Instructor Guide

FDIC
Money Smart

FDIC Financial Education Curriculum

Borrowing Basics

Revision Date: 03–2010

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Getting Started

Use this guide to help you teach this module in an informative, engaging, and effective manner.

You can customize the information in *Money Smart* to meet the needs of your audience. The layering table on page 4 can help you choose the most relevant module sections. However, it is usually a good idea to include:

- **Introductions**. Allows you to "break the ice," create active instructor-participant dialogue, and set the tone for the session.
- **Agenda and Ground Rules**. Helps participants understand the subject matter and how the class will be conducted.
- **Expectations**. Gives participants the opportunity to tell you what they expect and want to learn from the module.
- **Objectives**. Helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Explanation of Participant's Guide Format and Contents**. Serves to keep participants on track with the instructor.
- **What Do You Know? Form and/or Pre-Test**. Helps you and participants determine what they already know or do not know so you can customize the presentation accordingly.
- **Module Content and Activities**. Helps participants to reinforce learning.
- **What Do You Know? Form and/or Post-Test**. Helps you and participants gauge how well they learned the content, what content to review, if any, and what additional materials participants may want to review on their own.

Module 2: Borrowing Basics Layering Table

Please read the Layering Table Instructions in the Guide to Presenting Money Smart for Adults.

Pages	Time (Min.)	Topic	Subtopic & Activities	Target Audiences
7-9	5	Checking In	• Introduction of instructor and the materials	• Everyone
10-11, 34	5	Pre-Test and/or What Do You Know?		• Everyone
12-14	10	Overview of Credit	• Credit defined, the importance of credit, collateral	• Anyone who has yet to apply for credit
15-17	15	Types of Loans	• Consumer installment loans, credit cards, home loans • Activity 1: Which Loan Is Best?	• Those considering the use of credit • Those with credit who want to see if they would benefit by using or switching to another form of credit
18-20	15	The Cost of Credit	• Fees, interest, Truth in Lending disclosures • Activity 2: Borrowing Money Responsibly	• Anyone who has or plans to use credit
21-23	10	The True Cost of Alternative Financial Services	• Rent-to-own, payday loan, and refund anticipation services	• Anyone who has or plans to use credit
24-25	10	When You Need Money Fast	• Short-term loans, borrowing from yourself, comparison shopping, emergency cash options from banks	• Anyone who finds themselves temporarily short on cash once or twice • Anyone trying to reduce expenses or get cash in a hurry
26-30	20	How Credit Decisions are Made	• The Four C's, questions to ask before applying for a loan, tips for managing your credit, guarding against predatory lending practices	• Anyone who has or plans to use credit
31	5	Wrap-Up		• Everyone
32-34	5	Post-Test and/or What Do You Know?		• Everyone
35-36	5	Evaluation Form		• Everyone

Icons Guide

The following icons may be used throughout the Instructor Guide to indicate activity type.

Presentation

Present information or demonstrate an idea.

Review

Refer participants to and summarize material provided in the Participant Guide.

Activity

Guide participants through an activity to support their learning.

Assessment

Direct participants to take a short test.

Discussion

Facilitate a discussion about a topic as directed.

Ask a Question

Present a problem or question for discussion.

Module Overview

Purpose

The *Borrowing Basics* module describes how credit works and helps participants determine if they are ready to apply for credit.

Objectives

After completing this module, the participants will be able to:

- Define credit and loan
- Distinguish between secured and unsecured loans
- Identify three types of loans
- Identify the costs associated with getting a loan
- Identify the factors lenders use to make loan decisions
- Explain why installment loans cost less than rent-to-own services
- Explain why it is important to be wary of rent-to-own services, payday loans, and refund anticipation loans
- Describe how to guard against predatory lending practices

Presentation Time

Each topic has an approximate completion time listed in the *Borrowing Basics* Layering Table. Use the suggested times to personalize the module based on your participants' needs and the given time period. Allow extra time for activities and questions when teaching larger groups.

Materials and Equipment

The materials and equipment needed to present all of the *FDIC Money Smart: A Financial Education Curriculum* modules are listed in the *Guide to Presenting the Money Smart Program*. Review the guide thoroughly before presenting this module.

Module Activities

- Activity 1: Which Loan Is Best?
- Activity 2: Borrowing Money Responsibly

Instructor Notes	Presentation

Checking In

5 minutes

Welcome

Welcome to the *Borrowing Basics* module! Sooner or later, almost everyone needs to borrow money. When used wisely, credit can benefit you and your family. But first, there are some things you should know about the value of credit and its costs. This course will help you decide when and how to use credit.

Agenda and Ground Rules

Slide 2

We will discuss concepts, do group and individual activities, and have time for your questions. There will be at least one 10-minute break during the class.

If you have experience or knowledge in some aspect of the material, please share your ideas with the class. One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your class contribution will enhance the learning experience. If something is not clear, please ask questions!

Introductions

Record participants' expectations, questions, and concerns on chart paper. If there is anything you will not teach, tell participants where the information can be obtained (e.g., another module, a website). Check off their responses at the end of the training to show that the lesson content met their expectations.

Before we get started, I will share a little about myself and I would like to know a little bit about you.

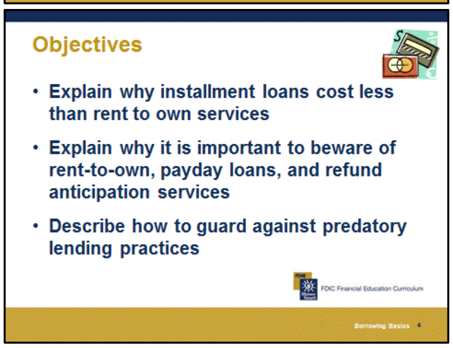
[Introduce yourself and share a little of your background and experience.]

As you introduce yourself, state:

- Your expectations
- Questions and/or concerns about the training content

Instructor Notes	Presentation

Objectives



Slides 3-4

After completing this module, you will be able to:

- Define credit and loan
- Distinguish between secured and unsecured loans
- Identify three types of loans
- Identify the costs associated with getting a loan
- Identify the factors lenders use to make loan decisions
- Explain why installment loans cost less than rent-to-own services
- Explain why it is important to be wary of rent-to-own services, payday loans, and refund anticipation loans
- Describe how to guard against predatory lending practices

Participant Materials

Review Participant Guide contents and organization with participants.

