

Banking, Saving, and Payday Loans

Lesson 1: Teacher's Guide | Ages 14-18

THE PAYOFF



Performance Expectations

When making banking and savings decisions during the game, communicate to students that they are to:

- Check bank account balances (savings and checking) prior to making a spending decision
- Avoid overdraft protection fees
- Avoid taking out a payday loan
- Set a savings goal

Alignment to Jump\$tart Spending and Saving Knowledge Statements and Standards*

Wealth consists of accumulated assets that represent positive net worth.

Demonstrate how to schedule and manage bill payments.

*Source: https://www.jumpstart.org/wp-content/uploads/2018/01/2017_NationalStandardsBook.pdf

Lesson Procedures

Part 1: Students play The Payoff

Part 2: Instructional guide

Directions: Students respond to Banking, Saving, and Payday Loans pre-quiz covering banking fees, savings rates, and payday loans. Review the responses with students to help them understand the magnitude of various banking fees, and in particular, payday lending fees.

Pre and Post-quiz

1. What is the average fee to withdraw money from an ATM that is not affiliated with your bank?

- a. \$1-\$1.99
- b. \$2-\$2.99
- c. \$3-\$3.99
- d. \$4-\$5 (Correct answer)

2. What was the median overdraft penalty (ODP) in 2014?

- a. \$0 - Overdraft Protection is free
- b. \$5 per transaction
- c. \$15 per transaction
- d. \$35 per transaction (Correct answer)

3. How much does the average American pay annually in bank fees?

- a. \$504
- b. \$155
- c. \$329 (Correct answer)
- d. \$489

4. 69% of Americans have \$1,000 or less in a savings account, leaving them vulnerable to common expense spikes such as a new car transmission or a job loss. What savings strategies have proven to be most effective?

- a. Split your paycheck between checking and savings
- b. Save unexpected windfalls such as tax refunds
- c. Save a percentage of your income
- d. All of the above (Correct answer)

Pre- and Post-quiz, cont.

5. The total cost of the average payday loan is \$895, and the average loan amount is \$375. Which option in most cases make more financial sense than taking out a payday loan?

- a. Negotiate a payment plan with a creditor
- b. Ask for an advance from an employer
- c. Use money you have set aside in a savings account
- d. All of the above (Correct answer)

Activity: Exhibiting Median Account and Consumer Characteristics by Overdraft Frequency

Directions: Instruct your students to analyze the chart below exhibiting median account and consumer characteristics by overdraft frequency and respond to the questions. Overdraft non-sufficient funds (OD/NSFs) are fees charged when the account goes into the negative. You can use this chart to evaluate some of the characteristics of accounts that have been overdraft, including the connection to credit scores and available credit. Have students review the chart below prior to answering the questions on page 5.

	Non-Overdrafters: 0 Annual OD/NSFs	Infrequent: 1 – 3 Annual OD/NSFs	Occasional: >3 – 10 Annual OD/NSFs	Moderately Frequent: >10 – 20 Annual OD/NSFs	Very Frequent: >20 Annual OD/NSFs
End-of-day balance	\$1,585	\$518	\$398	\$345	\$276
Monthly deposits	\$2,093	\$1,726	\$1,816	\$2,050	\$2,554
Variability of monthly deposits	0.64	0.68	0.66	0.62	0.56
Monthly count of ACH deposits ¹	1.2	1.1	1.4	1.7	2.2
Monthly count of POS ² debit card transactions	4.6	14.6	21.1	25.3	29.1
Months of tenure ³	63.5	42.5	36.0	33.0	31.5
Age	46.3	39.4	37.1	36.5	37.4
Neighborhood income	\$59,832	\$55,939	\$54,736	\$54,953	\$54,265
Credit score	747	654	610	585	563
Share with credit card	86.6%	72.6%	63.5%	57.0%	48.9%
Available credit on credit cards, if any	\$14,100	\$3,000	\$960	\$521	\$225
Share with thin file ⁴	6.3%	10.7%	12.6%	12.7%	12.7%
Share unmatched	12.4%	12.7%	11.4%	8.8%	5.3%

Source: Consumer Financial Protection Bureau Data Point: Frequent Overdrafters, August 2017

¹Electronic payments from one bank account to another made through the Automated Clearing House (ACH).

²Point of sale (POS) purchase indicates where a transaction is finalized.

³How long the account has been open.

⁴A financial designation of having a limited credit history.

Activity: Exhibiting Median Account and Consumer Characteristics by Overdraft Frequency, Cont.

1. Describe the pattern between monthly deposits, end of day balances, and the frequency of overdrafting.

Consumers who overdraft the most frequently deposit the most money monthly, but have the smallest end of day balances.

2. Describe the pattern between the frequency of overdrafting and credit scores.

The more likely a consumer is to overdraw, the more likely the consumer has a poor credit score.

3. Do you believe that in most instances, banking fees can be avoided? Support your response.

Students should recognize that in many cases, the issue is money management. Yes, in many cases fees can be avoided.

Activity: Payday Loans Analysis

Directions: Instruct students analyze the chart below and respond to the questions.

The chart is titled "PAYDAY LOANS" in purple text on a yellow background. Below the title are two blue banners with white text: "QUICK MONEY" and "ONE CLICK AWAY". A downward-pointing triangle is centered below the banners. Below this is a table with three columns: "LOAN AMOUNT", "FEE AS A DOLLAR AMOUNT", and "FEE AS AN APR". The table contains four rows of data. At the bottom of the table, there is a note: "Fees & APR calculated based on a 14-day term" and "Loans that cannot be paid in full can be renewed for a \$75 fee".

