NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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NZQA Assessment Support Material

Unit standard	28099				
Title	Analyse credit options and select strategies to manage personal finances				
Level	3	**Credits**	3	**Version**	2

Note

The following guidelines are supplied to enable assessors to carry out valid and consistent assessment using this internal assessment resource.

Assessors must manage authenticity for any assessment from a public source, because students may have access to the assessment schedule or student exemplar material. Use of this assessment resource without modification may mean that students' work is not authentic. The assessor will need to change figures, measurements or data sources or set a different context or topic.

While this ASM lends itself to written assessments, there are other activities and approaches that could be taken.

See Generic Resources and Guidelines at https://www.nzqa.govt.nz/providers-partners/assessment-and-moderation-of-standards/assessment-of-standards/generic-resources/.

Assessor guidelines

Assessors need to be very familiar with the outcome being assessed by the unit standard. The evidence requirements and the explanatory notes contain information, definitions and requirements that are crucial when interpreting the standard and assessing learners against it.

Over the weeks prior to this assessment, learners should have had sufficient teaching and learning opportunities to be familiar with the following:

- Types and features of credit options.
- Advantages and disadvantages of each type of credit.
- Debt management strategies for minimising debt.

AWARD OF GRADES

- For award with ***Achieved***, the learner must: analyse the features and compare the advantages and disadvantages of two credit options in relation to personal finances; describe debt management strategies, and select strategies to minimise debt for given scenarios.
- For award with ***Merit***, the learner must: analyse the features and compare the advantages and disadvantages of two credit options; describe debt management strategies, and select strategies to minimise debt for given scenarios, including an explanation of how the selected strategies can be used to minimise debt in relation to personal finances.
- For award with ***Excellence***, the learner must: analyse the features and compare the advantages and disadvantages of two credit options; describe debt management strategies, and select strategies to minimise debt for given scenarios, including an explanation of how the selected strategies can be used to minimise debt in relation to personal finances; provide justification for the selection of the debt management strategies, with supporting examples from the given scenarios, to show how they can minimise debt in relation to personal finances.

CONDITIONS OF ASSESSMENT

The assessment is an **open book** activity that will take place over a timeframe set by the assessor. Learners can use any information to help them complete the tasks. Answers must be in their own words.

The assessor will provide the learner with information regarding timeframes for this assessment.

Assessment activity

This assessment activity has **two** tasks.

Part A:
The task requires the learner to analyse the features of credit cards, along with one other type of credit, chosen from:

- *personal loan*
- *hire purchase*
- *credit contract*
- *mortgage*

Features include:

- *total cost of credit vs cash price*
- *provider of credit*
- *length of time*
- *credit contract requirements*
- *potential consequences of using credit*
- *consequences for the guarantor*

Part B:
The task requires the learner to read three scenarios and for each scenario select a different debt management strategy that can be used to minimise the debt for the person(s) in the scenario. They need to justify the selection, with supporting examples to show how the strategy can minimise the person(s) debt. Three different debt management strategies must be chosen from:

- *assessing advice and assistance*
- *communication with creditors*
- *interest rate considerations*
- *debt consolidation*
- *adjustments to lifestyle*
- *use of hardship provisions*
- *sale of non-essential items*

Resources

Resources that may help with this are:

- Sorted your independent money guide, https://www.sorted.org.nz/.
- Commission for Financial Capability, http://www.cffc.org.nz/.
- New Zealand Federation of Family Budgeting Services, www.familybudgeting.org.nz.
- Interest credit card comparison, http://www.interest.co.nz/borrowing/credit-cards.
- Bamzonia Personal Financial Education, http://www.bamzonia.co.nz.

Assessment Schedule

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Task	Evidence/Judgements for achievement	Evidence/Judgements for achievement with merit	Evidence/Judgements for achievement with excellence
Outcome 1 ER 1.1 Part A: Question 1	Learner analyses features of credit cards, along with one other type of credit. Credit options include: - personal loan - hire purchase - credit contract - mortgage Features to be compared include: - total cost of credit versus cash price; - provider of credit; - length of time; - credit contract requirements; - potential consequences of using credit - consequences for a guarantor. **See sample answers – Part A: Question 1.** **Note sample answers have been provided for one type of credit only.**	Learner analyses features of credit cards, along with one other type of credit. Credit options include: - personal loan - hire purchase - credit contract - mortgage Features to be compared include: - total cost of credit versus cash price; - provider of credit; - length of time; - credit contract requirements; - potential consequences of using credit - consequences for a guarantor. **See sample answers – Part A: Question 1.** **Note sample answers have been provided for one type of credit only.**	Learner analyses features of credit cards, along with one other type of credit. Credit options include: - personal loan - hire purchase - credit contract - mortgage Features to be compared include: - total cost of credit versus cash price; - provider of credit; - length of time; - credit contract requirements; - potential consequences of using credit - consequences for a guarantor. **See sample answers – Part A: Question 1.** **Note sample answers have been provided for one type of credit only.**

	Answers for 'credit cards' will need to be developed by the assessor.	**Answers for 'credit cards' will need to be developed by the assessor.**	**Answers for 'credit cards' will need to be developed by the assessor.**
Outcome 1 ER 1.1 Part A: Question 2	Learner analyses and compares the advantages and disadvantages of the features of the two credit options in relation to personal finances. **See sample answers – Part A: Question 2.**	Learner analyses and compares the advantages and disadvantages of the features of the two credit options in relation to personal finances. **See sample answers - Question 2.**	Learner analyses and compares the advantages and disadvantages of the features of the two credit options in relation to personal finances. **See sample answers - Question 2.**
Outcome 1 ER 1.2 Part B: Question 1	Learner describes debt management strategies in relation to personal finances and strategies selected for given situations to minimise debt. Debt management strategies may include: - accessing advice and assistance - communication with creditors - interest rate considerations - debt consolidation - adjustments to lifestyle - use of hardship provisions - sale of non-essential items. **See sample answers for one scenario – Part B: Question 1.** **Note sample answers have been provided for one scenario only. Answers for two other different debt management strategies will need to be developed by the assessor.**	Learner explains how selected debt management strategies can be used to minimise debt in relation to personal finances for the given situations. Debt management strategies may include: - accessing advice and assistance - communication with creditors - interest rate considerations - debt consolidation - adjustments to lifestyle - use of hardship provisions - sale of non-essential items. **See sample answers for one scenario – Part B: Question 1.** **Note sample answers have been provided for one scenario only. Answers for two other different debt management strategies will need to be developed by the assessor.**	Learner's description includes justification for the selection of the debt management strategies with supporting examples to show how they can minimise debt in relation to personal finances. Debt management strategies may include: - accessing advice and assistance - communication with creditors - interest rate considerations - debt consolidation - adjustments to lifestyle - use of hardship provisions - sale of non-essential items. **See sample answers for one scenario – Part B: Question 1.** **Note sample answers have been provided for one scenario only. Answers for two other different debt management strategies will need to be developed by the assessor.**

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the unit standard

Part A:

Tasks

1. Complete the following table by analysing the features of credit cards, along with **one** other type of credit, chosen from:
   - *personal loan*
   - *hire purchase*
   - *credit contract*
   - *mortgage*

Credit Option 2: Personal loan | Hire purchase | Credit contract | Mortgage (circle one)
Features:
a. Total cost of credit vs cash price:
A personal loan can incur the following costs: • Establishment fee - payment to cover the administration costs on a loan • Late payment fee – fee for any payment that is made late • Payment handling fee • Interest charges up to 20% These costs mean that the price of the purchase is more than it would have been if paying by cash.
b. Provider of credit:
Financial institutions, such as banks, building societies, credit unions, finance companies, finance brokers, payday lenders and loan shops.
c. Length of time:
6 months to many years (varies between lenders)

d. Credit contract requirements:
A personal loan contract will include details such as: • exactly what fees will be charged, and whether the contract includes early repayment fees • how much the repayments will be • how much interest will be charged, and how the interest is calculated • what will happen if the payments are not made • how the contract can be cancelled
e. Potential consequences of using this type of credit:
Negative consequences: • Fees to set up the loan • Possible increase in interest rate during the term of the loan • High interest rates, compared with other types of borrowing, such as a mortgage • Final cost is much more than the original amount borrowed • Risk of not being able to repay the loan Positive consequences: • Possibility of purchasing goods on credit without the need to save the total value or cost of the good • Clarity at the start of loan of how much needs to be repaid each month and when the loan will be fully paid
f. Consequences for a guarantor:
A personal loan guarantor "guarantees" someone else's personal loan contract and promises to pay the debt if the borrower can't or won't. If the person being guaranteed gets behind with their payments, the lender is entitled to request that the guarantor clears the outstanding debt.

2. Analyse and compare the advantages and disadvantages of the features of the two credit options used in question one in relation to personal finances.

Credit Option 1: Credit Card
a. Advantages:
• quick and easy to set up, providing you have a good credit history • a specified number of days of interest-free credit • a minimum payment option each month (if need extra time to repay) • interest is paid only on the outstanding amount due on the card • allows for cash advances

a. Disadvantages:
• a high interest rate is charged on the whole amount, if not paid off in full each month • interest rates can change • cash advances incur a fee • having credit available can cause spending beyond means. • consequences if repayments are missed
Credit Option 2: Personal loan | Hire purchase | Credit contract | Mortgage (circle one)
b. Advantages:
• quick and easy to set up, providing you have a good credit history • no collateral or security necessary • usually have a set interest rate and regular repayment amount
c. Disadvantages:
• usually have relatively high fees and interest rates that apply to the full amount borrowed • usually have no incentive for early repayment • may require the borrower to have other products the bank offers, such as transaction account, insurance • consequences if repayments are missed
Comparison of the two types of credit:
A credit card is effectively a line of credit for the consumer. It allows the cardholder to pay for goods and services based on the cardholder's promise to pay. A personal loan is a lump-sum cash disbursement which can then be used to pay for all kinds of things. Having a credit card can provide some flexibility for a budget. It gives someone the ability to pay for things without having the money, e.g. unexpected expenses, and pays it back when they do have the money, ideally within 55 days so as not to be charged interest. It is not a good idea to use it as a cash card as there are fees and interest (usually higher than a personal loan) attached. Also, if the item(s) bought or credit-card balance is of such a value that they can't be paid back within a short time frame, the interest payments can become enormous.

However, it takes a lot of self-control to make sure expenditure on a credit card is kept to budget (no impulse buying) and that it can be paid back without incurring too much cost.

A personal loan can be used to pay for larger bills quickly, e.g. car, medical emergencies and holidays. There are regular repayments that can be factored into a budget. If money is borrowed from a not so reputable lender and at higher than normal interest rate, the cost of the loan in the long term can become expensive.
While a personal loan can be used to relieve financial pressures in the short term and provides opportunity for repayment over time, the borrower needs to understand the fees/interest that are attached, and have considered whether they actually need to borrow or could they cut spending and save.

Both are reasonably easy to set up, have relatively high interest rates and fees compared to other sources of credit. However, in terms of managing personal finances, the personal loan is easier to manage as it has a set interest rate and regular repayment amounts which makes it easier to budget for and make repayments. Both have consequences if repayments are missed.

Part B:

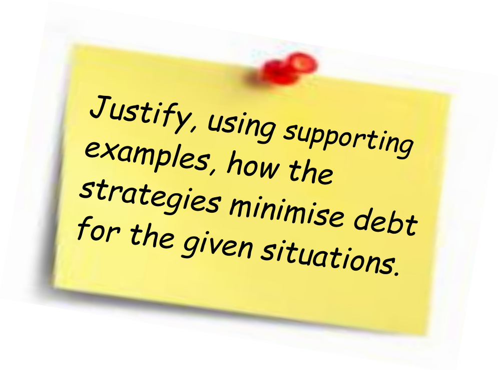
Scenarios

Read the following three (3) scenarios to use as a basis to select and describe strategies to manage debt in relation to personal finances.

1	Juliette has been collecting stamps for the past twenty years and now has some valuable stamps in her collection. Unfortunately, she has recently been made redundant from her job and is worried about how she is going to pay the day-to-day expenses for herself and her family. She also has large monthly mortgage payments that she is concerned about.
2	Chen purchased a car on credit last year and as part of her credit agreement she was also sold car insurance. However, to save money, she made the decision not to renew her car insurance when it expired last month. Last week her sister took her car, without Chen’s permission, was involved in a car accident, and damaged the car so much that it had to be written-off.
3	Anatoni and Hinewai have recently moved in together. Before they met they collected a substantial amount of debt. In order to maximise their credit limit they both fell into the trap of acquiring numerous credit cards. They agreed, before they committed to living together, that they would both look seriously at ways to reduce their debt so they could start saving for their future.

1. For each scenario select a different debt management strategy. Describe what the strategy is, and how it can be used to minimise the debt for the person(s) in the scenario. Justify the selection, with supporting examples to show how the strategy can minimise the person(s) debt. Three different debt management strategies must be chosen from:

   - *assessing advice and assistance*
   - *communication with creditors*
   - *interest rate considerations*
   - *debt consolidation*
   - *adjustments to lifestyle*
   - *use of hardship provisions*
   - *sale of non-essential items*



Scenario 3: Anatoni and Hinewai
Debt management strategy:
Anatoni and Hinewai have multiple debts. Therefore, the best debt management strategy for them would be to c**onsolid**ate their debt into one loan. This means they will only have to manage one loan. It will make budgeting easier because they will have a fixed date on which the repayment is due and will know exactly how much they owe and what their monthly repayments will be. (Sample answers related to awarding Achievement)
How it will minimise Anatoni and Hinewai's debt:
A debt consolidation loan usually has a lower interest rate than the existing debt, therefore Anatoni and Hinewai should end up paying less for the debt. Consolidating the debt allows more strict budgeting and financial management. Knowing exactly what disposable income they have, means they have the best information with which to make choices regarding spending or saving. This will help minimise debt. (Sample answers related to awarding Merit)

Justification with supporting examples:

Debt consolidation would be the most financially beneficial strategy for Anatoni and Hinewai under their present circumstance. For example, if they had the following debt:

$1500 on a credit card with an interest rate of 18.5% and were making monthly payments of $100. They would pay interest of $219 and it would take them 18 months to pay off.

Plus, if they had a personal loan of $5000, with an interest rate of 18% and monthly repayments of $220, they would pay interest of $1,159.

This would mean Anatoni and Hinewai's debt would be $6500 and interest payments would be $1,378.

If they were to consolidate the loans into a single loan, with an interest rate of 15.95%, pay a $250 establishment fee, and pay the loan off in 12 months, they would save $780. If they paid the loan off over 24 months, they would save $199.

This would also be a lot easier for Anatoni and Hinewai to manage and monitor than having numerous different types of debt with a range of credit providers.

(Additional sample answers related to awarding Excellence)