Secured vs. Unsecured Debt
Extension Activity for *Credit Connects* Presentation

Grade Level:

- Grade 9

Learning Objective:

This extension activity, along with the *Credit Connects* presentation, should help students:

- define debt
- understand the difference between secured and unsecured debt

Materials Needed:

- whiteboard
- whiteboard marker

Lesson Plan:

1. Write the following question on the whiteboard: what is debt?
2. Read the question aloud and allow students to share their responses
3. Share the following information about debt, with students:
   - debt is not the same as not having money. Debt occurs when people owe money
   - people may get into debt by spending more money than they have or by borrowing money
4. Explain to students debt falls into two basic categories: secured and unsecured. Write these two categories on the whiteboard
5. Ask students what they think is meant by the terms secured debt and unsecured debt. Write correct responses on the whiteboard
6. Explain to students secured debt is backed by collateral. Collateral is an item pledged as security for repayment of a loan. A mortgage is an example of a secured loan. When someone buys a house, they may borrow money from a financial institution in the form of a mortgage. If they do not repay their mortgage, in full and on time, the financial institution has the legal right to take their house. A secured debt means you are providing a guarantee if your debt is not paid as agreed, the lender can seize the collateral you have pledged against the loan
7. Explain to students unsecured debt is not backed by collateral. The lender is taking more risk by issuing unsecured debt. For this reason, interest rates are usually higher on unsecured debt than secured debt
8. Share with students they will be completing a worksheet about the differences between secured and unsecured debt
9. Distribute the *Secured vs. Unsecured Debt* worksheet to students
10. Review the answers with students after they have completed the worksheet

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Secured vs. Unsecured Debt

collateral: something pledged as security for repayment of a loan. For example, Sally wants to borrow $10,000, from her financial institution, to buy a vehicle. The financial institution agrees to lend her the money but asks her to sign a document indicating if she does not pay back the money, as agreed the financial institution has the legal right to take the vehicle. If Sally does not pay back the money, as agreed, the financial institution will take possession of the vehicle and sell it to recover the outstanding balance.

secured debt: money owed to others that is backed by collateral. If the money is not paid back, as agreed, the lender has the legal right to take the collateral to settle the debt.

unsecured debt: money owed to others that is not backed by collateral. Usually has a higher interest rate than secured debt.

Instructions: read each scenario and decide if it is describing secured or unsecured debt. Write the word secured or unsecured on each line

1. Your parents take out a mortgage to buy a house ____________________
2. Your aunt owes you $100 for babysitting ____________________
3. Your cousin takes out a student loan to pay for university ____________________
4. Your dad takes out a loan, from a financial institution, to buy a boat. He signs a document indicating, if he does not pay back the loan, the financial institution has the legal right to take his boat ____________________
5. You borrow $20 from your parents and promise to pay them back ____________________

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Secured vs. Unsecured Debt

<u>collateral</u>: something pledged as security for repayment of a loan. For example, Sally wants to borrow $10,000, from her financial institution, to buy a vehicle. The financial institution agrees to lend her the money but asks her to sign a document indicating if she does not pay back the money, as agreed the financial institution has the legal right to take the vehicle. If Sally does not pay back the money, as agreed, the financial institution will take possession of the vehicle and sell it to recover the outstanding balance.
<u>secured debt</u>: money owed to others that is backed by collateral. If the money is not paid back, as agreed, the lender has the legal right to take the collateral to settle the debt.
<u>unsecured debt</u>: money owed to others that is not backed by collateral. Usually has a higher interest rate than secured debt.

<u>Instructions</u>: read each scenario and decide if it is describing secured or unsecured debt. Write the word secured or unsecured on each line

1. Your parents take out a mortgage to buy a house *secured*
2. Your aunt owes you $100 for babysitting *unsecured*
3. Your cousin takes out a student loan to pay for university *unsecured*
4. Your dad takes out a loan, from a financial institution, to buy a boat. He signs a document indicating, if he does not pay back the loan, the financial institution has the legal right to take his boat *secured*
5. You borrow $20 from your parents and promise to pay them back *unsecured*