

FDIC

Money
Smart



Borrowing Basics

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

Objectives

- **Define credit**
- **Explain why credit is important**
- **Identify three types of loans**
- **Identify the costs associated with getting a loan**
- **Tell how you are protected against discrimination in the lending process**
- **Identify the factors lenders use to make loan decisions**
- **Explain why it is important to be wary of rent-to-own and refund anticipation services**

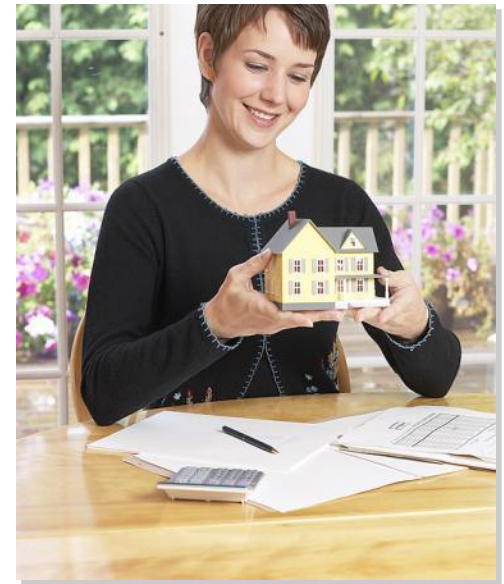


Borrowing Basics



Credit

- **What is credit?**
 - **It is the ability to borrow money**
- **Having good credit makes it easier to borrow money in the future**



Why is Credit Important?

- **Credit:**
 - Can be useful in times of emergencies
 - Is more convenient than carrying large amounts of cash
 - Allows you to make a large purchase (e.g., 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



- **Collateral is:**
 - Security you provide the lender
 - An asset (e.g., a car, home, or savings account)
- **A guarantee is:**
 - A form of collateral
 - For example: having a cosigner on a loan



Types of Loans

- **Credit cards**
 - Give you the ongoing ability to borrow money
- **Consumer installment loans**
 - Allow you to pay the same amount each month in installments for a set period of time



Activity 1: Installment Loan versus Rent-to-Own Services

Complete Activity 1 in your Participant Guide

- Break into 2 groups
- Read through your section of material
- List and describe 5 reasons to choose your payment method



Home Loans

- Home purchase loans
- Home refinance loans
- Home equity loans



Value of home	\$250,000.00
Minus debt	-\$200,000.00
<hr/>	
Equity	\$50,000.00



Activity 2: Types of Loans

Complete Activity 2 in your Participant Guide

- Read the description of the purchase to be made
- Fill in the blank with the most appropriate loan type(s) for that purchase



Cost of Credit

- **Fees**
 - Charge for activities (e.g., reviewing your loan application and servicing the account)
- **Interest**
 - Charge for using financial institutions money
 - Fixed rates
 - Variable rates



Truth in Lending Disclosures

- **The Federal Truth in Lending Act:**
 - Requires banks to disclose charges so you can compare the actual cost of borrowing
- **Lenders must disclose:**
 - The amount financed
 - Annual Percentage Rate (APR)
 - Finance charges
 - Total payment



