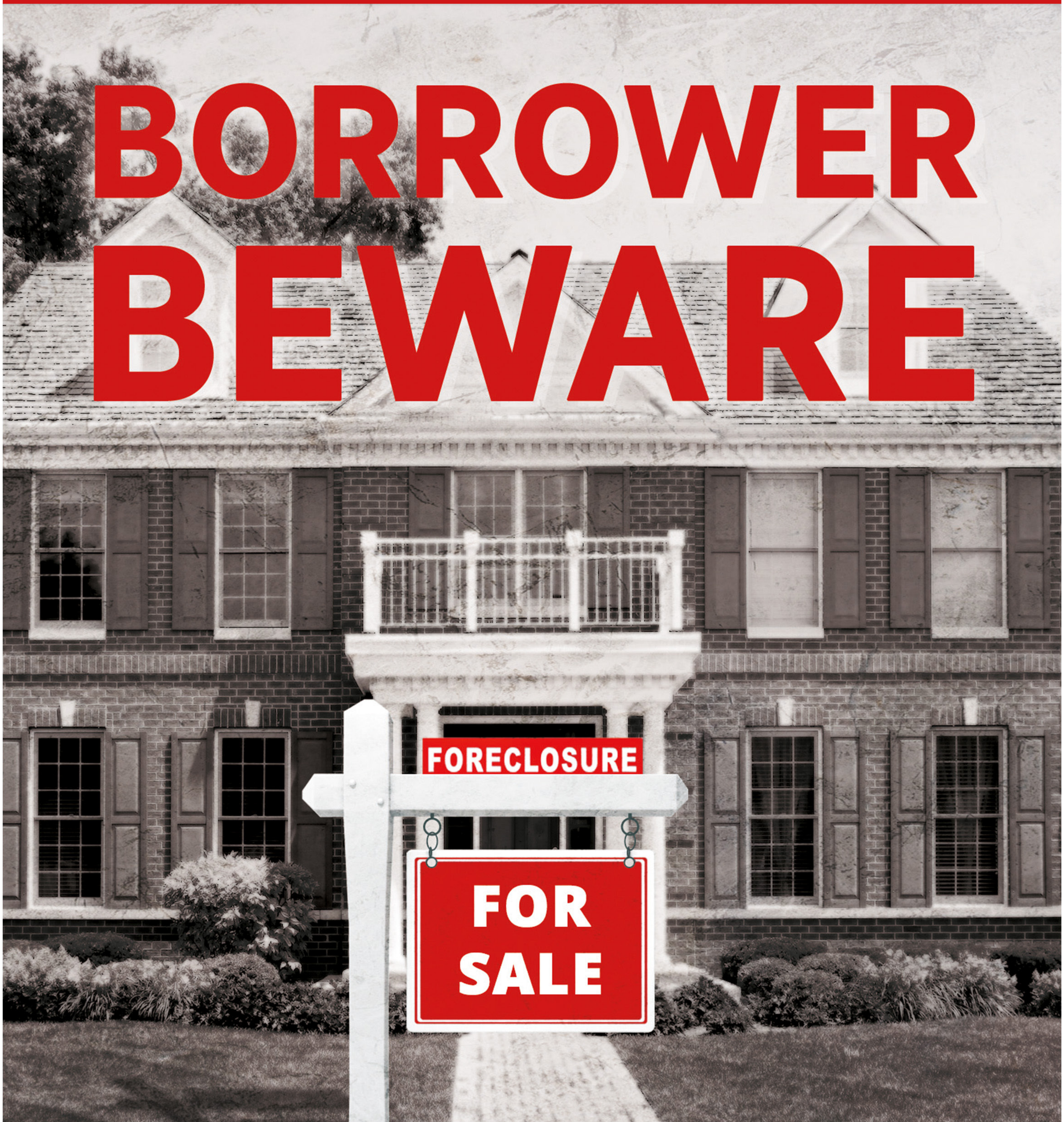
TEACHER'S GUIDE

BORROWER BEWARE



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Video Page

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Borrower Beware

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Suggested Lesson Plan

These materials may be used in a variety of ways. For maximum benefit, we suggest the following lesson plan:

- As a class, discuss the Preview Questions & Key Terms OR assign one of the Preview Questions as an opening journal activity, then discuss.
- Distribute copies of the Viewing Guide for students to use as a note-taking tool during the video.
- Play the video, pausing if needed to facilitate understanding and note-taking.
- Review and discuss answers to the Viewing Guide using Answer Key as a guide.
- Use Discussion Questions to spark class discussion or assign these questions as homework.
- As a class or in small groups, complete the *Who Chooses* Activity
- Replay the video as preparation for the Quiz.
- Administer and grade the Quiz using Answer Key as a guide.
- Optional: Assign one or more Enrichment Activities as homework.

