

 **BUILDING BLOCKS STUDENT WORKSHEET**

Role-playing borrowing and lending - You're the lender

When a person borrows money, they're charged interest on the amount of money they borrow.

The interest rate offered to a borrower typically reflects the degree to which the lender sees the borrower as a credit risk. Playing the role of borrower or lender can help you understand more about loan decisions.

Instructions for the lender

- 1 Review the details of your lending institution.
- 2 Meet with at least three borrowers. During each meeting, ask the questions in the worksheet's "Conducting the loan interview" section to help you determine which borrowers would be a good credit risk for your lending institution.
- 3 For any potential offer you make, decide the length of the loan and the APR and record these details along with the borrower's number.
- 4 After meeting with different borrowers, determine how much interest your lending institution would receive from each loan offer you made.
- 5 Evaluate all of the loan offers you discussed with borrowers.
- 6 Answer the reflection questions.



Conducting the loan interview

Ask these questions during your loan interview with a potential borrower:

1. What do you need this loan for?
2. How much money do you need to borrow?
3. How much do you make each month (what is your monthly net income)?
4. How much of a down payment do you plan to make?
5. How many years will it take for you to pay this back?
6. Tell me about your credit history and credit rating.

Your task is to avoid making an offer to any borrowers you feel are a risk to your financial institution. If you feel a borrower meets your institution's requirements, you can make an offer. For each loan you make, decide the APR and length of loan term you'll offer. Record details of your loan offer in the table below.

RECORD OF LOAN OFFERS

Loan #	Borrower #	Monthly net income	Amount of loan offered (principal)	Loan APR	Length of loan

Use this simplified interest formula to determine the interest your financial institution will earn for each loan and write the amounts in the table on the next page.

$$\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time}$$

Loan #	Interest earned

Reflection questions

Write a reflection paragraph below describing your experience as a lender. How did you determine which loan candidates were a good risk for your lending institution? What factors did you take into consideration when determining whether or not to offer a loan? If you turned down an applicant, how did that feel?