**Understand**

**1 What is the difference between:**

**(a) a *secured* and an *unsecured* loan**

**(b) a *personal* and a *mortgage* loan?**

(a) A secured loan means that something is deposited as a guarantee to fulfil the payment of the loan. This is not the case with an unsecured loan.

(b) A mortgage loan is used when you purchase a house or land. The bank has the property as security for the loan, and if you fail to repay a mortgage the lender will sell the property in order to get the money back. A personal loan is used for purchases such as cars, furniture and travel. The interest is higher than a mortgage loan because there is a bigger risk that the borrower may not be able to pay it back.

**2 Why is the interest rate on an unsecured loan normally**

**higher than on a secured loan?**

The interest rate is usually higher on an unsecured loan because there is a greater risk involved for the lender.

**3 What can the lender do if you fail to repay a:**

**(a) secured personal loan**

**(b) mortgage loan**

**(c) credit card debt?**

A lender can:

(a) take the item back

(b) sell the property in order to get the money back

(c) charge interest on the outstanding debt if you don’t pay the account by the due date.

**4 What factors determine a person’s:**

**(a) ability to repay a loan**

**(b) credit rating?**

(a) A person’s ability to repay a loan is decided by three factors: income, assets and outstanding debts.

(b) A person’s credit rating is influenced by any credit problems the person has had in the past, age, employment details, and availability of security for the loan.

**5 Why is it important to maintain a good credit rating?**

It is important to have a good credit rating because it is a way to convince a lender that you are a reliable person who will repay the loan you are applying for.

**6 Explain what it means to be a guarantor on a loan and what the consequences are if the loan contract is broken.**

If a person has a bad credit rating, the lender can ask for additional security such as a guarantor. This means that a friend or family member signs a contract stating that they will repay the loan if the lender fails to do so.

**Think**

**7 ‘Getting a loan is too easy; people do not fully realise the difficulties they may face if they overcommit themselves.’ Do you agree or disagree? Why? Share your answer with the rest of the class.**

Divide the class into groups; for or against. Each group comes up with reasons to support or go against the statement. Discuss the issue as a whole class.

**8 Alex Fischer claims that only people earning $70 000 or more a year should be allowed to use credit. He believes credit is a luxury that only those with higher-than-average incomes can afford. Do you agree or disagree? Why?**

Some points to ponder include:

• Financial independence can be achieved at any income level

• Which people would be excluded from using credit if there was an income limit placed on it?

• Why do people need credit?

• What would the consequences be for our society if the majority of people were unable to purchase things on credit?