Each of you has a copy of the *Borrowing Basics* Participant Guide. It contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

What questions do you have about the module overview?

What Do You Know?

Slide 5

Before we begin, we will see what you know about credit.

[If using the What Do You Know? form]
The What Do You Know? form on page 19 of your Participant Guide lets you measure how much you know before the training and how much you learned after the training. Please take a few minutes now to complete the "Before the Training" column.

Which statements did you answer with "disagree" or "strongly disagree"?

Instructor Notes	Presentation
Use the What Do You Know? form and/or the Pre-Test to gauge participants' prior knowledge of the content and customize your presentation, focusing on content with which they are least familiar.	*[Note: If time is limited, make sure you cover these content areas.]* We will complete the second column when we finish the training. ***[If using the Pre-Test]*** Take a few minutes to complete the Pre-Test beginning on page 4 of your Participant Guide. Which questions were you unsure of or unable to answer? *[Note: If time is limited, make sure you cover these content areas.]* As we progress through the module and cover the related material, you will be able to determine whether you answered each question correctly.

Pre-Test

Test your knowledge about credit before you go through the course.

1. What is ***credit***?
    a. **Money you borrow and must pay back**
    b. Free money that you do not have to pay back
    c. Money you have saved for emergencies
    d. The balance left on a gift card after you have used it to pay for something

2. Select all that apply. Maintaining good credit is important because it:
    a. Can help you graduate from college
    b. Allows you to carry more cash than usual
    c. Allows you to buy expensive items, like a car, house, or furniture, and pay over time
    d. Might cause your interest rates to be raised

3. What is a ***loan***?
    a. A charge by a financial institution for maintaining or servicing your loan account
    b. Money you borrow but must also repay
    c. Something valuable that you own and can sell for cash
    d. The cost of borrowing money

4. Which type of loan is used to pay for personal expenses for you and your family? Select all that apply.
    a. Consumer installment loans
    b. Credit cards
    c. Home loans

5. A loan for which of the following is most likely to be unsecured? Select all that apply.
    a. Home
    b. Car
    c. Furniture
    d. Education (e.g., student loan)

6. Which of the following replaces a loan on your home in order to get a better interest rate?
    a. Home equity loan
    b. Home equity line of credit
    c. Home refinance loan
    d. Home purchase loan

7. What type of an interest rate changes periodically?
    a. Fixed rate
    b. Variable rate
    c. Waning interest
    d. Dual rate

8. What should you review and compare when shopping for a loan?
    a. Annual percentage rate (APR)
    b. Fees
    c. Truth in Lending Disclosures
    d. All of the above

9. What four factors do lenders generally use in their loan making decision?
    a. Collateral, capacity, capital, and whether you purchase their credit protection insurance
    b. Capital, character, overdraft protection, and collateral
    c. Capacity, capital, collateral, and character
    d. Character, collateral, capacity, and credit limit

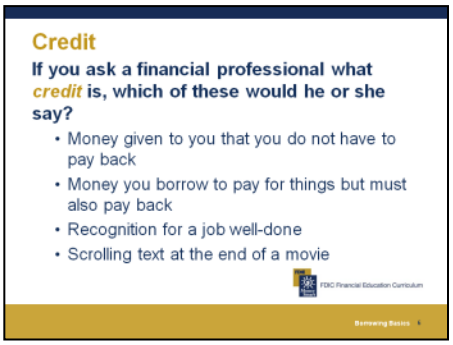
10. Getting credit is not cheap. However, which is usually the least expensive?
    a. Rent-to-own services
    b. Bank loan
    c. Payday loan
    d. Refund anticipation services

11. If someone offers you a loan, what can you do to make sure it is a good deal?
    a. Check to make sure the loan provider is reputable
    b. Shop around with several loan providers and compare all terms and conditions of an offered loan
    c. Make sure you can afford the loan payments
    d. All of the above

Instructor Notes	Presentation

10 minutes

Allow several participants to share their experiences.



Slide 6

Ask participants to select an answer. Then click the space bar, right arrow, or mouse to display the correct answer.

Slide 7

Explain what good credit means. Participants can follow along beginning on page 6 of their Participant Guide.

Overview of Credit

Credit Defined

How many of you have ever borrowed money from a bank, credit union, or thrift? What was the experience like?

If you ask a financial professional what credit is, which of these would he or she say?

1. Money given to you that you do not have to pay back
2. **Money you borrow to pay for things but must also pay back**
3. Recognition for a job well-done
4. Scrolling text at the end of a movie

Credit is the ability to borrow money. When you borrow money on credit, you get a *loan*.

You make a promise to pay back the money you borrowed plus some extra. The extra amount is part of the cost of borrowing money. This cost is also called *interest*.

If you use credit carefully, it can be useful to you. Not being careful in the way you use credit can cause problems.

The type of credit we will talk about in this course is *personal* or *consumer credit*. Credit for business or commercial purposes will not be covered in this course. Any money you borrow must fit into your budget. The *Money Matters* module will help you create and follow a budget.

You have probably heard the term "good credit." Having good credit means that you make your loan payments on time to repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future. However, if you have problems using credit responsibly, it will be harder to borrow money in the future.

Instructor Notes	Presentation

Why is Credit Important?

Slide 8

Record participants' responses on chart paper. Then click the space bar, right arrow, or mouse to reveal several reasons why credit is important.

Why do you think credit is important?

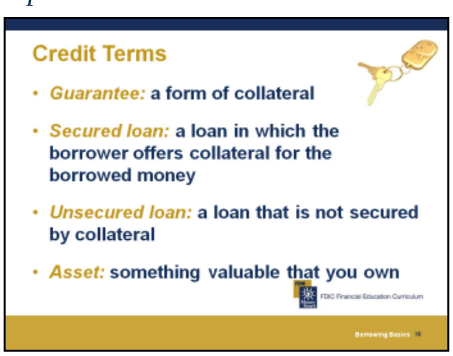
Credit is important because it:

- Can be useful in times of emergencies
- Is more convenient than carrying large amounts of cash
- Allows you to make a large purchase, such as a car or house, and pay for it over time
- Can affect your ability to obtain employment, housing, and insurance based on how you manage it

Collateral

Slide 9

Record participants' responses to the question on chart paper. Then click the space bar, right arrow, or mouse and explain what collateral is.



