

Role-playing borrowing and lending

Students take on the role of a borrower or a lender to pose questions, apply formulas to calculate interest, and evaluate data to inform borrowing and lending decisions.

Learning goals

Big idea

Borrowers with a strong credit history often qualify for lower interest rates.

Essential questions

- What are some questions to ask a lender to better understand the risks and benefits of borrowing money?
- How does your credit history affect the interest rate you're offered on loans?

Objectives



- Understand the key information both borrowers and lenders need to know to make informed loan decisions
- Analyze loan offers and determine the best one for a borrower

What students will do

- Assume the role of a borrower or lender in a simulation activity about the loan process.
- Calculate interest paid by the borrower or earned by the lender.
- Reflect on the experiences of the borrower or lender.

KEY INFORMATION

Building block:

-  Executive function
-  Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Managing credit)

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

Teaching strategy: Simulation

Bloom's Taxonomy level: Apply, Evaluate

Activity duration: 75-90 minutes

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Credit and debt - Standard 1

Preparing for this activity

- Because of its complexity, this activity is best done as a follow-up to activities such as “[Reading about credit scores](#),” “[Describing credit scores](#),” or “[Calculating loan payments](#),” so that students have a general understanding of how interest rates work and how lenders determine creditworthiness.
- Print copies of all student materials or prepare for students to access them electronically.
 - Note: Half the class will receive the materials designated for the lender, and the other half will receive the materials designated for the borrower.
- Students should have access to calculators.

What you’ll need

THIS TEACHER GUIDE

- **Role-playing borrowing and lending** (guide)
[cfpb_building_block_activities_role-playing-borrowing-lending_guide.pdf](#)

STUDENT MATERIALS

- **You’re the lender** (worksheet)
[cfpb_building_block_activities_lender_worksheet.pdf](#)
- **You’re the borrower** (worksheet)
[cfpb_building_block_activities_borrower_worksheet.pdf](#)
- **Lenders and borrowers fact sheet** (handout)
[cfpb_building_block_activities_lender-borrowers-fact-sheet_handout.pdf](#)
- **Optional: All about credit scores** (handout)
[cfpb_building_block_activities_all-about-credit-scores_handout.pdf](#)
- **Calculators**

Exploring key financial concepts

When a person borrows money, they’re charged interest on the amount of money they borrow. Interest fees pay the lender for the service they provide and the risk they take in making the loan. The amount of interest charged depends on the interest rate, which is the percentage of the amount borrowed that a financial institution charges for letting you use its money. Most lenders charge interest and

impose other costs, which generate a calculation called APR (annual percentage rate). The APR is the cost of borrowing money on a yearly basis. Since all lenders must provide the APR, you can use the APR to compare rates on loans. Be sure that you're comparing APRs to APRs and not to interest rates. The two terms are not the same.

The interest rate offered to a borrower typically reflects the degree to which the lender sees the borrower as a credit risk. People who have never borrowed money from a lender before may have no credit history, so the lender has no evidence of how responsible they might be in paying back the loan. In this case, the lender is likely to charge a higher interest rate. Over time, as borrowers demonstrate they're financially reliable, lenders may see them as trustworthy and be willing to offer them a lower interest rate (a lower APR) on loans.

Teaching this activity

Whole-class introduction

- Distribute the “Lenders and borrowers fact sheet” handout.
- Be sure students understand key vocabulary:
 - **APR (annual percentage rate):** The cost of borrowing money on a yearly basis, expressed as a percentage rate.
 - **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.
 - **Borrower:** A person or organization that borrows something, especially money from a bank or other financial institution.
- Ask students to take a few minutes to brainstorm with a partner or in small groups key things to consider when shopping for a loan.
 - What might lenders be most interested in? What concerns and questions might they have?
 - What might borrowers be most interested in? What concerns and questions might they have?
- Split the class into two groups: lenders and borrowers.
- Explain that for each round, students will play the role of either a lender or a borrower.

TIP

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

- Distribute the worksheets so students acting as the lender get the “You’re the lender” worksheet, and students acting as the borrower get the “You’re the borrower” worksheet.
- Explain that the role of the lender is to:
 - Interview potential borrowers by asking questions provided on the lender worksheet.
 - Make sure the type of loan the borrower is requesting matches what the lending institution is willing to provide.
 - Determine the risk associated with each potential borrower.
 - Decide whether to make an offer with a specific APR and length of time and record details OR decline to make an offer due to risk factors.
 - Reflect on their experience as lenders.
- Explain that the role of the borrower is to:
 - Seek a loan for a particular purpose.
 - Interview lenders in hopes of obtaining a favorable loan offer.
 - Be prepared to answer questions asked by the lender and record the details of any offers they receive from a lender.
 - Calculate how much interest they’ll pay if they accept any loan offers they receive.
 - Reflect on their experience with the lenders.
- Optional: Have two students model a role-playing scenario.

Group work

- Ask all students in the lender group to count off from 1 to 6, starting again at 1 each time 6 is reached. The number they call will be the number of the lender they represent.
- Ask all students in the borrower group to count off from 1 to 12, starting at 1 each time 12 is reached. The number they call will be the number of the borrower scenario they represent.
- Group students together into pairs that include a lender and borrower.
- Give them 5 minutes to engage in the loan interview. The borrowers and lenders will follow the directions on their worksheet and record the results in the tables provided.

- After 5 minutes, ask students to switch to a new partner.
- Try to get through at least three pairings.
- Once the interviews are over, ask students to make their calculations, analyze their experiences, and respond to the reflection questions.

Wrap-up

- Ask borrowers to address the following questions:
 - What was it like to be rejected by a lender?
 - Which lenders did they choose and what APR did they receive?
- Ask lenders to address the following questions:
 - What loans did they make, what were the loans for, what APR did they offer, and how was the APR tied to the borrower's credit history?
 - In what ways did they think about the risk the lending institution was taking with potential borrowers with no previous credit history or with poor credit?
 - Was it hard to turn down an applicant?

Suggested next steps

Consider searching for other [CFPB activities](#) that address borrowing, more specifically managing credit.

Measuring student learning

Listen to the students' dialogue during the role playing and the wrap-up reflection to assess how well they understand the concepts in this activity.

For a more formal assessment of student learning, you may ask students to turn in their worksheets so you can read each student's reflection paragraph detailing the decisions they made about lending or borrowing during the simulation.

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.