If you got this guide from a DVD, please **check this video's product page** on izzit.org. There could be an updated Teacher's Guide with additional/revised material.

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Preview Questions

1. There is an old saying, “The road to hell is paved with good intentions.” What does that mean?

2. What’s more important? Intentions or results? Why?

3. Have you ever been in a class where the whole group was punished because of the actions of a few? How did it make you feel?

4. What do you think caused the financial crisis of 2007-2008?

5. Do you think we often learn from our mistakes? Is it important that we do? Explain.

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Key Terms & Definitions

Asset: An advantage or resource, often in the form of property

Bubble: An economic bubble or asset bubble (sometimes also referred to as a speculative bubble, a market bubble, a price bubble, a financial bubble, a speculative mania, or a balloon) is a situation in which asset prices appear to be based on implausible or inconsistent views about the future. It could also be described as trade in an asset at a price or price range that strongly exceeds the asset's intrinsic value.

Collateral: An asset used to guarantee repayment of a loan (the house or car one has a loan against, for example)

Credit rating: An estimate of the ability of a person or organization to fulfill their financial commitments, based on previous dealings

Cronyism: Giving favors or better conditions to a close friend or someone to whom you owe a favor or debt (or whom you want to owe *you* a favor or a debt.)

Default: Failure to pay a loan

Deregulation: A process of eliminating government rules and restrictions, particularly in a specific industry

Federal Reserve: The entity that owns the money/monetary system in the United States

Foreclosure: A legal proceeding that causes someone who has purchased a home with a mortgage (loan) to lose that home due to not paying the loan.

Freddie Mac and Fannie Mae: The **Federal Home Loan Mortgage Corporation** (**FHLMC**), known as **Freddie Mac**, is a public government-sponsored enterprise (GSE) created in 1970. Along with the Federal National Mortgage Association (Fannie Mae), Freddie Mac buys mortgages, pools them in large groups, and sells them as a mortgage-backed security to investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases. (Wikipedia)

Subprime loan: A loan made to someone who may have difficulty repaying it on time, often requiring higher interest rates and other less favorable terms than those offered to borrowers of good financial standing.

TARP: The Troubled Asset Relief Program (**TARP**) is a United States government program to purchase toxic (poorly performing) assets and equity from financial institutions to strengthen its financial sector. It was passed by Congress and signed into law by President George W. Bush on October 3, 2008. (Wikipedia)The goal of **TARP** was to mend the financial situation of banks, strengthen overall market stability, improve the prospects of the U.S. auto industry and support foreclosure prevention programs. **TARP** funds were used to purchase equity of failing businesses and financial institutions. (www.history.com)

Name:_________________________ Date: _______________________

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Viewing Guide

1. What does Mr. Allison say are two roles of banks? To help people ______________ _____________ and to help them ______________________ _________________.

2. Mr. Allison says that banks are in the business of bringing ______________ and ___________________ together.

3. What two criteria does Mr. Allison suggest banks use? (What questions do they ask?)

1. ____

2. ____

4. President ______________ started requiring banks to offer loans to people who didn't seem able to afford them in order to help them buy houses. These were called _________________ mortgages.

5. What happened to the price of housing as more money became available for loans? ____

6. Banks tried to _________________ their risk by selling their loans to ____________ __________________.

7. Why would government agencies be able to take on more risk than banks?

____

8. Who "owns" the money in the United States? ____________________________

9. What does Mr. Allison say happened to the U.S. economy when people spent too much money on homes? It became less _______________ and less _________________.

10. What was the first financial company to get into trouble, according to Mr. Allison? ____

11. According to Mr. Allison, government fickleness, or the absence of the Rule of Law, took a _________________ and made it a ______________.

12. Why did the head of the Federal Reserve, Ben Bernanke, make all banks—even "healthy" ones that didn't need it—take out a loan? ____ _________________________

13. What two causes do many people blame for the meltdown? (Hint: Mr. Allison calls them a "myth.")

1. _______________________

2. _______________________

14. Fill in the blanks: "When government starts interfering with ________________, it often produces _______ _________ ____________."

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Viewing Guide Answer Key

1. What does Mr. Allison say are two roles of banks? To help people _save money____ and to help them __buy things they want_______.

2. Mr. Allison says that banks are in the business of bringing __savers__ and __borrowers_______ together.

3. What two criteria does Mr. Allison suggest banks use? (What questions do they ask?)

   Can you pay it (the money) back?

   Will you pay it back?

4. President Bill Clinton started requiring banks to offer loans to people who didn't seem able to afford them in order to help them buy houses. These were called subprime mortgages.

5. What happened to the price of housing as more money became available for loans? The price of houses went up sharply.

6. Banks tried to ____mitigate__ their risk by selling their loans to __government__ _agencies__ (like Freddie Mac or Fannie Mae).

7. Why would government agencies be able to take on more risk than banks? Because banks are supported by taxpayer dollars.

8. Who "owns" the money in the United States? The Federal Reserve

9. What does Mr. Allison say happened to the U.S. economy when people spent too much money on homes? It became less _efficient_ and less _productive_________.

10. What was the first financial company to get into trouble, according to Mr. Allison? Bear Stearns

11. According to Mr. Allison, government fickleness, or the absence of the Rule of Law, took a _correction__ and made it a _crisis__.

12. Why did the head of the Federal Reserve, Ben Bernanke, make all banks—even "healthy" ones that didn't need it—take out a loan? He didn't want to "mark" some banks as unhealthy; he wanted to make the action look like it was helping the whole industry, not just some banks

13. What two causes do many people blame for the meltdown? (Hint: Mr. Allison calls them a "myth.")

a. ___deregulation_______

b. ___Wall Street greed______

14. Fill in the blanks: "When government starts interfering with market processes it often produces very bad results."

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Discussion Questions

(These can be used for discussion after the film. Or use them as essay questions and have students respond in writing.)

1. Where do banks get the money they loan out to people to buy cars or homes?

2. Some people think that only spending money helps stimulate the economy. How does saving money in a bank help stimulate the economy?

3. What would happen to the economy if banks couldn't – or chose not to – loan out money?

4. Why has the U.S. economic system been so productive?

5. Why does your credit rating matter?

6. Mr. Allison tells his Wake Forest class, “If we draw the wrong conclusions, we’re going to make the same mistakes again.” What do you think he means by that? How do we evaluate situations so we don't draw the wrong conclusions?

7. Mr. Allison says that of the two criteria for giving a loan to someone, character is the most important. Why do you think he feels that way? What does “character” mean here?

8. Why would a political leader like Bill Clinton want banks to make loans to people with low credit ratings? What advantages did he see? What were the “good intentions” of the lending program?

9. What were the risks of making banks provide loans to poor people? What were some of the ultimate costs? Do you think ultimately that this was a good program or not? Why or why not?

10. Mr. Allison says that cronyism led to saving Bear Stearns but allowing the failure of Lehman Brothers, which he says was far more important than Bear Stearns. What is the effect on society if individuals in the government can pick and choose which companies to save and which companies to let fail?

11. What’s the best way to prevent the government from doing something like the TARP Act, which required businesses to borrow money they didn’t want or need?

12. Why might Ben Bernanke want to avoid “marking” some banks as bad? Was he right to make all banks borrow money, even sound ones? Why or why not? Who gained, and who paid because of that decision?

13. Mr. Allison indicates that many people believe deregulation and Wall Street greed caused the financial crisis. (He calls it a myth.) Why might many people find this myth easy to believe?

14. The video suggests that when governments get involved in market processes, even with good intentions or noble goals, very bad things can happen. Why might people in government not be as well-equipped as businessmen to determine how money should be invested or spent? (Or, ask it another way: Why might businessmen make better decisions about money than government bureaucrats?)

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Activity: Who Chooses? Who Benefits? Who Pays? What's Fair?

The four questions above can be a useful tool for evaluating any policy or system. Posing the questions is a great way to stimulate critical thinking. As a class, or in small groups, discuss the following:

(For each question, think broadly about all the possible people or groups of people who may be affected, and remember there may be non-monetary costs and benefits.)

