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sorted in Schools

US 28088

Credit and Debt

Student Assessment

Student name:

NCEA number:

Date (DD/MM/YYYY):

LEVEL

1

CREDITS

3

THEMES

Debt

Managing my money

US 28088

Demonstrate understanding of credit and debt on personal finances

Version: 2 | 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:
  - use of credit
  - types of credit
  - types of credit provider
  - the costs of credit.
- Describe how debt affects personal finances, including manageable and unmanageable debt.
- Identify factors that affect credit or debt and explain their impact on personal finances. This must cover **at least four** of the following:
  - changes in circumstances
  - taxes
  - interest rates
  - penalties
  - credit ratings.

Award of grades

Evidence/Judgements for Achievement	Evidence/Judgements for Achievement with Merit	Evidence/Judgements for Achievement with Excellence
For each of the **five scenarios**, you need to identify: • the use of credit • the type of credit • the credit provider • potential costs of the credit. For **two** characters of your choice: • explain whether their debt is **manageable** or **unmanageable.** Explain how **each** of the following factors can impact on a person's finances: • changes in circumstances • interest rates • penalties • credit rating.	As well as meeting the requirements for Achievement, you need to: • provide **at least two examples** of ways that credit and debt can impact on personal finances.	As well as meeting the requirements for Merit, you need to: • explain the **impact(s)** of both **manageable** and **unmanageable 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.

Simon

Simon is training to become a nurse. He moved to Otago to study and this is his first time flatting. He receives a student allowance and also works as a barista in a cafe.

One of Simon's new friends has invited him to join them on a snowboarding trip. Simon hasn't tried snowboarding before and doesn't have any gear. His friend reckons that the trip will cost around $600, including transport, food, accommodation, lift passes and gear hire. Simon asked his brother to lend him the money, but he said no. For the first time in his life, Simon is considering borrowing money from a loan shop. The set-up fee for the loan is $175 and, if he misses a repayment date, the fee is $15 per repayment. There is also a $2 fee for each payment. The interest on the loan will be 24% and, if Simon pays it off over two years, will cost about $19 a week. Simon thinks he can manage this if he doesn't get any unexpected bills.

Matt

Matt is studying horticulture at Otago Polytechnic. He's loving student life and often goes out drinking on the weekend. This is starting to have an impact on his studies and he knows he will have to be more focused next semester. Matt doesn't have a job yet, so he's living off his student loan.

When Matt moved into the flat, he bought a large flat-screen TV to share with the flatmates. He paid for it using hire purchase and has to make fortnightly repayments of $46. This includes a $55 set-up fee for the hire purchase and an account fee of $52 per year. Matt didn't realise when he took advantage of the "interest-free loan" offered by the store that paying only the minimum payment per month would mean that the loan wouldn't be paid off before the interest-free period is over. In two years, the interest rate will be around 30%. Matt still has over three years of payments to go.

Matt also bought a car to make it easier for him to go home to Nelson in the holidays. He 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 Matt fails to make payments, the finance company can take the car to pay off the loan.

Matt sometimes struggles to pay his rent, and this is affecting his relationship with his flatmates.

Ameria

Ameria is living with her aunt while studying to be a massage therapist. She needs to complete 80 hours of massage practice over the year and has built up a small but loyal group of clients who enjoy getting a relatively cheap massage. Ameria had to invest in a massage table in order to be able to offer people massages. She was able to pay for the table by borrowing money from her aunt. However, the massage oils she regularly needs to buy are quite expensive.

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

Fetu

Fetu is studying education in preparation for becoming a history teacher. He has a scholarship to help support his studies. Fetu helps to co-ordinate the Pacific Youth forum and is seen as a leader in his community. His volunteer work and dedication to his studies mean that he doesn't have time for a part-time job, but he is gaining lots of experience and expertise through his community engagement.

Fetu's laptop was stolen a month ago and he didn't have insurance. Unfortunately, he was still paying the laptop off, and he will need to continue paying $12 a week for another 8 months. Fetu is thinking about buying a replacement. His sister has offered to loan him one instead, but it's pretty old and he would rather get a new one.

Tessa

Tessa co-owns a flat that students live in. She bought the house with three friends as an investment, and they share all the costs that come with it, including insurance, maintenance and rates. The money Tessa and her friends get from rent covers the costs of their mortgage repayments and the other expenses that come with the house. Tessa has a fixed-term mortgage with a credit union, which means that she knows how much interest she will have to pay over the next two years of her mortgage.

Question 1

Complete the table below using information provided about the five characters in the scenarios.
For **each** character:

a. Describe the type of credit they are either using or considering using, for example, personal loan, mortgage, credit card, or hire purchase.

b. Identify sources of this type of credit.

c. Describe likely costs involved in borrowing this money, for example, interest, fees, and admin costs.

Note that across your responses you need to refer to **five different sources** of credit. A checklist has been provided below to help you meet this requirement.

Checklist

Across your responses, make sure that you include each of the following sources of credit:

- a bank
- a credit union
- a private lender
- a finance company
- a store card (for example hire purchase).

Character	What they are using the credit for	Type of credit (personal loan, mortgage, credit card, or hire purchase)	Sources of credit	Potential costs involved

Question 2

Choose **two characters**, one with **manageable debt** and one with **unmanageable debt**. For each character:

- explain why you think their debt is manageable or unmanageable
- explain how their debt might impact on their personal finances
- explain factors that might affect their credit or debt, for example, changes in circumstances, taxes, interest rates, penalties or credit ratings
- explain how these factors might impact on their personal finances.

Note that across your two characters, you need to explain **four different factors** that affect credit or debt. If necessary, you can discuss the financial situation of a third character from the scenario to meet this requirement.

To make sure that you cover four different factors, you may like to use the table below to plan your responses.

Character	Factors I will describe that affect credit or debt Examples include: changes in circumstances, taxes, interest rates, penalties, credit ratings, other.
Character A (manageable debt):	
Character B (unmanageable debt):	
Character C (optional additional character):	

Character I have chosen who has manageable debt (state name)**:**

a. Explain why you think this character's debt is a manageable debt.

b. How might their debt impact on their personal finances?

c. i. Explain **two factors** that might affect their **credit or debt**, for example, changes in circumstances, taxes, interest rates, penalties or credit ratings.

Factor A:

Factor B:

ii. Explain how these **two** factors might impact on their personal finances, either in the short term or in the long term.

Factor A:

Factor B:

Character I have chosen who has unmanageable debt (state name)**:**

a. Explain why you think this character's debt is an unmanageable debt.

b. How might their debt impact on their personal finances?

c. i. Explain how **two** factors might affect their **credit or debt**, for example, changes in circumstances, taxes, interest rates, penalties or credit ratings. **Make sure that the factors you choose are different to the ones you used for the previous character.**

Factor A:

Factor B:

ii. Explain how these **two** factors might impact on their personal finances, either in the short term or in the long term.

Factor A:

Factor B:

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
- taxes
- interest rates
- penalties
- credit ratings
- other (please list).

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

For more help, visit
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