Slide 10

Credit is a loan often secured by *collateral* or a *guarantee*. Can anyone tell me what collateral means? Do you know what a guarantee is?

Lenders take a risk to lend you money. Therefore, they want to be sure that their money is secure.

Collateral is security you provide the lender.

- Example: You pledge an asset you own, such as your home, to the lender with the agreement that it will be used as repayment if you cannot repay the loan.

A *guarantee* is a form of collateral.

- Example: *Cosigning* is a form of guaranteeing a loan; if a person with no credit history asks another person to cosign a loan, the cosigner is equally responsible and has to pay if the borrower defaults.

In a *secured loan*, the borrower offers collateral for the loan.

- Example: Collateral is given up to the lender if the loan is not paid back. Home equity loans and home equity lines of credit are examples.

Instructor Notes	Presentation

An *unsecured loan* is not backed by collateral.

- Example: Credit cards are often unsecured loans although some are secured. Other examples include personal and student loans.

An *asset* is something valuable that you own, like a car, savings and investment accounts, and property such as your home.

Allow several participants to respond before providing the examples. Answer any other questions. Then introduce the next topic.

Can you think of other assets that could be used to secure a loan?

Some items generally cannot be used as collateral, unless they are used to secure the purchase of that item itself. These include:

- Furniture for your home
- Clothing
- Kitchenware

What questions do you have about credit?

Now that you know what credit is, let us talk about the different types of loans that you can obtain.

Instructor Notes	Presentation

Types of Loans

15 minutes

Consumer Installment Loans

Slide 11

Record participants' responses on chart paper.

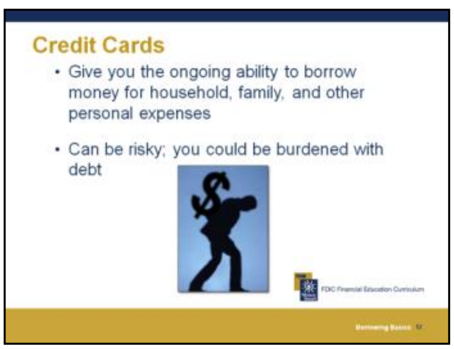
A *consumer installment loan* is used to pay for personal expenses for you and your family. Examples are:

- Auto loans, whereby the automobile you are purchasing is used as collateral for the loan
- Unsecured loans for short-term needs, such as buying a computer

What are some other reasons for obtaining a consumer installment loan?

The *Loan to Own* Money Smart module provides more detailed information on consumer installment loans.

Credit Cards



Slide 12

Credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses.

Having a credit card allows you to buy things without actually having the money right away. Remember that if you are not careful in spending, you can get into big trouble—you could be burdened with debt. You need to be sure you are able to make the minimum monthly payment on your credit card bill.

Home Loans

Slide 13

There are three main types of home loans:

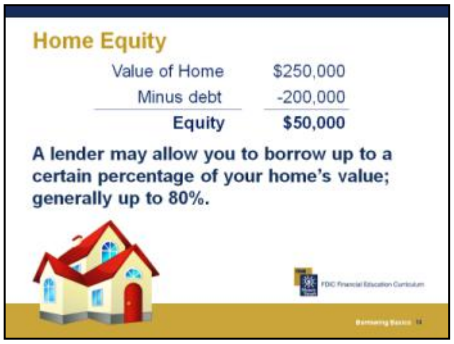
Home purchase

- A home purchase loan is made for the purpose of buying a home.
- It is secured by the home you are buying.

Home refinancing

- A home refinancing loan is a loan that replaces an existing home loan by paying it in full and replacing it with a new home loan.
- A *cash out refinance loan* allows you to borrow more money than owed on the loan to be replaced.
- Homeowners often refinance their home loans for a lower interest rate or to obtain money for home repairs or other personal needs.

Instructor Notes	Presentation



Slide 14
Explain home equity loans and display the equity equation.

Home equity

- Home equity loans allow you to borrow money that is secured by your home.
- *Equity* is the value of the home minus the debt or what you owe on the home loan:

Value of Home	$250,000
Minus debt	-200,000
Equity	**$50,000**

- If you already have a home mortgage, such as the original home purchase loan, the home equity loan would be a second mortgage also secured by your home.
- A lender may allow you to borrow up to a certain percentage of your home's value, generally up to 80 percent.
- These loans can be used for any reason.

Remember: Any type of home loan you obtain is secured by your house. If any home loan is not repaid, you could lose your house.

The *Your Own Home* module has more information about home ownership. Now let us complete an exercise based on what you have learned about the types of loans.

Activity 1: Which Loan is Best?

Slide 15
Refer participants to Activity 1: Which Loan is Best? on page 8 of their Participant Guide. Complete the activity as a class or have participants work in small groups or individually. Review the correct answers and talking points before continuing.

This exercise gives you an opportunity to practice identifying the type of loan best suited for particular items. Read the description of the purchase to be made. Fill in the blank with the most appropriate loan type for that purchase. The types of loans include: consumer installment loan, credit card, or home loan (purchase, refinance, or equity).

Which type or types of loans would be best to finance a college education?
Answer: Consumer installment or home loans. Homeowners often use home equity or home refinance loans to finance college education. People who do not own homes can get consumer installment loans. Some people use credit cards to pay for tuition, but that usually costs more than installment or home loans.

Which type or types of loans would be best to make small purchases in a department store, such as a $50 household appliance?
Answer: Credit card.

Instructor Notes	Presentation

Which type or types of loans would be best to make home improvements?
Answer: Home loans or consumer installment loans. Homeowners often use home equity loans or refinance their mortgage to pay for home improvements. But some may use consumer installment loans.

If you are not a homeowner, which type or types of loans would be best to consolidate two or more loans?
Answer: Consumer installment or home loans. Homeowners often use home equity or refinance loans to consolidate debts. People who do not own homes often use consumer loans.

You should be careful of consolidation loans and make sure you are getting a better deal than your old loans. Some dishonest lenders may trick you into signing up to consolidate bills with a loan that costs more than the old loan. This can leave you paying more in interest and loan origination fees.

