Penny Explains | Key Stage 4 · Years 10 and 11 | Debt and getting debt-free | About 45 minutes



Dealing with debt

Debt can happen to anyone. There is always a next step, and free help.

Name _____ Class _____ Date _____ Score: / 51

I can...

- [ ] I can spot the warning signs that debt is becoming a problem.
- [ ] I can sort priority debts from non-priority debts and explain the difference.
- [ ] I can describe the snowball and avalanche methods and name sources of free debt advice.

Key words

Creditor: the person or company you owe money to.

Priority debt: a debt with serious results if unpaid, such as losing your home or energy supply.

Non-priority debt: a debt that still has to be dealt with, but with less severe results.

Breathing Space: a 60-day legal pause on interest, charges and creditor contact, arranged by a debt adviser.

1 When debt becomes a worry

6 points

Use the words in the box to finish the sentences. Use each word once.

minimum | winnings | landlord | essentials | owe | adviser | repayments | letters

Debt is money you _____. Lots of people borrow, and most debt is manageable. It becomes a problem when you cannot keep up with the _____. Warning signs include using credit to pay for _____ such as food, only ever paying the _____, and being afraid to open _____. A good first step is to talk to a free debt _____. The sooner you ask, the more options there are.

2 Breathing Space

3 points

Circle one letter for each question.

a) How long does a standard Breathing Space last?

(A) 7 days (B) 30 days (C) 60 days (D) 1 year

b) During a Breathing Space, what must creditors stop doing?

(A) Adding interest and chasing you (B) Sending a yearly statement

(C) Accepting payments you offer (D) Lending to anyone else

c) Does a Breathing Space cancel the debt?

- (A) Yes, all of it
- (B) Only the priority debts
- (C) Yes, half of it
- (D) No. It buys time to make a plan

3 Sam makes a plan

6 points

Sam, 23, has had hours cut at work and is behind with several payments. Number the steps from 1 to 6 to show a sensible order.

- [ ] With the adviser, pick out any priority debts and choose a repayment plan.
- [ ] Take the list and the budget to a free debt adviser.
- [ ] Keep to the plan, and review it whenever income changes.
- [ ] With the list written, work out a budget: money in, essentials out.
- [ ] Send each creditor the repayment offer from the agreed plan.
- [ ] Open every letter and make a list of each debt.

4 Priority or non-priority?

10 points

Write each one in the right box.



Penny says: "Priority" is not about the size of the debt or its interest rate. It is about what could happen if it is not paid: losing your home, your energy supply, or going to court.

Unpaid rent · Personal loan · Credit card · Council tax · Gas and electricity bills · Court fines · Money owed to a friend · Store card · Missed mortgage payments · Overdraft

Priority debts	Non-priority debts

5 Odd one out

4 points

Circle the odd one out in each row. Say why.

StepChange · National Debtline · A payday lender · Citizens Advice

Why? _____

Missing payments	Borrowing to repay debts	Hiding unopened letters	Writing a budget

Why? _____

6 Snowball or avalanche?

16 points

Sam's list shows four debts. After essentials, Sam can put **£208 a month** towards them. Two well-known methods both say: pay the **minimum on everything**, then put all the spare money on **one** debt at a time. **Snowball:** smallest balance first. **Avalanche:** highest interest rate first. Number the debts 1 to 4 for each method, and fill in the totals.

Debt	Balance	APR	Minimum a month	Snowball order	Avalanche order
Store card	£270	30%	£10	_____	_____
Credit card	£1,100	24%	£28	_____	_____
Personal loan	£2,400	9%	£75	_____	_____
Catalogue account	£520	35%	£15	_____	_____
Total	_____		_____		

a) After paying all the minimums, how much of Sam's £208 is left for the target debt? 1 mark

b) With the snowball method, the store card gets its £10 minimum plus that spare money. How many months until it is cleared? (Ignore interest.) 2 marks

c) The £90 then "rolls on" to the next snowball debt, on top of its own minimum. How much a month does that debt now get? 1 mark

d) Which method usually costs less interest? Which gives the quickest first win? 2 marks

7 What would you do?

6 points

Read the story, then answer the questions.



Your friend Ali, 19, has gone quiet lately. Eventually he tells you he owes **£900** across a store card and a credit card, has missed two payments and has stopped opening his letters. He says: **"I'm so embarrassed. I might get a £300 payday loan to cover this month. Please don't tell anyone."**

a) **A payday loan of £300 for 30 days at 0.8% a day (the legal maximum) charges simple interest. How much interest is that?** 2 marks

b) **What would you say to Ali so that he does not feel ashamed, and what would you suggest he does next? Name at least one place that gives free help.** 4 marks

8 Before you go

One thing I learned today

One place that gives free debt advice

How sure do I feel?

Not yet | Getting there | Got it

Take it home

Find the websites of **StepChange**, **National Debtline**, **Citizens Advice** and **MoneyHelper**. Which would you find easiest to use: phone, webchat or an online tool? You never know who it might help one day.

© Penny Explains · pennyexplains.com · Free to print and copy for teaching.

Debts and rates are made-up examples. Education, not financial advice.