



JA FINANCIAL LITERACY®

Student Guide

UNIT 3: CREDIT, DEBT & CONSUMER PROTECTION
Topic 3: Managing Debt & Financial Risk

NAME: _____

DATE: _____

PRE-QUIZ

Managing Debt & Financial Risk

What + Why: A quick, ungraded check on what you already know—your answers help shape the learning ahead. It's okay not to know—just give it your best shot.

Instructions:

1. Answer each question as best you can.
 2. Circle the best answer for each question.
 3. Submit it when you're done.
-
1. Which action is generally considered an appropriate use of credit?
 - ☐ a. buying expensive clothes you cannot afford
 - ☐ b. financing education or training that increases future income
 - ☐ c. paying for entertainment every weekend
 - ☐ d. borrowing repeatedly for nonessential purchases without a repayment plan
 2. Why might a longer loan term result in paying more overall, even if the monthly payment is lower?
 - ☐ a. because interest is charged over a longer period
 - ☐ b. because monthly payments are always higher
 - ☐ c. because lenders charge extra fees automatically
 - ☐ d. because loan payments stop earlier

3. Which consequence may result from excessive debt?
- ☐ a. improved credit score
 - ☐ b. lower borrowing costs
 - ☐ c. reduced future borrowing options
 - ☐ d. automatic loan forgiveness
4. Which organization is generally considered a reliable source for debt counseling?
- ☐ a. payday loan companies
 - ☐ b. nonprofit credit-counseling agencies
 - ☐ c. social media influencers
 - ☐ d. unverified online lenders
5. Which is a likely long-term result of bankruptcy?
- ☐ a. immediate access to new credit
 - ☐ b. higher credit score
 - ☐ c. difficulty obtaining loans or favorable borrowing terms in the future
 - ☐ d. automatic debt approval

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CASE STUDY

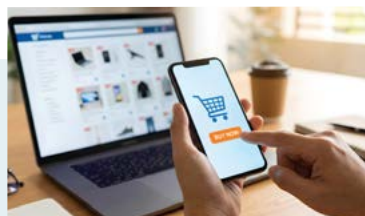
From Approval to Obligation

What + Why: Review Kai's situation so you can think about what changes after borrowing and why repayment decisions matter.

Kai already made the decision to borrow money for a laptop. But getting approved for credit is only the beginning of the process. After borrowing, the responsibility to repay begins.

Supporting Materials:

Topic 3: Introduction (Case Study)

**Instructions:**

1. As you read, think about these questions:

- Kai needs a laptop and needs to borrow money to get it. What would you want to know before saying yes to any of these options?
- How could monthly payments on the laptop affect Kai's financial flexibility going forward?

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REFLECTION

Productive or Problematic?

What + Why: Reflect on when borrowing may be productive or problematic so you can recognize how decisions about debt can affect your financial future.

Most adults borrow at some point. What separates borrowing that supports financial stability from borrowing that creates financial risk?

Take a moment to think

Choose **one** to respond to:

1. What makes some borrowing opportunities productive instead of problematic? (Consider things, such as repayment ability, timing, total cost, or long-term flexibility.)
2. How can the purpose, structure, and repayment timeline of borrowing change its financial impact over time?

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CASE STUDY

Cost & Risk Investigation

What + Why: Examine borrowing options to identify when debt may stay manageable and when it may create increasing risk over time.

Look closely at Kai's financing options. What could make one option easier to manage than another?

Supporting Materials:

Laptop Financing Costs & Risk Comparison (Case Study)

Instructions:

1. Read the **Laptop Financing Costs & Risk Comparison** case study information.
2. As you look at the case study materials:
 - Circle deadlines.
 - Underline places where cost increases.
 - Highlight situations where one financial misstep might cause a bigger problem.
3. Then, with a partner, think about and answer the reflection questions below.



Reflection Questions

1. Which borrowing option has the highest fees or interest rate, and how does that affect the total cost compared to the other options?
2. Which borrowing options have a deadline that, if missed, significantly increases the total cost?
3. Which borrowing option becomes hardest to pay down if something goes wrong?
4. What features of the repayment structure make recovery harder once someone falls behind?

