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in Schools

US 28088 Credit and Debt



Student Assessment

Student name:

NSN number:

Date (DD/MM/YYYY):

LEVEL

1

CREDITS

3

THEMES

Debt
Managing my money

NZQA QAAM

3176

Describe credit and debt and their impacts on personal finances

Version: 3 | Level 1 | Credits: 3

Assessment activity



This assessment provides an opportunity for you to demonstrate your understanding of credit and debt on personal finances.

The assessment activity has **one task**. Make sure that you complete all parts of the task.

You will be assessed on how well you are able to:

- Describe credit in relation to personal finances including:
 - types of credit
 - types of credit providers.
- Describe debt in relation to personal finances including:
 - manageable and
 - unmanageable debt.
- Describe factors that affect credit and debt in terms of impact on personal finances. This must cover at least four of the following:
 - changes in circumstances
 - changes in income
 - interest rates
 - penalties
 - administration fees
 - credit ratings
- Give examples of how to minimise impacts of credit and debt on personal finances.
- Explain the relationship and management of credit and debt on personal finances.

Award of grades

Evidence/Judgements for Achievement	Evidence/Judgements for Achievement with Merit	Evidence/Judgements for Achievement with Excellence
<p>For two of the five scenarios, you need to describe:</p> <ul style="list-style-type: none"> the type of credit the type of credit provider if the debt is manageable or unmanageable debt the factors affecting credit and debt and their impacts on personal finances (factors may include: changes in circumstances, changes in income, interest rates, penalties, administration fees or credit ratings). 	<p>As well as meeting the requirements for Achievement, you need to:</p> <ul style="list-style-type: none"> describe at least two examples of how to minimise the impacts of credit and debt on personal finances. 	<p>As well as meeting the requirements for Merit, you need to:</p> <ul style="list-style-type: none"> explain the relationship and management of credit and debt on personal finances.

Conditions of assessment

This is an **open book assessment**. Your teacher will let you know what learning materials, work, and resources you can access to help you complete the tasks. Answers must be in your own words.

Your teacher will provide you with information regarding timeframes for this assessment and options for presenting your responses.

Task

This task requires you to analyse the financial situation of a range of characters in terms of the financial impact of their credit and debt.

Before you begin the questions, read through the following scenarios to familiarise yourself with the financial situation of each character. You may find it helpful to highlight examples of credit and debt within each scenario.

Isabella

Isabella is training to become an engineer. She moved to Christchurch to study and this is her first time away from home. She receives a student allowance and also works as a barista in a cafe.

One of Isabella's new friends has invited her to join them on a rafting trip. Isabella hasn't tried rafting before and doesn't have any gear. Her friend reckons that the trip will cost around \$600, including transport, food, accommodation, and gear hire. Isabella asked her brother to lend her the money, but he said no. For the first time in her life, Isabella is considering borrowing money from a loan shop. The set-up fee for the loan is \$175 and if she misses a repayment date, the fee is \$15 per repayment.

The interest on the loan will be 24% and if Isabella pays it off over two years, will cost about \$19 per week. Isabella thinks she can manage this if she doesn't get any unexpected bills.

Jessica

Jessica is studying Physiotherapy at WINTEC while living at home with her parents in Cambridge. She's loving student life and often goes out socialising on the weekend. This is starting to have an impact on her studies and she knows she will have to be more focused next semester. Jessica doesn't have a job yet, so she's living off her student loan at \$100 per week plus the occasional loan from her parents.

Jessica has bought a car to make it easier for her to travel to WINTEC and get around in the holidays. She took out a personal loan of \$6000 over 5 years to pay for the car. The interest rate on the loan is 18.5% and the monthly repayments are \$132. The set-up fee for the loan was \$376 and there is a monthly fee of \$8.50 per month. The loan is a secured loan, so if Jessica fails to make payments, the finance company can take the car to pay off the loan.

Jessica also has a new Apple Macbook which she purchased for \$3000 on special but used the 12 months interest-free credit option at the shop. This is costing her \$250 per month, plus she was charged a \$55 establishment fee and a \$52 annual fee. If she does not pay off the Macbook within the interest-free period, the prevailing interest rate (currently 25.99% p.a.) will apply.

Jessica sometimes struggles to pay her way, and this is affecting her relationship with her friends and parents.

Bing Win

Bing Win is flattening while studying a Computer Science degree and receiving student loan for his living costs. He is advertising his computer technician services to assist people who are working from home and is enjoying earning some income from this side business. Bing Win had to invest in a decent computer in order to be able to offer people these services. He was able to pay for the computer by borrowing money from his parents. However, the ink cartridges he regularly needs to buy are quite expensive.

