

Defining debt consolidation

Students work collaboratively to match questions with their answers to better understand key concepts and important rules to live by related to debt consolidation and borrowing.

Learning goals

Big idea

Debt consolidation is one way to address debt you have incurred, but it doesn't erase your debts.

Essential questions

- What does it mean to consolidate debt?
- Can debt consolidation lead to positive or negative money management habits?

Objectives

- Explain debt consolidation
- Understand the benefits and risks of getting a debt consolidation loan

What students will do

- Work cooperatively to match questions and answers about debt consolidation.
- Review the questions and answers with classmates.

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

-  Executive function
-  Financial habits and norms

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Getting loans, Managing credit)

School subject: CTE (Career and technical education), Math, Social studies or history

Teaching strategy: Cooperative learning, Gamification

Bloom's Taxonomy level: Remember, Understand

Activity duration: 15-20 minutes

National Standards for Personal Financial Education, 2021

Managing credit: 12-2, 12-8, 12-10, 12-12, 12-13

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

Preparing for this activity

- While it's not necessary, completing the "[Calculating loan payments](#)" activity first may make this one more meaningful.
- Print enough single-sided copies of the question page and answer page in this guide for each student to have one question strip or one answer strip.
 - Cut each page into seven strips.
 - Be sure to use an equal number of questions and answers. If you have an odd number of students, consider keeping one strip for yourself and participating in the game.
- Print a copy of the answer guide for yourself to use during the game.

What you'll need

THIS TEACHER GUIDE

- [Defining debt consolidation \(guide\)](#)
[cfpb_building_block_activities_defining-debt-consolidation_guide.pdf](#)
- [Answer guide \(in this guide\)](#)

STUDENT MATERIALS

- [Seven question strips and seven answer strips \(in this guide\)](#)

Exploring key financial concepts

Debt is money you owe another person or a business. When you owe someone money, you have a liability. When you owe money, you have to pay it back, usually in scheduled payments. You will often use money from your future income to make those payments. While borrowing money may give you access to something today, you may have monthly payments for months or years to come.

If you have several sources of debt, it might become overwhelming to make all the required monthly payments. Consolidating debt can be one approach to simplify your debt payments. However, getting a consolidation loan does not erase your debt. It just combines it, so you only need to make one

TIP

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

payment each month. There may be fees associated with debt consolidation, and you may pay more or less in interest on the new loan, with a different number of payments than you owed before.

Teaching this activity

Whole-class introduction

- Ask students if they've ever borrowed money from someone.
 - If they have, ask them how it felt to owe someone money.
- Ask students how they'd feel if they couldn't pay someone back when they promised.
- Read the "Exploring key financial concepts" section to students to introduce them to debt consolidation.
- Be sure students understand key vocabulary:
 - **Credit:** Borrowing money, or having the right to borrow money, to buy something. Usually it means you're using a credit card, but it might also mean that you got a loan.
 - **Debt consolidation:** Consolidation means that your various debts, whether they are credit card bills or loan payments, are rolled into a new loan with one monthly payment. If you have multiple credit card accounts or loans, consolidation may be a way to simplify or lower payments. But a debt consolidation loan does not erase your debt. You might also end up paying more by consolidating debt into another type of loan.
 - **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.
 - **Liability:** Something that is a disadvantage, money owed, or a debt or obligation according to law.
 - **Loan:** Money that needs to be repaid by the borrower, generally with interest.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

Group work

- Tell students that they'll play a game to explore debt consolidation.
- Give a question or answer strip to each student.
- Give students a moment to figure out if they have a question or an answer.

- Ask them to walk around the room to find the match to their strip.
 - If they have a question, they'll look for students with the matching answer.
 - If they have an answer, they'll look for students with the matching question.
- Explain that they have four minutes to find their matching group.
- Once all the students have found their matches, have them form groups based on their matching questions and answers. There should be seven groups, one for each matching pair of questions and answers.
- Give the groups a few minutes to discuss what their answer reveals about borrowing and debt consolidation.
- Ask each group to share their information with the class and discuss why they think this concept is important.