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ACTIVITY

Payment Prioritization

What + Why: Decide how to use extra money to pay down debt so you can see how different repayment choices can affect how fast debt goes away.

Lila can afford all the minimum payments and has a little extra money each month. Where should the extra go? Keep in mind that different repayment strategies may prioritize reducing interest, paying off balances faster, or building motivation through quick wins.

Instructions:

1. Read Lila's scenario and look through her table of debts.
2. Decide which debt should get the extra \$75 each month.
3. Answer the questions using the information in the table.

Be ready to explain your choice.



Scenario

Lila finished school last year and is working full time. She can make all the minimum payments on her debts but only has **\$75 extra each month** to pay down one balance faster.

Lila's Debts

Debt	Balance	Interest Rate	Minimum Payment
Credit Card A	\$900	24%	\$35
Credit Card B	\$350	18%	\$25
Debt	Balance	Interest Rate	Minimum Payment
Auto loan	\$6,000	6%	\$180
Student loan	\$8,500	5.5%	\$75

Total minimum payments = \$315

Lila can pay = \$390

Extra available = \$75

Questions

1. Which debt should Lila use her \$75 on to reduce her overall debt and interest payments?
2. Explain your choice using evidence from the table.

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CASE STUDY

Follow the Evidence

What + Why: Score one of Kai's borrowing options to evaluate how manageable it remains over time.

Debt doesn't always become unmanageable overnight. Repayment pressure can build gradually, and the financial signals that appear early often indicate whether a situation is likely to stabilize or escalate.

Supporting Materials:

Laptop Financing Costs & Risk Comparison
(Case Study)



Part 1: Find Evidence

Instructions:

1. With your small group, explore the **Laptop Financing Costs & Risk Comparison** case study materials, focusing on one of Kai's borrowing options.
2. Use evidence from the case study materials to answer each question, filling out the middle column of the Debt Survivability Scorecard.
3. Do not score your loan option of focus yet. Find all of the evidence needed first.

Part 2: Score Your Borrowing Option

Instructions:

1. With your small group, complete the Score (1-3) column in the Debt Survivability Scorecard.
2. Agree on a score for each factor of the borrowing option you focused on.
 - 3 = Strong (Low Risk / Highly Survivable)
 - 2 = Moderate (Manageable but Some Risk)
 - 1 = Weak (High Risk / Hard to Escape)
3. Add up your scores for each factor to get a Total Survivability Score. *The higher the total score, the more survivable the borrowing option.*
4. Be prepared to share the following information with the whole group during Part 3:
 - Your borrowing option
 - Your Total Survivability Score
 - The one factor that most influenced your score

Debt Survivability Scorecard

Our Borrowing Option: _____

Questions/Factors to Consider	Evidence from Case Study Materials	Score (1-3)		
What is the monthly payment, and does it stay under the \$250 budget? (A payment that fits the budget is more survivable.)		1 ○	2 ○	3 ○
What fees, penalties, or consequences are triggered by a missed payment? (Options with smaller penalties or more flexibility are more survivable.)		1 ○	2 ○	3 ○
Are there any terms or conditions that could cause the cost to increase suddenly? (Options without sudden cost triggers are more survivable.)		1 ○	2 ○	3 ○
Does the balance decrease consistently with each payment? (A balance that consistently shrinks is more survivable.)		1 ○	2 ○	3 ○
Are there any conditions under which the debt could grow rather than shrink? (Options where debt can grow quickly are less survivable.)		1 ○	2 ○	3 ○
Our Total Survivability Score:				

Part 3: Class Share-Out

Instructions:

1. As each group shares their findings, individually record their Total Survivability Score in the following chart.
2. Use the Total Survivability Scores to individually rank all four options from most to least survivable and explain what most influenced your ranking.

Note: A high Total Survivability Class Score means your classmates evaluated that borrowing option and found it highly survivable based on the evidence. You may weigh the factors differently. When ranking, give your most survivable option a 1.