Activity 3: Borrowing Money Responsibly

Complete Activity 3 in your Participant Guide

- Answer each question
- Be prepared to explain your answers

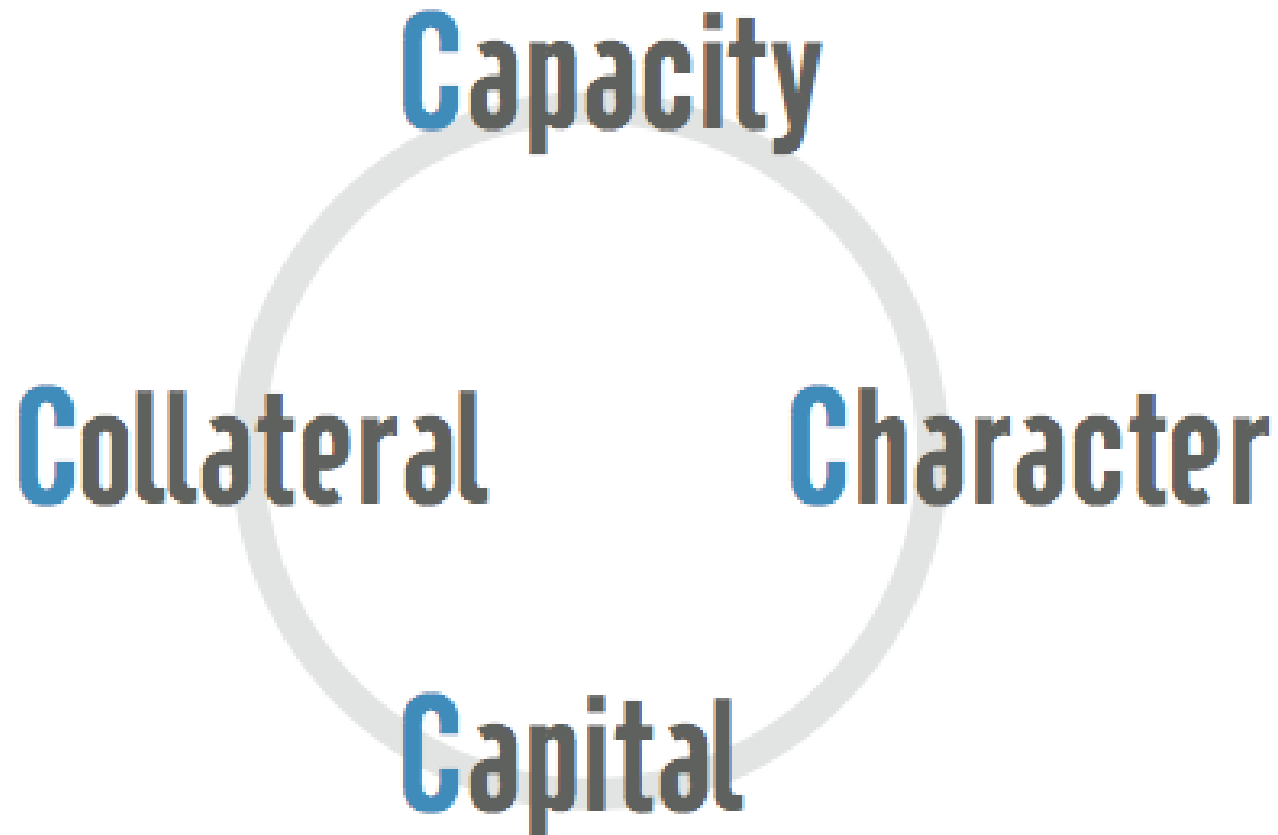


Equal Credit Opportunity Act

- **This act:**
 - **Prohibits discrimination during the loan application process**
 - **Restricts lenders from requesting certain information**
 - **Requires the lender to notify you in writing, within 30 days, if you have been approved or denied the loan**



The Four Cs



Capacity

- **Refers to your ability to meet payments:**
 - How long have you been working at your job?
 - How much money do you make each month?
 - What are your monthly expenses?



Capital

- Refers to the value of your assets and net worth:
 - How much money do you have in your checking and savings accounts?
 - Do you have investments (e.g., stocks, bonds) or other assets (e.g., a car)?



Character

- Refers to how you paid your bills or debts in the past
 - Have you had credit in the past?
 - How many credit accounts do you have?
 - Have you ever filed for bankruptcy, had property repossessed, or made late payments?



Free Annual Credit Report

Visit: www.annualcreditreport.com

Call: 1-877-322-8228

Mail:

Annual Credit Report Request Service

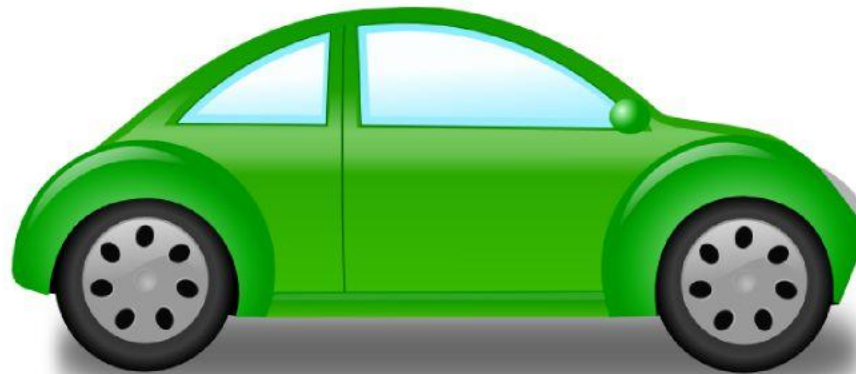
P. O. Box 105281

Atlanta, GA 30348-5281



Collateral

- **Refers to property/assets used to secure the loan**
 - **Do you have assets to secure the loan beyond your capacity to pay it off?**