Wrap-up

If time allows, ask students to share how they might advise someone who wants to avoid getting into too much debt.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topic of borrowing, including getting loans and managing credit. Suggested activities include ["Role-playing borrowing and lending"](#) and ["Shopping in Credit City"](#).

Measuring student learning

Students' answers during the game and during discussion can give you a sense of their understanding.

The answer guide on the next page provides possible answers for the game.

Keep in mind that students' answers may vary. The important thing is for students to have reasonable justification for their answers.

Answer guide

What is a debt consolidation loan?

Type of loan that collects many of your debts into one loan with one loan payment. But it's important to remember: Debt consolidation loans do not erase your debt.

What types of businesses offer debt consolidation loans?

Banks, credit unions, and installment loan lenders may offer debt consolidation loans. The interest rate may be lower or higher than the rate you are currently paying.

Will a debt consolidation loan help me pay down debt?

It depends. If you get a consolidation loan and keep making more purchases with credit, you probably won't succeed in paying down your debt. This scenario could mean you are less likely to pay off debt and may want to examine your spending habits.

What is a possible positive outcome of getting a debt consolidation loan?

This type of loan can help you simplify how many payments you have to make; you won't have as many due dates for bills that you could miss making a payment on (for example, you could combine your car loan and personal loan debt into one payment).

What is a possible negative outcome of getting a debt consolidation loan?

This loan may include fees or costs you would not have to pay if you continued making your other payments. Also, beware of teaser rates that look attractive at first but then cause you to pay more for the loan in the long run.

Should I work with a debt settlement company instead of consolidating my loans?

Dealing with debt settlement companies can be risky. They may charge expensive fees and leave you deeper in debt than you were when you started, since they often ask you to stop paying your debts in order to set aside funds to use to get creditors to negotiate your loan. This can have a negative effect on your credit score.

What else can I do if I'm having trouble paying my current loans?

If you're having trouble making payments on your debts, a credit counselor may be able to help you with advice or by organizing a "debt management plan" for all your debts. Typically, under a debt management plan, you make a single payment to the credit counseling organization each month or pay period, and the credit counseling organization makes monthly payments to each of your creditors. Also consider contacting a practicing attorney or legal aid office.

Question strips

Print this question sheet single-sided and cut it into seven question strips.



What is a debt consolidation loan?

What types of businesses offer debt consolidation loans?

Will a debt consolidation loan help me pay down debt?

What is a possible positive outcome of getting a debt consolidation loan?

What is a possible negative outcome of getting a debt consolidation loan?

Should I work with a debt settlement company instead of consolidating my loans?

What else can I do if I'm having trouble paying my current loans?

Answer strips

Print this answer sheet single-sided and cut it into seven answer strips.



Type of loan that collects many of your debts into one loan with one loan payment. But it's important to remember: Debt consolidation loans do not erase your debt.

Banks, credit unions, and installment loan lenders may offer debt consolidation loans. The interest rate may be lower or higher than the rate you are currently paying.

It depends. If you get a consolidation loan and keep making more purchases with credit, you probably won't succeed in paying down your debt. This scenario could mean you are less likely to pay off debt and may want to examine your spending habits.

This type of loan can help you simplify how many payments you have to make; you won't have as many due dates for bills that you could miss making a payment on (for example, you could combine your car loan and personal loan debt into one payment).

This loan may include fees or costs you would not have to pay if you continued making your other payments. Also, beware of teaser rates that look attractive at first but then cause you to pay more for the loan in the long run.

Dealing with debt settlement companies can be risky. They may charge expensive fees and leave you deeper in debt than you were when you started, since they often ask you to stop paying your debts in order to set aside funds to use to get creditors to negotiate your loan. This can have a negative effect on your credit score.

If you're having trouble making payments on your debts, a credit counselor may be able to help you with advice or by organizing a "debt management plan" for all your debts. Typically, under a debt management plan you make a single payment to the credit counseling organization each month or pay period and the credit counseling organization makes monthly payments to each of your creditors. Also consider contacting a practicing attorney or legal aid office.