Borrowing Option	Total Survivability Score (Class)	My Survivability Ranking (1 = Most Survivable → 4 = Least Survivable)
Store credit card		
Buy Now, Pay Later (BNPL)		
Student credit card		
Payday loan		

3. **Individually answer the following question:** What is the one factor that most influenced your survivability ranking in the preceding chart?

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INSTRUCTION

Debt-to-Income Ratio

What + Why: Calculate debt-to-income ratio (DTI) to evaluate when debt levels may affect repayment capacity and financial stability.

How much debt is too much? Use the formula to find Kai's DTI.

Debt-to-Income (DTI) Formula

Debt-to-Income Ratio (%) =

$(\text{Monthly Debt Payments} \div \text{Monthly Income}) \times 100$

Example Calculation

- Income = \$2,000 per month
- Debt payments = \$600 per month
- Calculation:

$$600 \div 2000 = 0.30$$

$$0.30 \times 100 = 30\%$$

Instructions:

1. Calculate Kai's DTI.
2. Answer the discussion questions. If you have time left over, start answering the debrief questions.

Be ready to discuss your answers and what the ratio means.

Kai's Information

- Monthly income = \$1,200
- Maximum monthly manageable repayment amount = \$250
- Current Credit Card Minimum Payment = \$25

Discussion Questions

1. What is Kai's DTI if he uses the full \$250 maximum manageable repayment amount? (Be sure to include his existing minimum credit card payment.)
2. How does Kai's DTI compare to the 33% threshold, and what does this mean for Kai's ability to borrow money?

Debrief Questions

3. What makes a higher DTI harder to manage?
4. What would happen to Kai's ratio if his income decreased or his debt payments increased?

Key Terms

- **debt:** money owed to a lender that must be repaid, usually with interest
- **debt-to-income ratio (DTI):** a calculation lenders use to determine your ability to take on new debt and still pay your bills; calculated by dividing all monthly payments by gross income
- **minimum payment:** the smallest required payment on a debt account; making only minimum payments often increases total repayment time and interest cost
- **interest:** a fee received or paid for the use of money, usually expressed in the form of a percentage

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ACTIVITY

Warning Signs

What + Why: Debt problems usually don't happen all at once. Most of the time, there are warning signs before a situation becomes serious.

The behaviors in this activity reflect real patterns that can signal that debt is becoming harder to manage. As you evaluate each one, think about what it communicates about someone's financial situation, and what could happen next if nothing changes.

**Instructions:**

1. Read each behavior.
2. Decide whether it shows an Early Warning, a Serious Distress, or a Crisis.
3. Determine one likely consequence for this behavior:
 - Financial (higher interest costs, damaged credit score, debt collections, wages taken back, etc.)
 - Emotional (stress, anxiety, avoidance, relationship strain)
 - Long-Term (difficulty renting or buying a home, limited borrowing options, bankruptcy)
4. Answer the reflection question.

Be ready to explain your choices.

Behavior	Category	One Likely Consequence
Paying only minimum payments every month	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Missing or delaying payments	☐ Early Warning ☐ Serious Distress ☐ Crisis	

(Continued)

Behavior	Category	One Likely Consequence
Using one credit card to pay another	☐ Early Warning ☐ Serious Distress ☐ Crisis	
No money left for savings	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Maxed-out credit cards	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Denied new credit	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Collections calls	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Late fees every month	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Borrowing again to cover bills	☐ Early Warning ☐ Serious Distress ☐ Crisis	
Not sure how much is owed	☐ Early Warning ☐ Serious Distress ☐ Crisis	

Reflection Question

Which behavior do you think causes the most long-term damage? And is it financial, emotional, or both? Explain your reasoning.

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VIDEO

Navigating Debt Relief

What + Why: Learn how people manage overwhelming debt so you can identify reliable help, repayment strategies, and risky solutions to avoid.

This is Selene. A few years ago, borrowing felt manageable.

A credit card here . . .

a small loan there . . .

But the balances didn't shrink the way she expected. Minimum payments kept the accounts current, but interest kept adding to what she owed. Every month she paid, and every month the total barely moved.

