

Differentiating between secured and unsecured loans

Students explore characteristics of secured or unsecured types of credit by playing a sorting game.

Learning goals

Big idea

Borrowers may qualify for different types of loans based on their creditworthiness.

Essential questions

- How might a person's credit habits and decisions influence their ability to borrow money?
- What types of loans exist to help people pay for large purchases or expenses?

Objectives


- Understand the characteristics of secured and unsecured loans in order to make informed borrowing decisions
- Identify items that could be purchased using a secured loan versus an unsecured loan

What students will do

- Work collaboratively to sort "Characteristics of secured and unsecured loans" game cards into two piles: secured and unsecured loans.
- Work collaboratively to sort the "Items" game cards to show which can likely be purchased with secured loans and which would likely need be paid for with unsecured loans.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Getting loans)

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

Teaching strategy: Gamification, Cooperative learning

Bloom's Taxonomy level: Understand, Apply

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Credit and debt - Standard 1

Preparing for this activity

- Print a copy of the “Characteristics of secured and unsecured loans” game cards on one color of paper for each student group.
- Print a copy of the “Items you can purchase with secured or unsecured loans” game cards on a second color of paper for each student group.
- Cut all sheets into individual cards. Make sure each group has each set of game cards.
 - If you prefer, print the cards on sticker paper and affix them to playing cards so you can reuse them in the future.

What you’ll need

THIS TEACHER GUIDE

- [Differentiating between secured and unsecured loans \(guide\)](#)
[cfpb_building_block_activities_differentiating-secured-unsecured-loans_guide.pdf](#)

STUDENT MATERIALS

- “Characteristics of secured and unsecured loans” game cards and “Items you can purchase with secured or unsecured loans” game cards (guide)

Exploring key financial concepts

Credit offers seem to be everywhere, but not everyone who applies for a loan qualifies for it. Creditors often evaluate a person’s credit history to determine what kind of risk that person presents as a borrower.

For people who are just starting to build their credit or who have lower credit scores, it may be easier to get a secured loan than an unsecured loan. Secured loans require the borrower to provide collateral (something of value like a car, a boat, a home, etc.) that the bank or lending institution can take if the borrower can’t pay back the loan.

People with higher credit scores may qualify more easily for unsecured loans than people with lower credit scores. These loans require no collateral, so the bank or lending institution is trusting that these borrowers will pay them back. This trust is based on their creditworthiness – what borrowers have done in the past that

gives them a good credit rating. Because unsecured loans put lenders at higher risk, they may have a higher interest rate than secured loans. If that trust does not result in repayment, the lender can report late or missing payments to the credit reporting agencies, engage in debt collection, and sue the borrower.

Teaching this activity

Whole-class introduction

- Be sure students understand key vocabulary:
 - **Creditworthiness:** Being financially sound enough to justify the extension of credit.
 - **Secured loan:** Loan in which your property (things you own) are used as collateral. If you cannot pay back the loan, the lender takes your collateral to get their money back. The lender can also engage in debt collection, file negative information on your credit report, and may sue you.
 - **Unsecured loan:** A loan that does not use property as collateral (such as most types of credit cards); lenders consider these as more risky than secured loans, so they may charge a higher rate of interest for them. If the loan is not paid back as agreed, the lender can also start debt collection, file negative information on your credit report, and can sue you.
- Ask students to take a moment to consider the similarities and differences between secured and unsecured loans.
- Be sure students have a basic context of loans:
 - Loss of collateral is not the only consequence of nonpayment of a secured loan. Nonpayment can result in such things as a poor credit report, debt collection, or being sued.
 - When many factors are equal (e.g., income, job history), secured credit may be easier to get than unsecured.
 - People seeking a loan must remember that they are the customer buying a product, and they should not allow banks to intimidate them or make them feel they are granting credit as if it were a favor.

TIP

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

Group work

Working with “Characteristics” cards

- Divide students into groups of three or four. Distribute the “Characteristics” cards to each group.
- Instruct the groups to review the cards and sort them into three piles:
 - Characteristics that apply to secured loans
 - Characteristics that apply to unsecured loans
 - Characteristics that apply to both types of loans
- When all groups have finished sorting, review their answers by calling on each group to share a characteristic and whether it represents a secured or unsecured loan or both.
- As students answer, invite them to share their reasoning.
- As needed, help students understand where characteristics fit.

Working with the “Items” cards

- Distribute the “Items” cards to each group and ask students to sort them into two piles:
 - Items that would likely be paid for using secured loans
 - Items that would likely be paid for using unsecured loans
- When all groups have finished sorting, call on different groups to share their responses. As needed, help them understand where items fit.
 - Some items could fall into either category, so have students discuss which characteristics they used to make their choice.

Wrap-up

Ask students to complete an exit ticket responding to the following prompt: “How would you describe the difference between a secured and an unsecured loan?”

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topic of borrowing, including managing credit, or the topic of spending, including paying for college.

Measuring student learning

Evidence of student learning can be measured as groups share how they sorted the characteristics and items and through their response on the exit ticket. Use the answer guides below to facilitate discussion.

Keep in mind that students' answers may vary, as there may not be only one right answer. The important thing is for students to have reasonable justification for their answers.

Answer guide for "Characteristics of secured and unsecured loans"

Connected to collateral (secured loan)	Lender can take possession of your collateral (secured loan)	Might be easier for borrowers to get (secured loan)
Less risky to lenders (secured loan)	If you have a poor credit history or are rebuilding your credit, you're more likely to be approved for this type of loan (secured loan)	Usually have lower interest rates (secured loan)
Usually have higher borrowing limits (secured loan)	Lender holds title or an interest in the property until the loan is paid in full (secured loan)	Usually offers longer repayment time period (secured loan)
Your property may be sold to pay off the loan (secured loan)	You could use personal property such as a bank deposit or a car to back this loan (secured loan)	Lender not protected by any collateral (unsecured loan)
If you default on the loan, the lender can't automatically take your property (unsecured loan)	You can set up automatic payments to help make sure your payments go in on time (both)	You obtain this loan based on your income and credit record (unsecured loan)

Make your payments on time to protect your credit report (both)	May require a down payment (secured loan)	Riskier for lenders (unsecured loan)
Lenders may use stricter lending criteria (unsecured loan)	Face debt collection or get sued if you don't repay (both)	Usually has lower borrowing limits (unsecured loan)

Answer guide for "Items you can purchase with secured or unsecured loans"

Car (secured loan)	Boat (secured loan)	Recreational vehicle (secured loan)
Home (secured loan)	Home equity line of credit (secured loan)	Home improvement loan (secured loan)
Credit card (unsecured loan)	Student loan (unsecured loan)	Personal loan (unsecured loan)
Jewelry (secured loan)	Vacation (unsecured loan)	Business equipment (secured loan)
Unexpected expenses (unsecured loan)	Automobile repairs (unsecured loan)	Wedding expenses (unsecured loan)

“Characteristics of secured and unsecured loans” game cards

Print these cards one-sided on colored paper (try to use a different color than what you use for the “Items you can purchase with secured or unsecured loans” game cards).



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Usually have higher borrowing limits	Lender holds title or an interest in the property until the loan is paid in full	Usually offers longer repayment time period
Your property may be sold to pay off the loan	You could use personal property to back this loan	Lender is not protected by any collateral
If you default on the loan, the lender can't automatically take your property	You can set up automatic payments to help make sure your payments go in on time	You obtain this loan based on your income and credit record
Make your payments on time to protect your credit report	May require a down payment	Riskier for lenders
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"Items you can purchase with secured or unsecured loans" game cards

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