Which type or types of loans would be best to buy a major appliance, such as a $500 refrigerator?
Answer: Credit card.

Answer any questions. Then introduce the next topic.

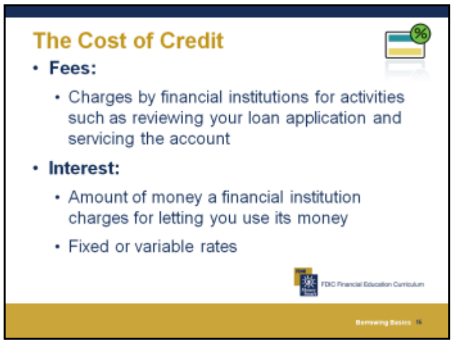
What questions do you have about the types of loans?

As with any type of business transaction, it is important to remember that credit is not free. Let us look at the cost of credit.

Instructor Notes	Presentation

The Cost of Credit

15 minutes



Slide 16

Click the space bar, right arrow, or mouse to display the fees description.

Fees

When you get a loan, there are generally two costs you must pay: fees and interest.

Fees are charged by financial institutions for activities such as reviewing your loan application and servicing the account.

A credit card company might charge you an *annual maintenance fee* of $30, a *service fee* when you get a cash advance, or a *penalty fee* for charging over your credit limit. A lender might charge a $30 *late fee* when you do not pay your bill on time.

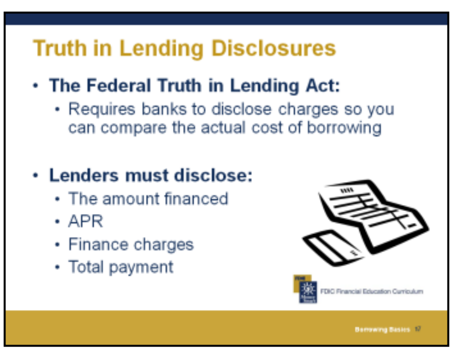
Slide 16, continued

Click the space bar, right arrow, or mouse to display the information about interest.

Interest

Interest is the amount of money a financial institution charges for allowing you to use its money. The interest rate can be either fixed or variable:

- *Fixed rates* stay the same throughout the term of the loan, except in the case of credit cards, where the rate may be changed if the bank gives you required notice.
- *Variable rates* might change during the loan term. The loan agreement will show the details of the rate changes.



Slide 17

Explain the information lenders are required by law to disclose.

Truth in Lending Disclosures

Credit terms can be confusing because of the various rates and fees lenders charge. The *Federal Truth in Lending Act* requires banks to state charges in a clear and uniform manner so you can compare the actual cost of borrowing.

For a closed-end loan (such as when you borrow a set sum of money to purchase a car), lenders are required by law to disclose:

- **The amount financed** is the amount of the loan the lender is letting you borrow. For example, $5,000 for 1 year.
- **Annual Percentage Rate (APR)** is the cost of your loan expressed as a yearly percentage rate, such as 12 percent. The APR reflects the total cost of lending rather than just the interest charge. It is the primary tool you should use to compare lending options. The law generally requires that the APR must be easily seen on credit card applications.

Instructor Notes	Presentation

- The *penalty APR* is the APR charged on new credit card transactions if you trigger the penalty terms in your credit card contract. Your credit card issuer may consider you in default if you pay late, go over your credit limit, or if your check is returned. If you become more than 60 days late, the penalty APR may be applied to your existing balance.

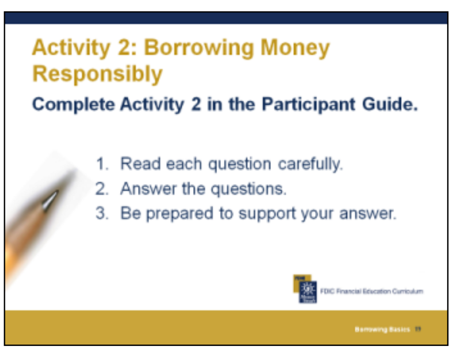
- **Finance charges** are the total dollar amount the loan will cost you. They include items such as interest, service charges, and loan fees. For example, the finance charge total is 12 percent of $5,000, or $600.00.
- **The total payment** is the amount you will have paid after making all scheduled payments. Using the $5,000 loan as an example, the total payment including the original amount borrowed, plus the interest, is $5,600.00. Here, the loan is for 1 year. But if the length of the loan is longer, the monthly payments will be lower. However, you will end up paying more interest in the end.

Answer any questions. Then introduce the next topic.

What questions do you have about the cost of credit?

Now that you understand some of the costs associated with credit, try an activity that will help you borrow money more responsibly.

Activity 2: Borrowing Money Responsibly



Slide 18

Refer participants to Activity 2: Borrowing Money Responsibly on page 10 of their Participant Guide. Have participants work individually, in small groups, or as a class to answer the questions. Provide the correct answers and additional information.

The purpose of this exercise is to give you practice making decisions on when credit is appropriate for purchasing certain items. Read each question carefully. Then answer the questions. Be prepared to support your answer.

Should you use credit to pay overdue bills?
Answer: No. It is usually not a good idea to use credit to pay overdue bills. If you are charged a fee for getting a loan, you owe the cost of the bills and the fee you were just charged. On top of that, you will have to pay interest.

If you have problems with paying bills, you may need to reduce spending or negotiate with creditors for smaller payments.
Most areas have free credit counseling services that can help you manage your credit problems.

Should you use credit to make a purchase even if you could pay cash?
Answer: It depends. If you cannot pay off the balance each month, it

Instructor Notes	Presentation
	will be more costly to place items on credit rather than pay for them with cash. Therefore, you may want to avoid using credit for purchases. However, you may want to use credit if you need to establish a record of responsible credit use.
	Should you use credit if you really wanted something but could not afford the monthly payment? **Answer: No. If you cannot afford the monthly payment, you should not buy the item. The fees and interest you incur will increase the total cost of the purchase. Additionally, if you cannot make the monthly payment, this may negatively impact your credit history and the ability to borrow money in the future.**
Answer any questions. Then introduce the next topic. Note: Now may be a good time to take a short break if you have not done so already.	What questions do you have about how to borrow money responsibly? Now let us take a look at some services you need to be careful of.

