Lesson Plan: Pay Day Loans

<table>
<tr><td>Grade: 10-12</td><td>Subject: Financial Literacy</td></tr>
<tr><td>Materials: Pay Day Loans Worksheet, paper worksheet</td><td>Technology Needed: PowerPoint</td></tr>
<tr><td>Instructional Strategies:
☐ Direct instruction
☐ Guided practice
☐ Socratic Seminar
☐ Learning Centers
☐ Lecture
☐ Technology integration
☐ Other (list)
☐ Peer teaching/collaboration/ cooperative learning
☐ Visuals/Graphic organizers
☐ PBL
☐ Discussion/Debate
☐ Modeling</td><td>Guided Practices and Concrete Application:
☐ Large group activity
☐ Independent activity
☐ Pairing/collaboration
☐ Simulations/Scenarios
☐ Other (list)
☐ Hands-on
☐ Technology integration
☐ Imitation/Repeat/Mimic
Explain:
- (Optional) Students will be participating in a written conversation about the article “Expensive Loans to Desperate People Built This $90 Billion Dollar Industry”
- The student will go through a scenario with me at the end of the presentation
- They will be given the opportunity to work independently or pair together to work on the Pay Day Loans activity</td></tr>
<tr><td>Standard(s)
- Explain why the interest rate varies with the amount of assumed risk (5.16.1.10)
- Describe legal and illegal types of credit that carry high interest rates (e.g., payday loans, rent-to-buy agreements, and loan sharking) (5.16.1.23)

Objective(s)
- Explain how payday loans and cash advances work
- Explain what an annual percentage rate (APR) is and how it relates to the fee for a payday loan
- Explain why payday loans are more expensive than other ways of borrowing money
- Understand whether a pay day loan is a smart way to loan money

Bloom’s Taxonomy Cognitive Level: Assess, Articulate</td><td>Differentiation
Below Proficiency:
- Help to promote collaboration for students that are struggling, ask them discovery leading questions.
Above Proficiency:
- Allow them to do deeper digging on pay day loans and pair them with students that might be struggling.
Approaching/Emerging Proficiency:
- Provide them with the opportunity to engage in the scenario process to keep them readily engaged
Modalities/Learning Preferences:
- Interpersonal, Intrapersonal, Auditory, Visual</td></tr>
</table>

Knowledge, and Application	
Classroom Management- (grouping(s), movement/transitions, etc.) - There will be an ability to work with a partner when it comes to working on the worksheet - Phones should be in the holder	**Behavior Expectations- (systems, strategies, procedures specific to the lesson, rules and expectations, etc.)** - Cell phone policy enforced - Keep the volume level reasonable during collaboration

Minutes	Procedures
5	**Set-up/Prep:** - Prepare Presentation, and Prepare Work Sheet for students - Prepare Article for students to read (see artifact) , and music to play (Optional)
5	**Engage: (opening activity/ anticipatory Set – access prior learning / stimulate interest /generate questions, etc.)** - Reflection Time – "Compliment" - Fact or Myth about Pay Day Loans
15	**Explain: (concepts, procedures, vocabulary, etc.)** - Go through Presentation, use fake money/pay stub as a visual for the scenario problem - The student would be engaging in a written conversation so the class would be a silent day! I would explain by stating the different things you should write (Questions, agree/disagree, and what you thought the main idea was), then the passing process and the reflecting process. Students are also broken into groups of 4 so there is 4 rounds of passing reflective paper. (Optional)
20	**Explore: (independent, concreate practice/application with relevant learning task -connections from content to real-life experiences, reflective questions- probing or clarifying questions)** - Use the worksheet to dive deeper into the content. Go over each page for directions clarification - Give students 20 minutes to work on it independently or with a partner - Students are asked to read the article silently for 5 minutes, then given 3 minutes to reflect, they then pass the paper to the right where they get 4 minutes to reflect/respond, then pass 2 more times before receiving their conversation and get to see where it went. (Optional)
5	**Review (wrap up and transition to next activity):** - Discuss answers to pay day activity as a class - Hand in the worksheet as they exit class, debrief with a exit slip (WRITE ON BOARD) asking students to answer if pay day loans are a good way to borrow money and why or why not? - The review process for this is to see how many different things each other had gotten from the article and they would end by sharing with each other what was all said on their sheet of paper.

Formative Assessment: (linked to objectives)	Summative Assessment (linked back to objectives)
Progress monitoring throughout lesson- clarifying questions, check- in strategies, etc. - The worksheet/activity will help to monitor the understanding throughout the lesson, and it will provide data on the risks of pay day loans. Consideration for Back-up Plan: - Research the different pay day loans in Bismarck, and do an analysis on which place offers the best deal	End of lesson: - Exit slip "What is a pay day loan and are they a smart way to borrow? If not why?" determines students understanding of pay day loans as a whole and asks for their opinion If applicable- overall unit, chapter, concept, etc.:

Reflection (What went well? What did the students learn? How do you know? What changes would you make?):
(Lesson Plan Revised) I thought that this lesson went very well, and I was super happy that the students learned a lot from it. I enjoyed doing the reflection time at the beginning of the class because I thought it started out class on the right note. This lesson involved me doing some direct instruction, but I felt that the students learned a lot from the clarifying

questions that I asked and their detailed responses. They were also asked to put their learning to the test with the worksheet/activity that allowed them to apply their learning. If I had to do this over, I would have had given the students the scenario at the end and given them time to work it out with the person next to them and then we could have explained it deeper on the board.

Artifact:

Payday Lenders

Expensive Loans to Desperate People Built This $90 Billion Industry

During the partial government shutdown, Wilbur Ross couldn't understand why furloughed workers didn't just "get a loan."

By
Adam Tempkin
and
Christopher Maloney
February 14, 2019, 2:00 AM CST

Payday loan businesses advertise their services in Phoenix.

Photographer: Ross D. Franklin/AP Photo

During the recent government shutdown, U.S. Secretary of Commerce Wilbur Ross wondered aloud why financially stressed federal workers didn't just "get a loan."
A wealthy private equity investor, Ross faced excoriation. But the underlying question remains, even with a second shutdown less likely to occur. For Americans with limited options and desperate for cash, this is where consumer lenders such as Enova International Inc., Curo Group Holdings Corp. and Elevate Credit Inc. step in.

They're part of a growing industry of online companies which specialize in risky borrowers. Enova, for example, offers loans with interest rates ranging from 34 to 450 percent, depending on the amount, date of maturity and borrower's credit score, according to its website. The expectation for the priciest kind of short-term borrowing, the "payday loan" of storefront fame, is that you will pay it back when your paycheck clears. Still, one could be forgiven for wondering how such sky high rates exist at all.


Wilbur Ross
Photographer: Zach Gibson/Bloomberg

“Having no access to credit is worse for consumers,” said Mary Jackson, chief executive of the Online Lenders Alliance, a lobbying group that represents fintech lenders. She said high interest, high-risk loans have a widely known parallel—the bridge loan—which struggling homebuyers sometimes use to close a deal. “Most of these loans would be considered bridge loans—for major car repairs and plumbing leaks.”

And forget about the obvious Hollywood images that triple-digit interest rates bring to mind. The average customer isn’t an unemployed. recidivist gambler down on his luck. According to Jackson, they’re often college-educated thirtysomethings who are gainfully employed. But no matter what a borrower’s background is, critics warn that the price to be paid for such loans can get very high, very fast.

“Right now, 80 percent of payday loans are taken out within two weeks of a previous payday loan.”

About 12 million Americans use these high interest loans every year, both online and through about 16,000 storefront offices, said Alex Horowitz, a senior research officer with Pew Charitable Trust’s consumer finance project. In fact, U.S. consumers borrow almost $90 billion every year in short-term, small-dollar loans that typically range from $300 to $5,000, according to a 2018 report from the Office of the Comptroller of the Currency (OCC).

And the future is looking even brighter. Just last week, the industry received a boost by Kathleen Kraninger, a Trump administration budget official who recently took over the U.S. Consumer Financial Protection Bureau. She proposed the elimination of an Obama era requirement—set to take effect Aug. 19—that would have forced payday lenders to assess a borrower’s ability to repay. Consumer advocates were outraged by Kraninger’s proposal.

“Both borrowers and responsible lenders would suffer if the CFPB were to finalize the proposal,” said Pew’s Horowitz. The new rule would eliminate “well-balanced consumer protections and deregulate 400 percent interest loans issued to millions of struggling Americans.”

Though the industry is largely regulated by the states—only 34 even allow payday loans—a lawyer for some of the bigger lenders warned that the Obama rule would wipe out a significant portion of the payday industry. Alan Kaplinsky, a partner at the law firm Ballard Spahr, said the requirement that lenders make sure borrowers can repay “would have made it easier for offshore payday lenders to do business and charge consumers a lot more.”

But even with the CFPB proposal and a friendly U.S. administration, some online lenders are moving away from payday loans. Many have pivoted toward installment loans, which are paid back over time rather than in a single payment.

Additionally, these lenders also offer what they call “lines of credit,” which operate in a fashion similar to credit cards.

Still, even installment loans can come with eye-popping interest rates. One example on Enova’s website shows a $1,000 loan with 13 payments at a 172.98 percent annual percentage rate (APR). In the end, this would require a total of $2,225.18 to pay off. Enova declined to comment.

What It Costs

The chart below represents illustrative examples of the **$1,000 loan**. Rates and terms vary based on loan amount. Please see your loan agreement for the annual percentage rate (APR) and other terms applicable to your loan. If you have any questions or would like more information, please ask. Make certain the questions that you ask are answered. Make certain you understand the terms and costs of your loan.

If you repaid **once a month**, you would make 12 payments of $171.19 and one (1) final payment of $170.90:

APR	Finance Charge	Amount Financed	Total of Payments
172.98%	$1,225.18	$1,000	$2,225.18

Source: Enova

The industry argues that high interest rates are needed to counter the risk associated with giving money to consumers more likely to default. In a securities filing last year, Chicago-based Enova spelled out just how risky its business can be.

For the third quarter of 2018, the company projected that close to 33 percent of its “short-term loans” balance outstanding would never be repaid. The expected loss dropped to about 19 percent and 13 percent for line-of-credit and installment loans, respectively. For context, banks only saw a 3.5 percent loss on credit card loans over the same quarter, according to the Federal Reserve Bank of St. Louis.

While such exorbitant rates might be justifiable to lenders, Horowitz said the cost to borrowers could be grave.

“Right now, 80 percent of payday loans are taken out within two weeks of a previous payday loan because the loans on average take up one-third of the borrower’s next paycheck,” he said, a burden that can grow with each new loan.

"The average payday loan customer pays $520 a year in fees to repeatedly borrow $325 in credit."

"Banks can be profitable at a price point six to eight times lower than average payday loan pricing."

While in the short-run these lenders might have the upper hand, the days of super high-interest loans may be numbered. The payday loan industry sprang up because traditional banks were reluctant to serve the low credit score universe. This was in part because regulators didn't give them clear guidelines. But that may be changing.

In 2017, another CFPB rule opened the door for banks and credit unions to offer small installment loans at reasonable prices. Last May, the OCC followed up with guidance for short-term, small-dollar installment lending. Then in November, the Federal Deposit Insurance Corp. issued a request for public comment on small-dollar credit products.

Horowitz sees this evolution as a great benefit to Americans who use payday products.

"Banks can be profitable at a price-point six to eight times lower than average payday loan pricing," he said. For example, a payday borrower accumulates $350 in fees on a $400 loan in just over three months. At USBank, under its new "Simple Loan" product launched in September, a similar loan offered to a similar customer goes for just $48.

"It's a really good thing that some of the banks are getting into small-dollar lending," said Kaplinsky, the industry lawyer. "That will create more competition and ultimately help interest rates come down for consumers."

— With assistance by Kristina D'Alessio, Kyle Ashworth, and Colleen McElroy