Debt problems don't usually start with a disaster. They start with warning signs.

Minimum payments every month.

Balances that don't shrink.

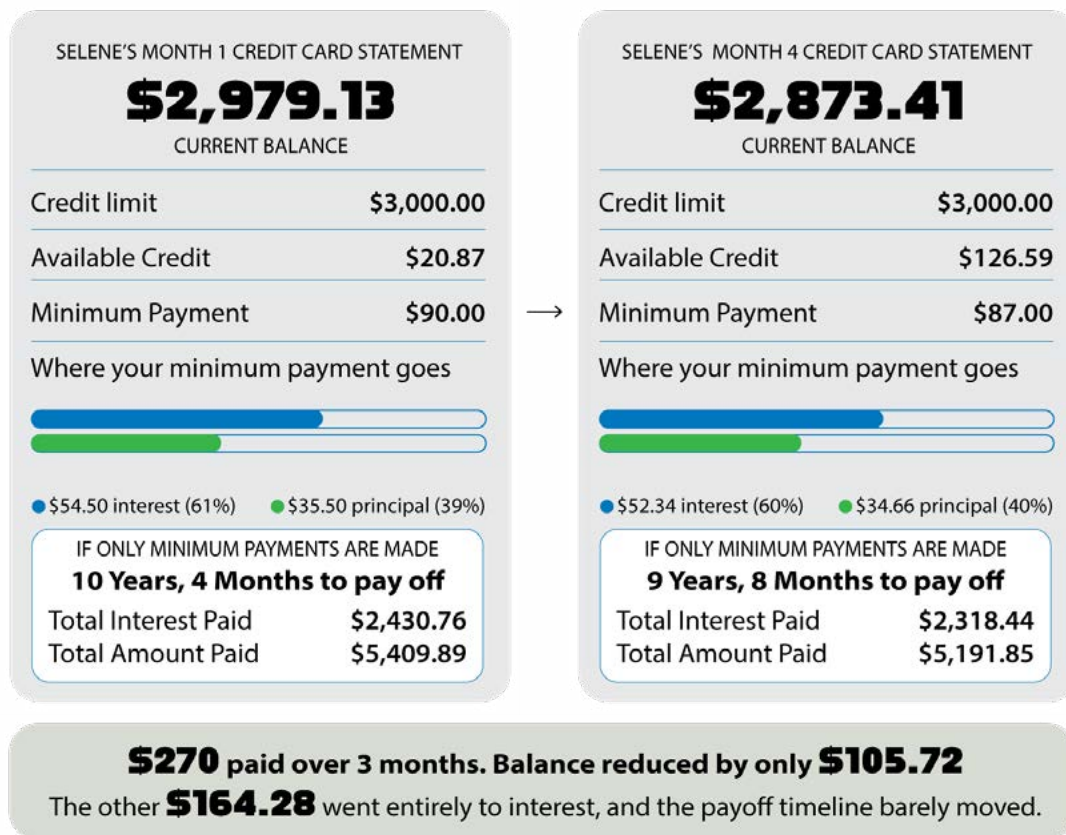
Late fees start showing up.

Borrowing again just to stay caught up.

When these signs appear, the goal isn't to panic. The goal is to act early.

Some credit card holders think making the minimum payment means they're staying on track. But on a revolving balance, minimum payments mostly cover interest charges, not the principal.





See what happens just three months later. Selene has made three payments of \$90 for a total of \$270. Her balance only dropped from \$2,979 to \$2,873. That's just \$105 off the original balance. The other \$164 went entirely to interest. And the split barely changed. Nearly 60 cents of every dollar she pays still goes to interest.

Her statements also tell her something else. If she keeps making only the minimum payment, it will take nearly 10 years to pay off this balance, and she'll pay over \$2,400 in interest on top of what she originally borrowed.

Three months later, that number barely moved.

And that's assuming Selene doesn't make a single additional purchase on her credit card. If she keeps using it, even for small amounts, the balance grows, the timeline extends, and the total interest paid increases further. Staying current on payments doesn't mean you're getting out of debt.