Instructor Notes	Presentation

The True Cost of Alternative Financial Services

10 Minutes

Slide 19

Explain how rent-to-own services work.

Rent-to-Own Services

Getting credit is not cheap. However, getting a bank loan is usually less expensive than the following alternatives:

Rent-to-own services let you use an item for a period of time by making monthly or weekly payments. If you want to purchase the item, your rental payments will be partly credited toward the purchase price. The store will set up a plan for you to rent the item until you pay enough to own it. If you choose not to purchase the item, you would simply be renting the item to be returned at the end of the rental period.

The store is the legal owner of the item until you make the final payment. If you miss a payment, the store can take the item back. If this happens you will not own the item, and you will not get your money back.

Rent-to-own agreements are technically not loans, so no interest is charged. However, the difference between the cash price (if you were to buy the item outright that day) and your total payment (the total of your rental payments over time) is like the interest you pay on a loan. Generally, using rent-to-own services is more expensive—sometimes much more expensive—than getting a consumer installment loan to buy the item.

Slide 20

Explain how payday loans work. Then click the space bar, right arrow, or mouse to display the example.

Payday Loans

Payday loans are short-term loans (usually up to two weeks).

- You write a post-dated check and receive cash that day. The loan service cashes the check on your payday to pay the loan in full.
- You can also go in to the loan office and pay your loan with cash, at which point the lender returns your uncashed check to you.
- You must be careful of payday loans. They are usually made to people who need money right away and plan to pay it back with their next paycheck.
- However, if unable or unwilling to repay the loan when it is due, many people pay more fees to get another payday loan.

Payday loans can be much more costly than they appear at first glance.

- If you do not have the money to pay the loan within the agreed-upon time period, the lender may renew the loan and charge you additional fees.

Instructor Notes	Presentation

- This will increase the total amount you owe.
- Let us look at an example of how payday loan services work. Assume you go to a payday lender and borrow $200:

Loan Term	Fee	You write a check for:
2 weeks	$30	$230

The APR estimate for this transaction is 391 percent! An APR for a typical payday loan may vary and may be even higher than this example. Most payday lenders:

- Allow you to roll over, or renew your loan
- Charge an additional fee for renewal; this time for $260 ($230 + $30 additional fee)
- Are usually not federally insured financial institutions or closely monitored by the Government as banks are.

You should ask your bank or credit union for other available options. If you want to learn more about how to protect yourself, take the *Money Matters*, *Keep It Safe*, and *Loan to Own* modules.

Slide 21

Explain refund anticipation services. Click the space bar, right arrow, or mouse to show the example.

Refund Anticipation Loans

Refund anticipation loans are short-term loans secured by your income tax refund. Although the business preparing your income tax return will give you the money, you are actually receiving a loan from a bank or finance company.

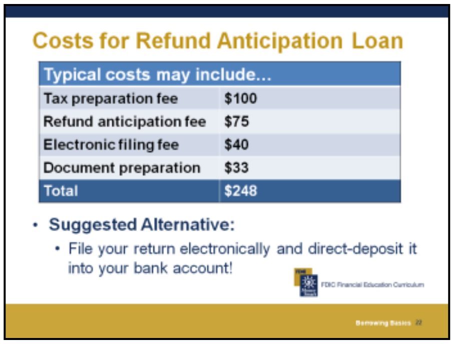
You may not realize how much this loan is really costing you because you do not have to pay any fees associated with obtaining a refund anticipation loan at the time you receive the money. For example:

- Your refund is $1,500.
- The fees associated with filing your income tax return with the tax preparation service and getting the refund anticipation loan equal $300.
- You will receive a check for $1,200.
- But you are actually paying $300 in fees to obtain your income tax refund.

It is important to remember that the paperwork you sign to receive a refund anticipation loan will legally obligate you to repay a $1,500 loan.

Instructor Notes	Presentation

So, if your actual refund is only $800, you are responsible for repaying $700, plus interest to the lender that made the refund anticipation loan. And the higher the loan amount, the higher the refund anticipation loan fee will be.



Slide 22

Costs of a Refund Anticipation Loan

Here are some typical costs associated with getting a refund anticipation loan.

Tax preparation fee	$100
Refund anticipation fee	75
Electronic filing fee	40
Document preparation	33
Total Cost	**$248**

When you electronically file (e-file) your tax return and request direct deposit, your refund is often deposited in your bank account within two weeks. Sometimes refund anticipation loans take just as long, yet cost you substantially more money.

Many organizations host Volunteer Income Tax Assistance (VITA) sites. VITA is an Internal Revenue Service (IRS)-coordinated program that provides free income tax assistance and e-filing. Income eligibility restrictions may apply. Contact the IRS for a location near you.

The *Money Matters* module has more information about free income tax preparation services.

Answer any questions. Then introduce the next topic.

What questions do you have about loan services?

Now that we know more about loans and the services to be careful of, let us look at other options for when you need emergency cash.

Instructor Notes	Presentation

When You Need Money Fast

10 Minutes

Slide 23
Have participants respond before continuing. Refer participants to When You Need Money Fast on page 12 of their Participant Guide.

Short-Term Loan

It is two weeks until payday, your credit cards are maxed out, and your car breaks down. You only need a few hundred dollars for the repair, but you need it now. Where can you get the money?

Many people in these situations have turned to alternative financial service providers, including:

- Pawn shops
- Car title lenders (for a loan secured by the borrower's car)
- Payday lenders (for unsecured loans that borrowers promise to repay out of their next paycheck or regular income payment).

While many nonbank lenders advertise quick and easy cash, their services tend to come at a steep price. Here are some tips for finding emergency cash at affordable prices.

Slide 24
Have participants respond before continuing.

Borrowing From Yourself

The best way to avoid a cash crunch is to put money into an emergency savings account that you can use to pay for unforeseen expenses.

You might even link this savings account to your checking account to protect yourself if you were to ever overdraw your checking account.

If saving money seems impossible to you, consider making small, simple changes in your habits or banking practices. Possibilities include having your paycheck directly deposited into your checking account with a portion automatically placed into an emergency savings account. Can you think of other ways you can save and build an emergency fund?

Slide 24, continued
Click the space bar, right arrow, or mouse to show the second bullet point.