Barriers to Borrowing Money

- **Making late payments**
- **Filing for bankruptcy**
- **Having property repossessed or foreclosed on because you cannot make the payments**
- **Having a court order requiring you to pay money to the lender**



Legal Terms for Debt Actions

- **Attachment**
- **Bankruptcy**
- **Collection account**
- **Foreclosure**
- **Garnishment**
- **Judgment**
- **Lien**
- **Repossession**



Activity 4: Borrowing Barriers

Complete Activity 4 in your Participant Guide

- Reach each scenario
- Indicate which of the Four Cs are affected by each of the barriers to borrowing money



Activity 5: Loan Applications

Complete Activity 5 in your Participant Guide

- Review each section of the Uniform Residential Loan Application
- Match the required information with the appropriate C:
 - Capital, Collateral, Character, and/or Capacity



Credit Report

- **A credit report tells lenders:**
 - Who you are
 - How much debt you have
 - Whether you have made payments on time
 - Whether there is negative information about you in public records



Activity 6: John Q. Consumer

Complete Activity 6 in your Participant Guide

- Review the sample credit report
- Use the report to answer the questions about John's credit history



Catch Phrases of Abusive Lenders

“125 percent of your home/car’s value”

“Incredibly low monthly payment”

“No upfront fees”

“Even if you have a bad credit history...”

“It is free and you have nothing to lose”

“Act now, this is a limited-time offer”



Predatory Lending Practices

- **To guard against predatory lending:**
 - Deal with reputable loan providers
 - Shop around to obtain the best terms
 - Read and understand all terms and conditions
 - Ensure you can afford and make payments according to the loan terms



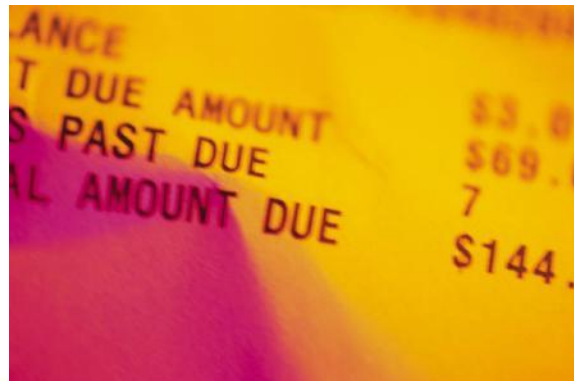
True Cost of Alternative Financial Services

- Rent-to-own services
- Payday loan services
- Refund anticipation services



Rent-to-Own Services

- **Allow you to use the item while you make monthly or weekly payments**
 - The store owns the item until you make your final payment.
- **Are generally more expensive than a consumer installment loans**



Payday Loans

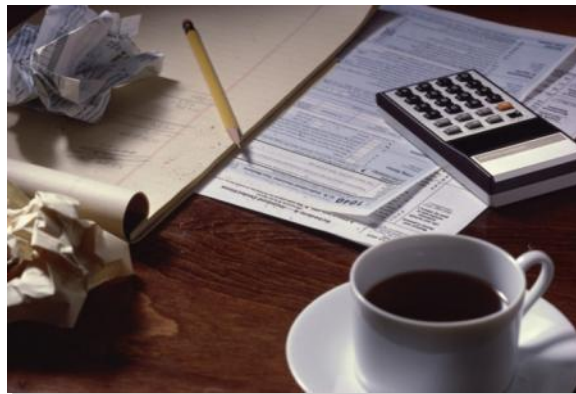
- **Short-term loans (usually up to 2 weeks) that can be costly**

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



Refund Anticipation Loans

- **Short-term loans secured by your expected income tax refund**
- **Consider electronically filing (e-file) your tax return and request direct deposit instead**



Module Summary



Module Summary



Congratulations! You learned about:

- **Credit and what “good” credit means**
- **Types of loans**
- **The cost of credit and the cost of using non-loan services**
- **How lenders make credit decisions**