1. Who chooses who gets loans from a bank?

2. Who benefits from loans provided by a bank? Is it just the loan holder, or does society benefit as well? If so, how?

3. Who pays for loans from a bank? What happens if a borrower doesn't pay back the loan? Who pays for it then?

4. What is fair when it comes to bank loans? Is it fair to loan money to people who are likely not able to repay it? Is it fair to loan money to people who are not likely to repay it, even if they are able to do so? Why or why not?

Another exercise in "What's Fair?"

To the teacher: A big part of this lesson involves why and how banks make loans, and what can happen when an entity like the government gets involved in lending. Use this story to make the issue more personal to your students.

Introduce the scenario below to the class. Ask if they think Kyle's business idea is good. Then ask how Danny might feel about investing his hard-earned money in Kyle's scheme. Ask about their reaction to the parents' request. Why might the parents make such a request? Do they think it's fair? Would they feel pressured to lend the money? What if the parents made more of a demand, saying that they would make Danny pay his own car insurance if he doesn't help?

Option A: Take four volunteers and have them assume the roles of Danny, Kyle (feel free to change the names to suit your class dynamics!), and their parent/s. Ask them to act out a family meeting where this discussion takes place.

Option B: Break the class into small groups of three or four. Each member of the group should take the role of one of the people in the family: Danny, Kyle, or their mother and father. (One parent for groups of three.)

Have each group write a skit that explains each group member's point of view. The time frame is flexible. You can have several groups perform a short skit in the same class; or, if you like, you can assign this for a longer-term project and have them submit a video performance.

Option C: Assign a journal entry in which each student assumes the role of Danny, who is writing in his diary about his reaction to his parents' request.

THE SITUATION:

Danny has worked hard all summer long doing yard work like mowing lawns and weeding. He is proud of the $1000 he earned and looks forward to having money for after-school outings with his friends.

Danny's older brother, Kyle, has graduated from high school but hasn't done much since. He still lives at home. Now, however, he thinks he has a great idea: He is going to produce his own seaweed-flavored candies, called Seaweed Suckers, and sell them through local stores. He believes that he can start the business with an initial investment of $1000 to buy the supplies he needs and to hire some helpers.

Danny's parents want to support Kyle, but they are short on funds themselves. They approach Danny to ask him to invest $500 in Kyle's venture, and they'll supply the other money. What should Danny do?

Name:__________________________ Date: _________________________

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Quiz

1. Which of the following was NOT part of the financial crisis of 2008?

   a. Higher unemployment
   b. Collapse in stock market prices
   c. Sharp rise in consumer prices (inflation)
   d. People lost their homes

2. According to Mr. Allison, how do banks help the economy the most?

   a. By providing jobs for people
   b. By connecting those who have money with those who want to borrow money
   c. By charging interest rates for loans
   d. By paying interest on savings deposits

3. What does Mr. Allison believe is the most important factor in deciding whether a bank should give a loan?

   a. The size of the loan
   b. The income of the borrower
   c. The purpose of the loan—what it will be used for
   d. The character of the borrower

4. What are “Freddie Mac” and “Fannie Mae?"

   a. Government-created lending institutions
   b. Private investment firms
   c. Government agencies that oversee banks
   d. Famous individuals who started banks

5. What percentage of loans did President Clinton demand to be put in “affordable housing?"

   a. 25%
   b. 50%
   c. 75%
   d. 100%

6. What did Mr. Allison use as another term for “affordable housing?"

   a. Fair housing
   b. Slums
   c. Properly-priced homes
   d. Subprime loans

7. According to Mr. Allison, what made a necessary correction into a crisis?

   a. Bad loans
   b. Over-investment in housing
   c. Arbitrary government intervention
   d. The Federal Reserve

8. What was the relationship between the housing market and the financial crisis?

   a. When people lost their jobs, they could no longer afford houses.
   b. When the government stopped subsidizing housing, prices collapsed.
   c. Too many bad loans led to a speculative bubble that ultimately led to a collapse in housing prices.
   d. The financial crisis was caused by the high price of houses.

9. Why would banks typically avoid the subprime loan business?

   a. Risky loans are less likely to be repaid.
   b. Banks don’t want to charge an unfair interest rate.
   c. Banks don’t want to deal with poor people.
   d. Banks only loan money to people the government tells them to.

