highest to lowest (1-6) interest charges:



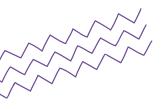


buy now pay later









Debt consolitation

Debt consolidation is all about joining all debts into one and hopefully having a lower interest rate for that one large debt.

Activities: Debt consolidation



1) Read the following <u>Sorted guide - Debt consolidation</u> and prepare a summary:

Risks of debt consolidation	Benefits of debt consolidation

2)	Complete the following justification of how debt consolidation	n can i	manage
	personal finances.		
		credi	it

bank

1				outgoings		
lower		consolidate				
If you were t		credit card	s with an ou	tstanding		_ and
refinance the	e mortgage to	a	interest r	ate or a reve	rse mortgag	e or
refinance at	a different	·	With debt c	onsolidation	of the	
	_ cards and mo	ortgage you w	ill be paying	lower intere	est and there	fore
not have as	many	and k	oe able to m	anage debt	more easily.	

mortgage



Adjustments to lifestyle

Changing what you do in your lifestyle can help manage your debt. It might be a matter of sacrificing your weekend entertainment costs or selling surplus items in your garage.

Activities: Adjustments to lifestyle



1) Read the following scenario and identify what lifestyle adjustments Seth could use to help manage his debt.



Seth is a very active 25 year old who is flatting with mates. As a flat, they eat out once a week and every Sunday they go to their local for the afternoon. Seth is into many different sports and has a lot of toys to support his various interests of scuba diving, water and snow skiing, and playing the piano (for which he has weekly lessons). Seth is currently in love and spending a lot of money on his girlfriend buying her expensive gifts and shouting her out for expensive dinners.

cancel the flat and move home	sell his water skis
cook flat meals every night	sell his snow skis
eat out as a flat monthly	stop attending piano lessons
have a BYO at home on Sundays	stop buying his girlfriend expensive presents
not go to the local every week	stop going out for dinner with his girlfriend each week

2) Using one of the adjustments listed above, complete the sentences to justify with supporting examples how this debt management strategy would help manage Seth's personal finances.

If Seth was to		
		He could also
use this money to _		
If Seth was to		
he would therefore	have more disposable income to repay l	his
	and therefore reducing the interest pay	ments on the
	and paying off the loan earlier.	









Use of hardship provisions

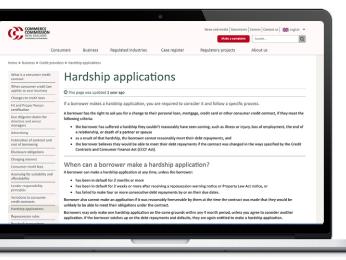
<u>Commerce Commission New Zealand - Hardship applications</u>

A borrower has the right to ask for a change to their personal loan, mortgage, credit card or other consumer credit contract, if they meet the following criteria:

- the borrower has suffered a hardship they couldn't reasonably have seen coming, such as illness or injury, loss of employment, the end of a relationship, or death of a partner or spouse
- as a result of that hardship, the borrower cannot reasonably meet their debt repayments, and
- the borrower believes they would be able to meet their debt repayments if the contract was changed in the ways specified by the Credit Contracts and Consumer Finance Act (CCCF Act).

A borrower can make a hardship application at any time, unless the borrower:

- · has been in default for 2 months or more
- has been in default for 2 weeks or more after receiving a repossession warning notice or Property Law Act notice, or
- has failed to make four or more consecutive debt repayments by or on their due dates.



Activities: Sale of non-essential items



1)	I	d	е	n'	ti	fy	/	it	:∈	er	Υ	15	5	f	r	C	ì	Υ	1	ć	Э	ł	h	C)	U	S	56	е	ŀ	1	()		C	k	١	Λ	/	h	۱i	İ	2	h		C)(0	l	J	l	d	k)(9	S	0		С	t	C)	r	Υ	١i	r	١i	r	n	į	S	e	Š	(b	e	ķ	0	t	:	
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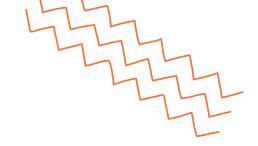
2) Read the following scenario and identify what items Trent could sell to help manage his debts.

Trent is a 20 year old who enjoys life and the outdoors. He currently lives at home and has accumulated a lot of stuff over his life. Trent plays a lot of sports. In his parent's garage he has the following: his last three years rugby boots, his snow board and his snow skis, his mountain bike and road bike, some inline skates he got for Christmas a few years ago, a long board skateboard that he hasn't used in ages and his old boogie board from his 10th birthday. Trent is now a surfer so he has a surfboard hanging in the garage as well. Trent has recently got a new car but he hasn't managed to sell his old car as yet because it doesn't have a warrant.



Before moving on, check that you understand:

Debt management strategies



Ka pai!

You've completed the module. Use the checklist below to make sure that you are ready for your assessment.

Checklist for:

US 28099 Evaluate credit options and select debt management strategies to manage personal finances.

I can:

- ✓ evaluate advantages and disadvantages of two credit options. Range of elements include credit card and one of - personal loan, mortgage, revolving credit, student loan, or buy now pay later in terms of advantages and disadvantages.
- describe three debt management strategies. Range of elements include accessing advice and assistance, communication with creditors, interest rate considerations, debt consolidation, adjustments to lifestyle, use of hardship provisions, sale of non-essential items.

Reference list	
Glossary	sortedinschools.org.nz/api/v1.0/ download?filename=riding-lifes-waves-glossary&files=2462
Guides page of the Sorted.org.nz website	sorted.org.nz/guides/
Student activities section of the Sorted in Schools website	sortedinschools.org.nz/students/activities
Inland Revenue	ird.govt.nz
Ministry of Business Innovation & Employment	mbie.govt.nz
Work and Income	workandincome.govt.nz
StudyLink	studylink.govt.nz



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QAAM Number: #3200

Unit Standard: #28099

Unit Standard Title:

Evaluate credit options and select debt management strategies to manage personal finances.

Notes: