



LESSON ELEVEN
Borrowers and Lenders
 TEACHERS

Introduction

One of the most important functions for banks is lending money. Banks are one of the financial institutions that accept deposits and makes loans to people who want to borrow money. In other words, banks take money from one group (depositors) and lend it to another group (borrowers). Banks are a go-between to help ensure the loan will be repaid with interest to cover the cost of making the loans. Almost all lenders evaluate potential borrowers to reduce the risk of making the loan.

Three criteria used to assess this risk are called the three C's: character, collateral and capacity. Character is how well we handle responsibility and keep our promises; it is who we are and how we behave. Good character involves understanding and using appropriate ethical values when making choices. Collateral is our assets (things we own) that have value and can be sold to repay our loan in case we don't make our payments. Capacity is our ability to repay the loan, based on how much we owe versus how much we earn. If banks see that we have good character, have collateral and can make our payments, they are more likely to make us a loan.

Definition of the Week

Borrowers: People who borrow money from financial institutions. **Lenders:** Another name for financial institutions that lend money.

Purpose

This lesson will help students understand the importance of character, collateral and capacity when borrowing money.

Tool Kit

Newspaper articles on people (one set for each student or group)

Process

1. Ask students if they have ever borrowed something; discuss the items they borrowed, why they borrowed them and whether or not they returned what they borrowed. Ask students if they have ever loaned something to someone. Help them identify why they loaned it. Then ask students if they have ever said no when asked to lend something. Discuss the reasons for that decision.

2. Have students focus on character traits that would be important for borrowers.

3. Hand out articles about various people in the news. Articles should reflect both positive and negative character traits. You could have students search for the articles in the newspaper or in the archives.

4. In small groups or individually, ask students to determine whether or not they would be willing to loan money to the persons in the articles. Be sure they can explain why or why not. Have them make a list of character traits for each person, both positive and negative. Once all articles are read, encourage students to discuss their decisions with the rest of the class. You may notice that some will take greater risk when making loans. Remind them some banks will make loans to people with "questionable" character, but those people tend to pay higher interest rates because there is a greater potential for them to default on their loans (fail to make payments).

5. Compare the list of character traits from the articles with the list made earlier. Have students write a paragraph describing the results of the class activity. Encourage them to use bar graphs, pie charts, calculate percentages or use other methods in their analysis. You may want to repeat this activity using collateral and capacity.

WORD BINGO

		My name is		

Place each term in one of the above boxes to make a "bingo" card. You may put them in any order. The center block is YOUR name! Ask your teacher or your parent to call off the words to see how many you can describe correctly. You may even make a copy for a friend and have someone randomly select the words to see who can "bingo" first!

- | | | | |
|------------|-----------------------|----------|-------------|
| Bank | Default | Lend | Reliable |
| Borrow | Dependable | Lender | Repay |
| Borrower | Depositor | Loan | Responsible |
| Character | Financial Institution | Money | Risk |
| Collateral | Honest | Payments | Traits |
| Capacity | Interest | Promises | Trustworthy |

PARENT OPTION

Talk with your children about the importance of having good character. Remind them that problem solving, decision making, and conflict resolution are important parts of developing moral character. Ask them to identify something they value and explain how they would feel if someone borrowed it, but didn't return it. Have them make a list of positive and negative character behavior traits (or

use the list generated in class); use it to identify real-life examples. Help them make a "badge of character" to wear at home that shows their positive character qualities. Visit these sites for more information on discussing character with your children: <http://www.charactercounts.org/defsix.htm> or <http://www.characterfirst.com>. You may do an online search and find more sites.

Coming next week: Savings

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