Selene decides to talk with her friend.

SELENE: "I keep making payments . . . but the balance never seems to decrease."

SE'VON: "That's what happens when there's no plan. You're paying . . . but you're not getting out."

When debt starts to feel like this, the first step isn't a new loan. The first step is a repayment plan.

A repayment plan is a structured way to pay back debt over time. It decides what gets paid first, how much extra goes toward the balance, and how long it will take to finish. Without a plan . . . the debt decides for you.

Repayment plans can take different approaches.

- One strategy is called the **snowball method**. You pay the smallest balance first so you see progress faster.
- Another strategy is called the **avalanche method**. You pay the highest interest rate first to reduce the total cost.

Both strategies work. The best plan is the one you can actually stick to.

Question 1

Selene wants to get out of debt faster. She can only pay a little extra each month. Which choice would help reduce the total cost the most?

- ☐ a. Pay only the minimum every month.
- ☐ b. Pay extra toward the highest interest balance.
- ☐ c. Split the extra money and pay every balance equally.

Answer: b. This is called the avalanche method. Paying the highest interest first reduces how much interest builds over time.

When debt starts getting hard to manage, the next step isn't panic. It's getting help early. Nonprofit credit-counseling agencies help people create repayment plans, fix budgets, and talk to lenders. They don't erase debt. They help make it manageable. Asking for help early gives more options. Waiting too long takes options away.

When people work with a nonprofit credit counselor, they usually create a debt management plan. A debt management plan does not create new debt. The counselor works with lenders to lower interest or adjust payments so the debt can be repaid.

Some people confuse this with debt consolidation. Debt consolidation means taking out a new loan to combine several debts into one payment.



And some companies promise quick fixes but charge high fees or make credit problems worse. The safest help usually comes from nonprofit counseling, not fast solutions.

Sometimes repayment plans, debt management plans, and credit counseling are not enough. When debt becomes impossible to repay, the law allows a process called bankruptcy. Bankruptcy is designed to give people a way to deal with debt they truly cannot afford. But it does not erase every problem, and it will affect credit, borrowing, and financial choices for years. Because of those consequences, bankruptcy is usually considered a last resort.

There are different types of bankruptcy. Two common types are Chapter 7 and Chapter 13.



Chapter 7 can erase many unsecured debts, but some property may be sold to repay what is owed.



Chapter 13 does not erase the debt right away. Instead, it creates a payment plan that can last several years.

Some debts may not be erased at all, such as student loans, taxes, or child support.

Bankruptcy can help when debt cannot be repaid. But it also comes with long-term consequences.

- Credit scores will drop significantly, and borrowing money may be harder for years.
- Some property may be sold, depending on the type of bankruptcy.
- Not all debt disappears. Student loans, taxes, and child support are often still owed.
- Filing for bankruptcy also costs money. Legal fees and court-filing costs can cost thousands of dollars, which means it may not be a realistic option for someone already unable to make payments.

Because of these effects, bankruptcy is meant for serious situations where it is your last resort, not everyday money problems. But sometimes it is the answer to provide relief from a neverending debt spiral.

Question 2

Selene is struggling to keep up with debt payments and wants to get help before things get worse. Which option is most likely to be a safe and legitimate place to start?

- ☐ a. A nonprofit credit counseling agency
- ☐ b. A company promising to erase debt fast for a large, one-time fee
- ☐ c. Ignoring the debt and waiting for it to be erased
- ☐ d. Filing for bankruptcy

Answer: a. Nonprofit credit counselors help create a debt management plan without adding new debt or charging high fees.

Question 3

Selene still owes money, but she has income and has been following a debt management plan. She is thinking about filing for bankruptcy. What is the most accurate advice?

- ☐ a. Bankruptcy is the best first choice.
- ☐ b. Bankruptcy removes all debt with little to no consequences.
- ☐ c. Bankruptcy is a last resort after other options.
- ☐ d. Bankruptcy should be used anytime payments feel stressful.

Answer: c. Bankruptcy can help in serious situations, but it has long-term effects and is usually used after all other solutions are exhausted.