Comparison Shopping

If you do need to borrow money, it pays to comparison shop. When comparison shopping for loans, look at both total dollar costs and the APR. Payday lenders, for example, typically charge about $15 for every $100 borrowed. So, on a $500 loan for two weeks, you would pay $75 in interest. That might not sound like a lot of money to pay for a small loan, but it translates to a whopping 391 percent APR!

Instructor Notes	Presentation

If you renew or roll over the $500 loan for another two weeks, you would pay an additional $75 in fees. At that rate, in just 14 weeks, you will owe more in fees ($525) than the original loan!

Emergency Cash Options From Banks

Slide 24, continued
Click the space bar, right arrow, or mouse to show the last bullet point.

If you find that you must borrow money, beware of alternative financial service providers that may promise quick cash—as we just saw, services such as payday loans or car title loans come at a steep price and can trap you in debt.

- Many banks offer reasonably priced, small loans that enable you to borrow money and repay the money (plus interest) later.
  - Talk to financial institutions in your community to see what options they may offer.
  - One example is a *line of credit*, which you can use to borrow money for a short period of time.
  - It is best to work with your bank to set up this type of account in advance, instead of waiting until you are in a rush for cash.
  - As with any other line of credit, you will be told the APR before signing a formal agreement.

Be cautious of using fee-based overdraft programs to deliberately overdraw your account if you need cash quickly. The costs can quickly add up depending on the number of transactions covered. To learn more, read the interagency brochure, "Protecting Yourself from Overdraft and Bounced-Check Fees" at www.federalreserve.gov/pubs/bounce/default.htm.

Ultimately, it is a good idea to open and build up a savings fund to cover unexpected expenses. That way, you can borrow from yourself and avoid paying interest and fees.

What questions do you have about short-term loans?

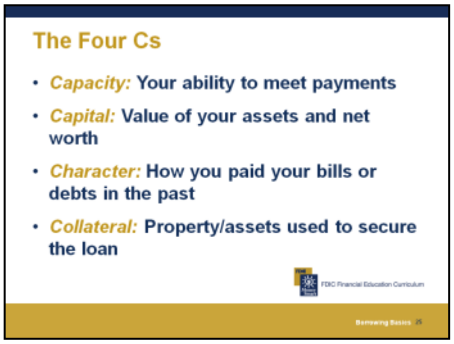
Answer any questions. Then introduce the next topic.

Now let us look at how banks decide to lend you money.

Instructor Notes	Presentation

How Credit Decisions are Made

20 minutes



Slide 25

The Four Cs

When you apply for credit, the lender will review the Four Cs to decide whether you are a good credit risk, or in other words, whether you are likely to pay back the loan.

These are the Four Cs:

- *Capacity* refers to your present and future ability to meet your payments
- *Capital* refers to the value of your assets and your net worth
- *Character* refers to how you have paid your bills or debts in the past
- *Collateral* refers to property or assets offered to secure the loan

Slide 26

Capacity

First, let us discuss capacity. The lender may consider:

- **How long have you been in your job?** Generally, a lender would like to see that you have held the same job or same type of job for at least a year.
- **How much money do you make each month?**
- **What are your monthly expenses?** A bank will compare the amount you owe and your other monthly expenses with your monthly income. This is called a *debt-to-income ratio*. It helps determine how much money you can afford to borrow. The bank wants to ensure that your expenses are not too high for you to take on the additional monthly debt of a loan payment. They want to be sure you can repay what they lend.

Slide 27

Capital

For capital, the lender may ask:

- **How much money do you have in your checking and savings accounts?** Lenders may want to know if you can manage your money well enough to take on a loan.
- **Do you own a house?** Homeownership means you have equity, or secured savings, in case you cannot pay your mortgage.
- **Do you have investments or other assets (e.g., a car)?** Lenders want to determine the value of your assets. Lenders will also compare the difference between the value of your assets and the amount of debt you have. This is called *net worth*. A positive net

Instructor Notes	Presentation

worth demonstrates your ability to manage your money.

Character

Slide 28

Regarding your character, the lender may seek answers to the following questions:

- **Have you had credit in the past?** If you have a good credit history of repaying your other loans, you will have an easier time getting your loan request approved.
- **How many credit accounts do you have?** If you have never had a credit account, you may have difficulty getting approved for a loan. Having a good credit history shows a lender you can borrow money responsibly.
    - Some lenders let you prove this without a credit history. For example, they might ask for proof that you pay your rent and utility and phone bills on time, or that you make regular deposits to a savings account.
    - Other examples of ways to show a creditor that you are a good credit risk may include:
        - Insurance premium payments
        - Payments of medical bills
        - Payments for school tuition
        - Childcare payments
        - Payments of personal loans (documented by a written loan agreement and canceled checks)

      Ask the lender to consider alternative forms of history. If a lender is not willing to do this, shop around for one who will.
- **Have you ever:**
    - Filed for bankruptcy?
    - Had any outstanding judgments?
    - Had property repossessed or foreclosed upon?
    - Made late payments?

  These situations may make it more difficult for you to get approved for a loan. However, some lenders will ask you to explain what happened. Depending on your circumstances, a lender might be willing to approve your loan request.

Situations that may prevent you from getting a loan at all, particularly if you are currently going through them, include:

- **Attachment:** A lien against personal property.

Instructor Notes	Presentation

- **Bankruptcy:** A legal declaration of insolvency. Bankruptcy will not fix credit record problems and will be part of your credit history for 10 years. You must get credit counseling before you can file for bankruptcy. The law also requires you to pay a portion of your unsecured debt if possible.
- **Foreclosure:** A legal proceeding initiated by a creditor to take possession of collateral that secured a defaulted loan.
- **Garnishment:** A process by which a lender obtains directly from a third party, such as an employer, part of an employee's salary to satisfy an unpaid debt. Part of the employee's salary is taken each pay period until the debt is fully paid. This process must be authorized by a court order.
- **Judgment:** A court order requiring a debtor to pay money to the creditor. The judgment places a security lien on the debtor's property until the judgment is satisfied (the debt is repaid).
- **Lien:** A creditor's claim against property to secure repayment of a debt.
- **Repossession:** Seizure of collateral that secured a loan in default.

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Refer participants to the Free Annual Credit Report information on page 13 of their Participant Guide.

