Banking, Saving, and Payday Loans

Lesson 1: Student Activities | Ages 14-18

THE**PAYOFF**

VISA | Practical Money Skills

Lesson Procedures

Part 1: Play The Payoff

Part 2: Pre-quiz

Directions: RESPOND to this pre-quiz covering banking fees, savings rates, and payday loans. The teacher will review the responses and help you understand the magnitude of various banking fees, and in particular, payday lending fees.

1. What is the average fee to withdraw money from an ATM that is not affiliated with your bank?

a. $1-$1.99
b. $2-$2.99
c. $3-$3.99
d. $4-$5

2. What was the median overdraft penalty (ODP) in 2014?

a. $0 - Overdraft Protection is free
b. $5 per transaction
c. $15 per transaction
d. $35 per transaction

3. How much does the average American pay annually in bank fees?

a. $504
b. $155
c. $329
d. $489

4. 69% of Americans have $1,000 or less in a savings account, leaving them vulnerable to common expense spikes such as a new car transmission or a job loss. What savings strategies have proven to be most effective?

a. Split your paycheck between checking and savings
b. Save unexpected windfalls such as tax refunds
c. Save a percentage of your income
d. All of the above

Pre-quiz, cont.

5. The total cost of the average payday loan is $895, and the average loan amount is $375. Which option in most cases make more financial sense than taking out a payday loan?

a. Negotiate a payment plan with a creditor
b. Ask for an advance from an employer
c. Use money you have set aside in a savings account
d. All of the above

Activity: Exhibiting Median Account and Consumer Characteristics by Overdraft Frequency

Directions: ANALYZE the chart below exhibiting median account and consumer characteristics by overdraft frequency and respond to the questions. Overdraft non-sufficient funds (OD/NSFs) are fees charged when the account goes into the negative. You can use this chart to evaluate some of the characteristics of accounts that have been overdraft, including the connection to credit scores and available credit.

	Non-Overdrafters: 0 Annual OD/NSFs	Infrequent: 1 – 3 Annual OD/NSFs	Occasional: >3 – 10 Annual OD/NSFs	Moderately Frequent: >10 – 20 Annual OD/NSFs	Very Frequent: >20 Annual OD/NSFs
End-of-day balance	$1,585	$518	$398	$345	$276
Monthly deposits	$2,093	$1,726	$1,816	$2,050	$2,554
Variability of monthly deposits	0.64	0.68	0.66	0.62	0.56
Monthly count of ACH deposits[1]	1.2	1.1	1.4	1.7	2.2
Monthly count of POS[2] debit card transactions	4.6	14.6	21.1	25.3	29.1
Months of tenure[3]	63.5	42.5	36.0	33.0	31.5
Age	46.3	39.4	37.1	36.5	37.4
Neighborhood income	$59,832	$55,939	$54,736	$54,953	$54,265
Credit score	747	654	610	585	563
Share with credit card	86.6%	72.6%	63.5%	57.0%	48.9%
Available credit on credit cards, if any	$14,100	$3,000	$960	$521	$225
Share with thin file[4]	6.3%	10.7%	12.6%	12.7%	12.7%
Share unmatched	12.4%	12.7%	11.4%	8.8%	5.3%

Source: Consumer Financial Protection Bureau Data Point: Frequent Overdrafters, August 2017

[1] Electronic payments from one bank account to another made through the Automated Clearing House (ACH).

[2] Point of sale (POS) purchase indicates where a transaction is finalized.

[3] How long the account has been open.

[4] A financial designation of having a limited credit history.

Activity: Exhibiting Median Account and Consumer Characteristics by Overdraft Frequency, cont.

1. Describe the pattern between monthly deposits, end of day balances, and the frequency of overdrafting.

2. Describe the pattern between the frequency of overdrafting and credit scores.

3. Do you believe that in most instances, banking fees can be avoided? Support your response.

Activity: Payday Loans Analysis

Directions: ANALYZE the chart below and respond to the questions.

PAYDAY LOANS

QUICK MONEY

ONE CLICK AWAY

LOAN AMOUNT	FEE AS A DOLLAR AMOUNT	FEE AS AN APR
$50	$8.94	460.53%*
$100	$17.58	460.22%*
$150	$27.09	460.10%*
$200	$34.97	460.22%*

Fees & APR calculated based on a 14-day term
Loans that cannot be paid in full can be renewed for a $75 fee

1. Look carefully at the APR of each payday loan, and explain why payday loans should be avoided if at all possible.

Activity: Payday Loans Analysis, cont.

2. Conduct a web search to investigate how a payday loan works, and how they differ from a traditional loan.

3. Predict what percentage of payday loans you believe cannot be repaid after the original 14-day term, leading to even more fees.

Part 3: Reflection and Application of Instruction

Directions: Reflect about your initial experience playing The Payoff game and what you just learned guided by answering the following questions.

1. Prior to purchasing a camera or choosing to go out to eat with friends, did you check you account balances prior to spending? If not, did it cause you to overdraft? If so, did you transfer money from your savings to your checking accounts to avoid overdrafting?

2. Like life, the game simulated what it was like to make decisions in a hurry with lots of things happening at once. How did this influence your decision making and ability to avoid banking fees or payday loans?

3. What are strategies you can use to avoid banking fees? Prepare to share your responses with the classroom.

Part 4: Play Again

PLAY The Payoff again, applying what you learned during the classroom instruction to make better choices.

Part 5: Post-quiz

Directions: RESPOND to this post-quiz covering banking fees, savings rates, and payday loans. The teacher will review the responses and evaluate how you did in comparison to the pre-quiz.

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