Key Terms

- **debt:** money owed to a lender that must be repaid, usually with interest
- **default:** failure to pay back a loan
- **snowball method:** a way to manage debt by paying off the smallest debt first and then applying that payment to the next smallest debt until all debts are paid
- **avalanche method:** a way to manage debt by paying off the debt with the highest interest rate first to reduce the total interest paid over time
- **repayment plan:** a structured plan for paying back debt over time
- **consumer credit counseling:** organizations that offer services to help people get out of debt and stay out of debt
- **bankruptcy:** a legal process that can help individuals or businesses eliminate or restructure certain debts under court supervision
- **Chapter 7 bankruptcy:** a type of bankruptcy in which certain assets may be sold to repay debts and many unsecured debts are discharged
- **Chapter 13 bankruptcy:** a type of bankruptcy that allows individuals to repay debts through a structured payment plan over several years

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ACTIVITY

Financially Me: Debt Solutions Flowchart

What + Why: Create a flowchart showing how someone can work through debt problems so you can see how early action and good decisions can prevent serious consequences.

When debt becomes a problem, what should someone try first? What should they try next if that doesn't work? Build a plan that shows the process.

Instructions:

1. Work with a partner.
2. Create a flowchart that shows how someone could work through debt problems.
3. Your flowchart must include these four sections in order:
 - Assess
 - Act early
 - Stop the spiral
 - Stop & rebuild
4. Label each section and write a short description of what someone should think about at that step.
5. In each section, add 2–3 pointers, warning signs, or actions that fit that step.



6. Show that not every situation reaches the last step.
 - Some problems can be solved early.
 - Some may need more serious action.
 - Include at least one point where earlier action could have reduced long-term consequences. What would have had to happen sooner to prevent the situation from escalating further?
7. Include bankruptcy only as a last resort in the final section.
8. Be creative with your layout.
 - Use arrows, boxes, or diagrams to show the process clearly.
9. When finished, be ready to look at other groups' flowcharts.

Submission:

Turn in your work as directed by your teacher.

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ACTIVITY

Debt Survivability

What + Why: Use evidence to decide which financing option Kai can realistically repay and explain what should happen if the debt starts to become a problem.

Kai has several borrowing options, but each one creates different repayment obligations and financial risks. First, use the case study materials and your Debt Survivability Scorecard findings to identify which option Kai is most likely to successfully repay. Then, choose a less survivable option and determine the warning signs to watch for and what steps Kai should take if that repayment becomes difficult to sustain.

Supporting Materials:

Laptop Financing Costs & Risk Comparison (Case Study)

Follow the Evidence (previously completed)

Financially Me: Debt Solutions Flowchart (previously completed)

Instructions:

1. With your group, review the **Laptop Financing Costs & Risk Comparison** case study information.
2. Complete Part 1 of the worksheet.
 - Answer **Supporting Question 3** using evidence from the case study materials.
3. Complete Part 2 of the worksheet.
 - Choose one less-survivable option.
 - Identify warning signs the debt is becoming a problem.
 - Decide when Kai should seek help.
 - Explain what Kai should try first.
 - Decide if or when bankruptcy could become an option.

4. You may use your **Financially Me: Debt Survivability Flowchart** to help with Part 2.
5. Make sure your answers use evidence, not guesses.

Be ready to explain your reasoning.

Part 1 — Answer Supporting Question 3

Use evidence to answer: Which laptop financing option is Kai most likely to successfully repay without creating long-term financial harm, and why? (Use your scorecard in the **Follow the Evidence** handout to help answer this question.)

Part 2 — Choose a Less-Survivable Option

Choose an option that is more financially risky.

Why is this borrowing option less survivable?

Warning Signs

Give at least two warning signs that might indicate that the debt is becoming too difficult to manage.

1.

2.

At what point should Kai seek help? And what steps should he attempt? (Use your **Financially Me: Debt Solutions Flowchart** to help answer this question.)

Could bankruptcy become necessary? If so, why would bankruptcy be a last resort for Kai?