Banks will use credit reports to obtain character information. You can obtain free annual credit reports by doing one of the following:

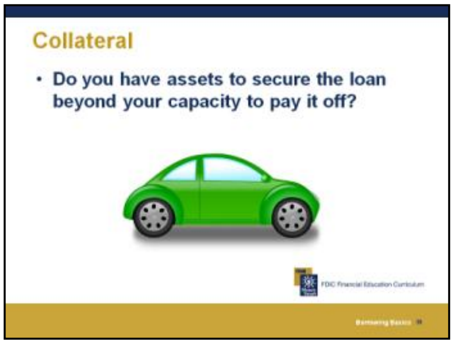
- Submit a request online at www.annualcreditreport.com
- Call toll-free: **1-877-322-8228**
- Complete the Annual Credit Report Request Form from www.annualcreditreport.com or www.ftc.gov/credit and mail it to:

Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281

More information about credit reports is covered in the *To Your Credit* module of the *Money Smart* course.

Instructor Notes	Presentation

Collateral



Slide 30

Answer any questions. Then introduce the next topic.

To determine what collateral you have, the lender may ask:

- **Do you have assets to secure the loan beyond your capacity to pay it off?** Collateral is security you provide the lender. As we have seen, giving the lender collateral means that you pledge an asset that you own, such as your home, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

A *cosigner* can help you get a loan if you are unable to obtain one yourself. This person signs the loan documents with you and is equally responsible for repaying the loan if you cannot. For example, if you do not have a credit history at all, the lender may require you to use a cosigner to get a loan.

What questions do you have about the Four Cs of Credit Decision Making?

Questions to Ask Before Applying for a Loan

Refer participants to the Questions to Ask Yourself Before Applying for a Loan on page 13 of their Participant Guide.

Here are some important questions you need to ask yourself before applying for credit:

- Do I need this?
- Do I need this now?
- Can I wait until I have cash to pay for it?
- Can I get credit?
- What is the total cost of the credit, including fees?
  - Can I afford the monthly payments?
  - What is APR?

Tips for Managing Your Credit

Refer participants to the Tips for Managing Your Credit on page 13 of their Participant Guide.

Once you have decided you want to get a loan and have been approved, you should keep these tips in mind to use the money you have borrowed wisely.

- Try to pay off your entire bill (for credit cards or other lines of credit) each month. If you cannot, paying more than the minimum balance due will reduce finance charges and total interest paid.
- Pay on time to avoid late fees and to protect your credit history. If you cannot pay on time, call your creditor immediately to explain the situation. The creditor may waive the late fees or be willing to make other payment arrangements.
- Check your monthly statements regularly to verify that they are accurate. Call your creditor right away if you suspect or identify any errors.

Instructor Notes	Presentation

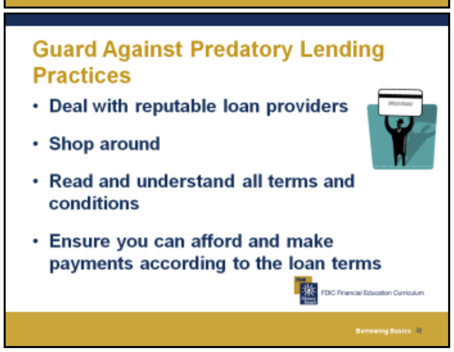
- Ignore offers creditors may send you to reduce or skip payments. You will still be charged finance charges during this period.
- Think about any cost difference if you purchase your item with cash versus if you purchase your item with credit.

Answer any questions. Then introduce the next topic.

Remember, if you purchase a $500 stereo with a credit card that has a 20 percent APR, it could cost you $653 and could take 3 years to pay off your debt if you just made the minimum monthly payment.

What questions do you have about managing your credit?

Guard Against Predatory Lending Practices



Slides 31-32
Refer participants to Guard Against Predatory Lending Practices on page 14 of their Participant Guide.

Predatory lending occurs when companies offer loan products using certain marketing tactics, abusive collection tactics, and loan terms that deceive and exploit borrowers. Predatory loans are usually more expensive than other loans or have repayment terms many people cannot meet.

The best ways to guard against being involved in a predatory loan transaction is to be a good consumer by:

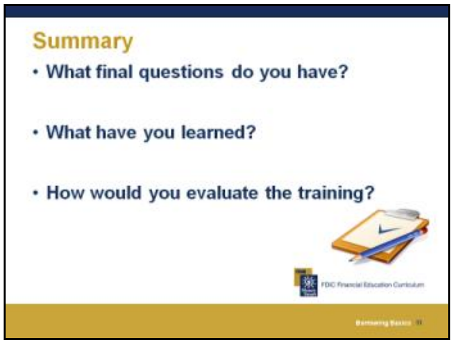
- Dealing with reputable loan providers
- Shopping around with several loan providers *of your choice* to obtain the best terms
- Reading and understanding all terms and conditions of an offered loan or asking questions until you are sure you understand
- Ensuring you can afford and make payments according to the loan terms

You can learn more about predatory lending in the *Loan to Own* module.

Instructor Notes	Presentation

Wrap-Up

15 minutes



Slide 33

Answer any final questions. Have participants complete the Post-Test and/or What Do You Know? form along with the evaluation form

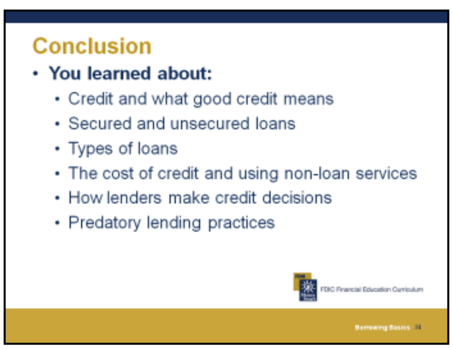
Summary and Post-Test

We have covered a lot of information today about loans and credit. What final questions do you have?

Now let us see what you have learned by completing *[a short Post-Test on page 15 of your Participant Guide and/or the "After the Training" column of the What Do You Know? form that you completed earlier]*.

Who would like to share one thing they learned from this training?

To improve the training, we need your feedback. Please complete the Evaluation Form beginning on page 20 of your Participant Guide.



Slide 34

Review what was covered in the module and ensure participants' expectations, questions, and concerns have all been covered.

