

### **4.7 Predatory Lending**

Student Activity Packet
UNIT: TYPES OF CREDIT

### Name:

### Students will be able to:

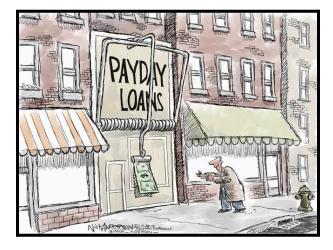
- Explain what a payday loan is and how it can cause users to fall into a cycle of debt
- Identify what financial need payday lenders are meeting and why consumers use payday loans
- Compare the price of borrowing money using various loan and credit products

NOTE: Vocabulary for this unit can be found in the NGPF Personal Finance Dictionary



#### **PROMPT**

Use the space below to answer the prompt.



1. What do you think the cartoonist is trying to convey about payday loans?



### **EDPUZZLE: Predatory Lending**

Payday lenders don't actually have a giant mousetrap strapped outside of their buildings to warn you of possible danger, so it's better for you to understand how they work. Watch this video and

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follow your teacher's directions to answer the questions either in your student activity packet or within the EdPuzzle itself.

NOTE: EdPuzzle videos shuffle answer choices and do not always match the order provided in the lesson here.

## 1. What type of marketing techniques do predatory lenders use? Hint: Choose two correct answers.

- a. They offer instant approval
- b. They require the borrower to have good credit
- c. They offer quick cash
- d. They require multiple financial documents and information to approve your loan

# 2. Based on what you've learned so far, what do you think is the average annual percentage rate (APR) on a payday loan?

- a. 0%
- b. 10%
- c. 30%
- d. 400%

### 3. Which of the following statements about payday loans is TRUE?

- a. Payday loans usually have low interest rates
- b. Payday loans do not have any additional fees like other types of unsecured loans
- c. Payday loans get borrowers into a sometimes inescapable cycle of borrowing money because of the high interest rates and fees
- d. To qualify for a payday loan you must have a checking account and excellent credit score

### **VIDEO: The Surprising Logic Behind the Use of Payday Loans**

In this video, Lisa Servon, a professor at the University of Pennsylvania, provides an alternative perspective on the use of payday loans. Watch and then answer the questions.

- 1. According to Lisa Servon and Joe Coleman, what need are payday lenders filling?
- 2. What is the relationship between a person's need for payday lending and their income volatility? Why do you think this is?



### **ACTIVITY: INTERACTIVE: Shady Sam**

Maybe the previous resource is right, and payday lenders are playing a vital role in some communities. But is that always the case? You'll get to try being a loan shark yourself in this game. Follow the directions onscreen and on the worksheet to complete this activity.



### **ARTICLE: Possible Alternatives to Payday Loans**

Let's say you're just starting out on your own as a young adult and you run into some trouble. You need \$200 because the price of gas and groceries has gone up and your budget has run out for the month. Read this article to find some possible solutions, and then answer the questions.

- 1. Which of these options rely on working with some sort of financial institution, and why might that be difficult?
- 2. What might be some pros and cons of asking friends or family members for financial help?

3. If you were in the situation mentioned above — \$200 short due to rising costs — would you go with a payday lender or with one of the options provided in the article? Explain your reasoning.



Follow your teacher's directions to complete the Exit Ticket.