Be Ready to Explain

Your group should be able to explain:

- Your choice for the best option (with evidence).
- Your choice for a risky option.
 - Warning signs
 - When to act
 - What to try first
 - If bankruptcy could happen

Debt Survivability Rubric

Criteria	4 - Strong	3 - Proficient	2 - Developing	1 - Beginning
Supporting Question 3: Most Survivable Option	Clearly identifies the most survivable option and provides strong, specific evidence from the case study materials and Kai's \$250 budget to justify the decision.	Identifies a survivable option and provides relevant evidence, though explanation may lack depth or specificity.	Identifies an option but explanation is limited, unclear, or only loosely connected to evidence.	Identifies an option with little or no explanation, or reasoning is unsupported by evidence.
Analysis of Less-Survivable Option	Clearly explains why the chosen option is less survivable using multiple structural features (interest, fees, timing, payment pressure, etc.).	Explains why the option is less survivable using at least one relevant structural feature.	Provides a general statement about risk with limited explanation or weak connection to loan features.	Provides little or no explanation of why the option is less survivable.
Warning Signs & When to Act	Accurately identifies realistic warning signs and clearly explains when Kai should act and why.	Identifies reasonable warning signs and suggests an appropriate time to act.	Identifies vague or partially accurate warning signs; timing for action is unclear.	Warning signs are missing, unrealistic, or not connected to the situation.
Response Strategy (What to Try First)	Recommends a logical first step (e.g., repayment plan, credit counseling) and clearly explains why it fits the situation.	Recommends an appropriate first step with some explanation.	Suggests a response but explanation is limited or unclear.	Response is inappropriate, unrealistic, or not explained.
Bankruptcy as Last Resort	Clearly explains under what conditions bankruptcy could become necessary for Kai and why it should only be considered as a last resort, demonstrating understanding of its long-term consequences.	Correctly identifies bankruptcy as a last resort with basic explanation.	Mentions bankruptcy but explanation lacks clarity or depth.	Treats bankruptcy as a simple solution or shows misunderstanding of its role.

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ACTIVITY

Solutions Brief

What + Why: Explain your group's decision about the case study to show how repayment structure, warning signs, and response strategies determine whether debt remains manageable or escalates over time.

Present Your Findings

Each group will now present their findings from the **Debt Survivability** activity. Your group used the case study materials, your scorecard findings, and your overall analysis to identify which option Kai is most likely to successfully repay. Now you will give a short **Solutions Brief** explaining your recommendation and what steps Kai should take if repayment becomes difficult to sustain.



Supporting Materials:

Debt Survivability (previously completed)

Laptop Financing Costs & Risk Comparison (Case Study)

Instructions:

1. Review your answers from Parts 1 and 2 of the **Debt Survivability** activity.
2. Prepare a short **Solutions Brief** to explain your conclusions.
3. Each group will have about 3 minutes to present.
4. Make sure your group is ready to clearly explain your reasoning using evidence.

Presentation requirements:

Your **Solutions Brief** must include:

- **The Verdict (~45 seconds):** State which option Kai can most realistically repay and cite one strong piece of evidence.
- **The Risk (~60 seconds):** Name a less-survivable option, identify its biggest structural risk, and explain what happens if it's ignored.
- **The Plan (~75 seconds):** State when Kai should act, what he should try first, and under what conditions bankruptcy becomes the last resort.

Speak clearly and keep your explanation short. Use evidence, not guesses.

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POST-QUIZ

Managing Debt & Financial Risk

What + Why: You made it to the end of the topic! This quick, ungraded quiz shows how your thinking has grown since the pre-quiz.

Instructions:

1. Answer each question as best you can.
 2. Circle the best answer for each question.
 3. Submit it when you're done.
-
1. Which action is generally considered an appropriate use of credit?
 - ☐ a. buying expensive clothes you cannot afford
 - ☐ b. financing education or training that increases future income
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 - ☐ d. borrowing repeatedly for nonessential purchases without a repayment plan
 2. Why might a longer loan term result in paying more overall, even if the monthly payment is lower?
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