**Consequences of poor financial management 1**

**Understand**

**1 Why do people sometimes find it difficult to manage their finances?**

People sometimes find it difficult to manage their finances because they are influenced by persuasive advertisements and as a consequence spend more money than they can afford. This can lead to heavy debts.

**2 Use the following words in a sentence to explain their meaning:**

**• mortgage**

**• mortgagee**

**• mortgagor.**

A *mortgage* is a loan in which the borrower gives the lender the right to repossess the item purchased if the borrower cannot afford to maintain the repayments. In a mortgage contract the lender is called a *mortgagee* and the borrower a *mortgagor*.

**3 Under what circumstances will the lender have the right to repossess goods bought on credit?**

The lender has the right to repossess goods if the borrower fails to keep up with the repayments of the loan.

**4 What happens when a person has his or her wages garnisheed?**

If a person gets heavily into debt the lender can apply to deduct money from the borrower’s pay until the debt has been paid. This is called having your wages garnisheed.

**5 What type of credit card is best suited to the following type of users:**

**(a) revolver**

**(b) transactor?**

(a) The credit card best suited to a revolver is one that has a very low interest rate as this spender only repays the minimum amount each month.

(b) The credit card best suited to a transactor is a card with a long interest-free period as this spender pays off the full balance each month.

**6 A friend has many different loans and is in financial difficulty. Why would you advise her to consolidate her loans?**

It would be wise to consolidate the loans as this would provide a lower overall interest rate and she would only need to make repayments on one loan which makes the paperwork easier to maintain.

**Think**

**7 Do you think it is fair for the lender to have the right to repossess goods or garnishee wages? Why? Share your answer with the rest of the class.**

After a variety of answers have been discussed, decorate the room with posters or flow charts illustrating the cause and effect of repossession and garnisheed wages for the lender and borrower.

**8 What advice would you give to someone who is thinking of applying for a credit card?**

A person applying for a credit card should select one that best matches the type of user they are. Shop around for cards with cheaper rates or lower annual fees, and find out the interest rate, the number of interest-free days and any other charges that may occur. People with credit cards should not let the card control them, and should keep on top of their payments.

**9 ‘Unwise consumers, and not the easy access to credit, are to blame for debt problems.’ Give reasons why you agree or disagree with this statement.**

*For:*

• It is the responsibility of each individual to manage his or her finances wisely.

• It is always up to the individual to decide whether he or she wants and/or can afford to purchase an item or service.

• If you are silly enough to be influenced by wild advertisements you only have yourself to blame for getting into debt.

*Against:*

• Companies employ clever and educated sales staff to persuade people to buy their products.

• Businesses and companies often persuade consumers that they can afford items by offering a variety of payment options.

• Businesses and companies make it too easy for consumers to use credit to purchase products.