10. What was the clearest purpose of the TARP program?

   a. To restore confidence in the US financial system
   b. To put homeless people into temporary shelters
   c. To restart the economy by closing bad banks
   d. To rescue failing financial institutions

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Quiz Answer Key

1. C
2. B
3. D
4. A
5. B
6. D
7. C
8. C
9. A
10. D

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Enrichment & Integration Activities

1. Mr. Allison argues that "cronyism," or the intervention of government agencies to satisfy the interests of individuals in government, was a huge part of the economic crisis of 2008. Learn more about how governments interfering with private companies can have negative effects with izzit's ***Too Big to Fail***.

2. Henry Hazlitt famously wrote in *Economics in One Lesson*, "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists of tracing the consequences of that policy not merely for one group but for all groups." Mr. Allison argued that governments can try to "solve" problems and instead can make a situation worse.

Mr. Hazlitt's book borrows from "The Broken Window Fallacy" from Frédéric Bastiat. If you can't have the students read from the original, you may use this brief video discussion of how there are "hidden" losers that result from actions:
https://www.youtube.com/watch?v=erJEaFpS9ls

In the video, the "loser" is the shop owner who had to spend money to fix his window. He could have spent that money on many other things if he hadn't been forced to spend it replacing the window.

After viewing *The Broken Window*, divide your class into small groups. For each of the potential (and sometimes historical government actions below, have students consider the effect on ALL groups. As we at izzit so often ask, **Who chooses? Who pays? Who benefits? What's fair?**

a. Pay for immediate needs by borrowing massive amounts of money from other nations
b. Pay for immediate needs by printing more money (or today, adding money to the supply electronically)
c. Instituting higher taxes on luxury goods and services that the rich mostly consume, like yachts

d. Imposing high tariffs on imported goods
e. Subsidizing green energy efforts like solar panels or wind farms
f. Requiring businesses, even small ones, to pay a high wage, like $15/hour
g. Establishing rent control, i.e., not allowing people with apartments to rent for more than a certain amount (generally below what the market is offering)
h. Preventing evictions for people who don't pay their rent (even if they still have the actual ability to do so.)
i. Paying off student loans for everyone, up to $X amount.
j. "Cash for clunkers"—paying people to sell old cars to the government so that they can be destroyed and replaced with newer, more fuel-efficient cars

Each group should identify winners and losers (the "unseen" groups, usually) for the various government policies. Then have each group add their winners and losers to a class chart (on board, or electronic). Dig deeply into what could be the "unintended consequences" of each of these scenarios. Discuss their findings.

We have many videos that address these questions in more detail. See, for example, ***Too Much Money*** for b; ***Free Trade*** for d; ***Energy Solutions: Who Chooses?*** for e; and ***Raise the Wage!*** for f.

Writing

3. Imagine you are in charge of setting up a bank's lending program. Write up a list of the criteria you will use to determine what loans to make.

4. Write a report (or create a PowerPoint or video of your own) to explain the financial crisis of 2008. Make sure to answer all the important questions: Who, what, where, when, why, and how.

Financial Literacy

5. Have your students review and practice filling out a loan or mortgage application. Just use a search engine to find one online. (Be mindful of privacy issues—don't have them actually put their SS # on the form, but discuss what a SS # is, and find out if they all have access/knowledge of where their SS card is. This is especially important for students

who may be entering the workforce even in a part-time fashion.)

6. **Mortgages/Loans – Comparing Interest Rates & Time**

What's the ultimate cost of a home (or other item) based on # of years of the loan and interest rates? It's important for students to understand how the interest rate and the number of years for a loan impact how much one ultimately pays for an item, be it a car, a house, or even something like a TV set. Look for ads from "Rent to Own" places to find out how much a television from a place like that ultimately costs, and have students run those numbers based on the interest rate and years set up in the ad. Do the same for a car. Don't forget to discuss that a person's credit rating will impact the interest rate they are offered for a loan. Play with different interest rates to see what happens. Why do people with lower credit ratings have to pay higher interest rates?

If you'd like to teach your students how to create a spreadsheet to calculate loan repayments using Google sheets, check out this How-To article: https://www.bpwebs.com/how-to-calculate-loan-repayments-with-google-sheets/

Here is a link to **download** such a calculator using **Excel**: https://izzit.org/teachertools/simple_loan_calculator.php

Here is a link to a Mortgage calculator using **Google Sheets**: https://docs.google.com/spreadsheets/d/1NhiePP4F9ZN9FDeF3mbfddEmZ5_Ivr7KyR5pbgRX0hA/edit?usp=sharing

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