Conclusion

Congratulations! You have completed the *Borrowing Basics* module. You learned about:

- Credit and what good credit means
- Secured and unsecured loans
- Types of loans
- The cost of credit and using non-loan services
- How lenders make credit decisions
- Predatory lending practices

You should now be able to decide when and how to use credit. Great job on completing the *Borrowing Basics* module! Thank you for participating.

Post-Test

Now that you have gone through the course, see what you have learned.

1. If you buy something on credit, you must pay back the amount you borrowed:
   a. All at once
   b. Plus interest
   c. According to the credit terms
   d. b and c

2. A loan is the amount of money a financial institution charges for letting you use its money.
   a. True
   b. False

3. The three main types of loans are:
   a. Consumer installment loans
   b. Credit cards
   c. Home loans
   d. All of the above

4. What is used as collateral for a home loan?
   a. The home
   b. The furniture or furnishings
   c. Personal assets (e.g., a car)
   d. All of the above

5. Which of the following is an example of a secured loan?
   a. Home loans and home equity loans
   b. Most credit cards
   c. Personal loans
   d. Student loans

6. Which type of interest rate can change during the loan term?
   a. Fixed interest rate
   b. Variable interest rate

7. Which of the following must be included in the Truth in Lending Disclosure? Select all that apply.
   a. Amount financed
   b. APR
   c. Finance charge
   d. Total payments

8. Lenders will review the Four Cs to determine whether you are a good credit risk. Which of the following refers to property or assets offered to secure the loan?
   a. Capacity
   b. Collateral
   c. Capital
   d. Character

9. What can you do to guard against predatory lending practices? Select all that apply.
   a. Deal with reputable loan providers
   b. Read and understand all terms and conditions of an offered loan
   c. Accept offered credit before you know whether you can afford it
   d. Accept the first loan offer you receive or the first one that sounds reasonable

10. You must be careful of rent-to-own services, payday loans, and refund anticipation loans because they often cost more than an installment loan.
    a. True
    b. False

11. Why is credit important?
    a. It allows you to make a large purchase, such as a car or house and pay for it over time
    b. It can be useful in times of emergencies
    c. It is more convenient and safer than carrying large amounts of cash
    d. All of the above

What Do You Know? – Borrowing Basics

Instructor: ____________________________________ Date: ____________________

This form will allow you and the instructors to see what you know about credit both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before the Training				After the Training			
I can:	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Define credit and loan	1	2	3	4	1	2	3	4
2. Distinguish between secured and unsecured loans	1	2	3	4	1	2	3	4
3. Identify three types of loans	1	2	3	4	1	2	3	4
4. Identify the costs associated with getting a loan	1	2	3	4	1	2	3	4
5. Identify the factors lenders use to make loan decisions	1	2	3	4	1	2	3	4
6. Explain why installment loans cost less than rent-to-own services	1	2	3	4	1	2	3	4
7. Explain why it is important to be wary of rent-to-own services, payday loans, and refund anticipation loans	1	2	3	4	1	2	3	4
8. Describe how to guard against predatory lending practices	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable you to assess your observations of the *Borrowing Basics* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Overall, I felt the module was: [ ] Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Poor					
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The overheads were clear.	1	2	3	4	5
5. The overheads enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The module included sufficient examples and exercises so that I will be able to apply these new skills.	1	2	3	4	5
8. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
9. The worksheets are valuable.	1	2	3	4	5
10. I will use the worksheets again.	1	2	3	4	5
11. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5
	None				Advanced
12. My knowledge/skill level of the subject matter before taking the module.	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	1	2	3	4	5
14. Name of Instructor: Instructor Rating: Please use the response scale and circle the appropriate number.	Response Scale: 5 Excellent 4 Very Good 3 Good 2 Fair 1 Poor				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5
Had technical knowledge	1	2	3	4	5

What was the most useful part of the training?

What was the least useful part of the training and how could it be improved?

Glossary

Annual Percentage Rate (APR): The cost of your loan expressed as a yearly percentage rate.

Credit: The ability to borrow money.

Collateral: The security you provide the lender.

Consumer Installment Loan: A loan used to pay for personal expenses for you and your family over a set term or period of time.

Credit Cards: Plastic cards with magnetic strips on the back. The front displays your account number, name, and bank name. With a credit card, you can buy goods or services and pay for them over time, receiving a bill each month. Credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses.

Fees: The amount charged by financial institutions for activities such as reviewing your loan application and servicing the account.

Fixed Rate: The interest rate stays the same throughout the term of the loan, except in the case of credit cards, where the rate may be changed.

Guarantee: A form of collateral. It occurs when someone you know agrees to be responsible for any money that you owe the lender but have not paid.

Home Equity Loan: A loan that allows a homeowner to borrow money that is secured by their home.

Home Purchase Loan: A loan for the purpose of buying a house. This loan is secured by the house you are buying.

Home Refinancing Loan: A process by which an existing home loan is paid off and replaced with a new loan.

Interest: The amount of money a financial institution charges for letting you use its money.

Loan: Money borrowed on credit.

Payday Loan: A short-term loan. The loan service cashes the check on your payday, at which time your loan is paid in full.

Penalty APR: The terms of your credit card agreement may provide that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time, or if you exceed your credit limit.

Predatory Lending: Use of certain marketing tactics in making loans, such as abusive collection tactics and loan terms that deceive borrowers into thinking they are receiving better loan terms than they really are.

Refund Anticipation Loans: Short-term loans secured by your income tax refund.

Rent-to-Own Service: Let you use an item for a period of time by making monthly or weekly payments. You can opt to purchase the item(s) you are renting as well, but it is usually much more expensive than purchasing the item (s) outright.

Unsecured Loan: A loan not backed by collateral. Credit cards are often unsecured loans, although some are secured by a bank account.

Variable rate: An interest rate that may change during the loan term.

For Further Information

Federal Deposit Insurance Corporation (FDIC)
www.fdic.gov/consumer
Division of Supervision & Consumer Protection
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108
1-877-ASK-FDIC (275-3342)
Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

U.S. Financial Literacy and Education Commission
www.mymoney.gov
1-888-My-Money (696-6639)
MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balance your checkbook, or invest in your 401k, the resources on MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission
www.ftc.gov/credit
1-877-FTC-HELP (382-4357)
The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.