Bing Win wears a hearing aid in one ear but has recently lost it. Replacing it will cost him \$600. He's planning to put this cost on his credit card because he doesn't have the cash to pay for it and, although he can cope without his hearing aid, not having it affects his energy levels and social life. Using his credit card will bring the amount he owes close to his credit limit of \$2000 because he used his credit card to pay for a trip to Queenstown earlier in the year. Bing Win is not able to pay more than the minimum repayment amount each month.

Luni

Luni is studying music in preparation for becoming a teacher. She has a scholarship to help support her studies. Luni helps to co-ordinate the local church choir and is seen as a leader in her community. Her volunteer work and dedication to her studies mean that she doesn't have time for a part-time job, but she is gaining lots of experience and expertise through her community engagement.

Luni's car was stolen a month ago and she didn't have insurance. Unfortunately, she was still paying the car off, and she will need to continue paying \$120 a week for another 6 months. Luni is thinking about buying another one. Her sister has offered to loan her a car for a month, but Luni would rather get a new one now.

Laione

Laione co-owns a flat that students live in. He bought the house with his parents as an investment, and they share all the costs that come with it, including insurance, maintenance and rates. The money Laione and his parents get from rent covers the costs of their mortgage repayments and the other expenses that come with the house. Laione has a 2 year fixed-term mortgage with an interest rate of 3.45% at a credit union. This means that he knows how much interest he will have to pay over the next two years of his mortgage but he is unsure if his parents are still going to want to invest in his house because his sister is also wanting to purchase a house with their parents.

Planning worksheet

Complete the **planning worksheet** below for **four** of the characters using the information provided in the scenarios. For each character:

- Describe the type of credit they are either using or considering using, for example: personal loan, mortgage, credit card, revolving credit or buy now pay later options
- Describe the types of credit providers, for example: family/whānau/iwi, banks, digital time payment options, credit unions, private lenders, finance companies, and store cards
- Describe if the debt is manageable or unmanageable debt
- Describe the factors affecting credit and debt, for example: changes in circumstances, changes in income, interest, penalties, administration fees, and credit rating.

Planning worksheet

Character name and scenario	Type of credit (Personal loan, mortgage, credit card, revolving credit or buy now pay later options)	Credit providers (Family/whānau/iwi, banks, digital time payment options, credit unions, private lenders, finance companies and store cards)	Manageable or Unmanageable Debt	Factors affecting credit and debt (Changes in circumstances, changes in income, interest rates, penalties, administration fees, credit rating)

Question

Choose two characters, one with manageable debt and one with unmanageable debt.

Character 1

Name:

Manageable or unmanageable debt (please circle one)

- a) Describe the type of credit they are either using or considering using. For example: personal loan, mortgage, credit card, revolving credit or buy now pay later options.

- b) Describe the types of credit providers. For example: family/whānau/iwi, banks, digital time payment options, credit unions, private lenders, finance companies, and store cards.

- c) Describe if the debt is manageable or unmanageable debt.

- d) Describe the factors affecting credit and debt and their impacts on personal finances. For example: changes in circumstances, changes in income, interest rates, penalties, administration fees, and credit rating.

- e) Describe (including giving examples) how to minimise impacts of credit and debt on personal finances.

- f) Explain the relationship and management of credit and debt on personal finances.

Character 2

Name:

Manageable or unmanageable debt (please circle one)

- a) Describe the type of credit they are either using or considering using. For example: personal loan, mortgage, credit card, revolving credit or buy now pay later options.

- b) Describe the types of credit providers. For example: family/whānau/iwi, banks, digital time payment options, credit unions, private lenders, finance companies, and store cards.

- c) Describe if the debt is manageable or unmanageable debt.

- d) Describe the factors affecting credit and debt and their impacts on personal finances. For example: changes in circumstances, changes in income, interest rates, penalties, administration fees, and credit rating.

- e) Describe (including giving examples) how to minimise impacts of credit and debt on personal finances.
- f) Explain the relationship and management of credit and debt on personal finances.

OPTIONAL: Character 3

Name:

Manageable or unmanageable debt (please circle one)

- a) Describe the type of credit they are either using or considering using. For example: personal loan, mortgage, credit card, revolving credit or buy now pay later options.
- b) Describe the types of credit providers. For example: family/whānau/iwi, banks, digital time payment options, credit unions, private lenders, finance companies, and store cards.
- c) Describe if the debt is manageable or unmanageable debt.
- d) Describe the factors affecting credit and debt and their impacts on personal finances. For example: changes in circumstances, changes in income, interest rates, penalties, administration fees, and credit rating.
- e) Describe (including giving examples) how to minimise impacts of credit and debt on personal finances.
- f) Explain the relationship and management of credit and debt on personal finances.

Checklist:

Circle the factors that affect credit or debt that you have used in your answers. Make sure that you have explained **four different factors**:

- changes in circumstances
- changes in income
- interest rates
- penalties
- administration fees; and
- credit rating.

If you haven't explained **four different factors**, choose a third character and describe factors that might affect their credit or debt.

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