LOAN AMOUNT	FEE AS A DOLLAR AMOUNT	FEE AS AN APR
\$50	\$8.94	460.53%*
\$100	\$17.58	460.22%*
\$150	\$27.09	460.10%*
\$200	\$34.97	460.22%*

Fees & APR calculated based on a 14-day term
Loans that cannot be paid in full can be renewed for a \$75 fee

1. Look carefully at the APR of each payday loan, and explain why payday loans should be avoided if at all possible.

High APR. For comparison, credit card APRs fall between 12%-34%

Activity: Payday Loans Analysis, cont.

2. Conduct a web search to investigate how a payday loan works, and how they differ from a traditional loan.

Answers will vary but should include facts such as:

1. The APR is highest on this type of loan, or loans in the same category, such as Auto Title Loans.
2. Loans are typically for two week cycles, due on payday. However, in some instances, workers could be paid on one day but the funds don't settle until the next, making it much harder for the loan to be repaid on payday.
3. A credit report is not run on the borrower.
4. Loan balances cannot be reduced with partial payments. If the payment cannot be paid in full, then the borrower must pay a fee, which is often very expensive, to extend the loan.

3. Predict what percentage of payday loans you believe cannot be repaid after the original 14-day term, leading to even more fees.

80%

Part 3: Reflection and Application of Instruction

Directions: Instruct students to reflect about their initial experience playing The Payoff game and what they just learned guided by answering the following questions.

1. Prior to purchasing a camera or choosing to go out to eat with friends, did you check you account balances prior to spending? If not, did it cause you to overdraft? If so, did you transfer money from your savings to your checking accounts to avoid overdrafting?

Answers will vary.

2. Like life, the game simulated what it was like to make decisions in a hurry with lots of things happening at once. How did this influence your decision making and ability to avoid banking fees or payday loans?

Answers will vary.

Part 3: Reflection and Application of Instruction, cont.

3. What are strategies you can use to avoid banking fees? Prepare to share your responses with the classroom.

- Using your mobile banking app: check account balances, pending transactions, and scheduled payments prior to making a spending decision.
- Link your account to a savings or another checking account for overdraft protection.
- Opt out of overdraft protection.
- Sign up for email alerts to know when your account balance falls to a certain level.
- Sign up for text alerts to know when your account balance falls to a certain level.
- Balance your checkbook regularly, and keep track of all checks you have written, debit transactions, automatic bill payments, and direct deposits.

Part 4: Play Again

Students play The Payoff again, applying what they learned during the classroom instruction to make better choices.

Part 5: Post-quiz

Directions: Students respond to Banking, Saving, and Payday Loans post-quiz covering banking fees, savings rates, and payday loans. Review the responses with students and evaluate how they did in comparison to the pre-quiz.

Please reference part 2 for answers to the post-quiz.

Teacher Resources

Resource	Resource URL
<p>America Saves: <i>A campaign managed by the nonprofit Consumer Federation of America, motivates, encourages, and supports low- to moderate-income households to save money, reduce debt, and build wealth. The research-based campaign uses the principles of behavioral economics and social marketing to change behavior. Non-profit, government, and corporate groups participate in America Saves nationally and through local, regional, and statewide campaigns around the country.</i></p>	<p>americasaves.org</p>
<p>CFPB Bank Accounts and Services: <i>The Consumer Finance Protection Bureau (CFPB) aims to make consumer financial markets work for consumers, responsible providers, and the economy as a whole. The CFPB protect consumers from unfair, deceptive, or abusive practices and take action against companies that break the law. The CFPB arms people with the information, steps, and tools that they need to make smart financial decisions.</i></p>	<p>consumerfinance.gov/ask-cfpbcategory-bank-accounts-and-services/</p>
<p>The Learning Bank: <i>The Federal Deposit Insurance Corporation's (FDIC) Learning Bank is a resource for students, teachers and parents.</i></p>	<p>fdic.gov/about/learn/learning/index.html</p>
<p>USA.gov Banking: <i>USA.gov is an interagency product administered by USAGov (formerly the Federal Citizen Information Center), a division of the U.S. General Services Administration's Technology Transformation Service.</i></p>	<p>usa.gov/banking</p>
<p>Practical Money Skills Emergency Fund Calculator: <i>Do you have enough money to cover an emergency? Take a look at your finances to determine how much you should be saving in preparation for the unexpected. A typical emergency fund should cover 3-6 months of expenses.</i></p>	<p>practicalmoneyskills.com/resources/financial_calculators/savings_investment/emergency_fund</p>

Teacher Resources, cont.

Resource	Resource URL
<p>Practical Money Skills Lessons 9-12: <i>Lesson plans and student activities for high school educators and students. High schoolers learn about relevant financial skills like managing salary, buying a car and avoiding debt.</i></p>	<p>practicalmoneyskills.com/teach/lesson_plans/grades_9_12</p>
<p>FACTA Free Annual Report: <i>Under the Fair and Accurate Credit Transaction Act (FACTA) amendments to the Federal Fair Credit Reporting Act (FCRA), you are entitled to a free copy of your consumer report, at your request, once every 12 months.</i></p>	<p>goo.gl/CKXL9h</p>