

FDIC

Money
Smart



Paying for College and Cars

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

Objectives

- Differentiate between secured and unsecured installment loans
- Identify the factors lenders use to make loan decisions
- Identify the questions to ask when purchasing a car
- Describe various types of college loan programs



Paying for College



Installment Loans

- **Money you borrow and repay:**
 - **In fixed monthly payments or installments**
 - **Over a set period of time, usually several years**



Types of Installment Loans

- **Secured loan: you offer collateral to the lender if the loan is not paid back as agreed**
 - **Collateral: an asset you own (e.g., your car) and give to the lender if you cannot repay the loan**
- **Unsecured loan: not secured by collateral**



Activity 1: Cost of Installment Loans

Complete Activity 1 in your Participant Guide

- Read the scenarios
- Identify the term being described

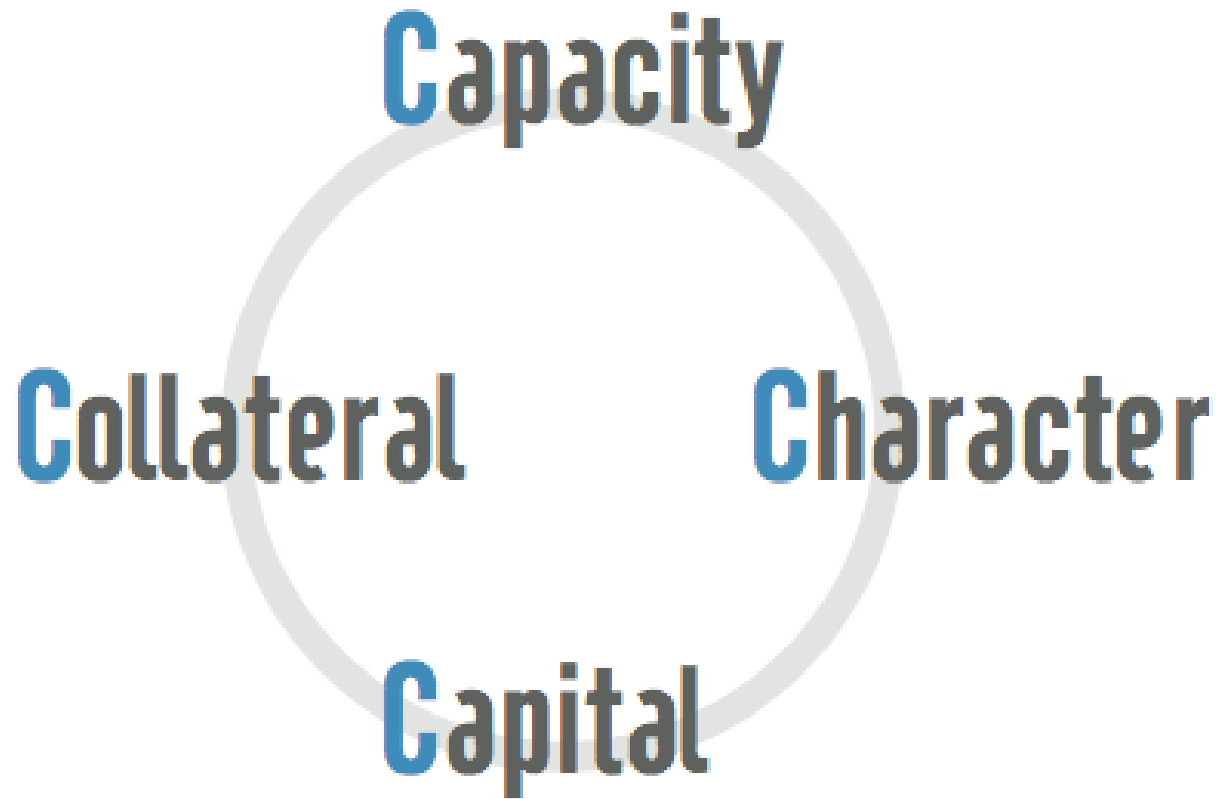


Cost Terms Related to Installment Loans

- **Annual percentage rate (APR)**
- **Fixed-rate loan**
- **Variable-rate loan**
- **Finance charge**



The Four Cs



Activity 2: Loan Approval

Complete Activity 2 in your Participant Guide

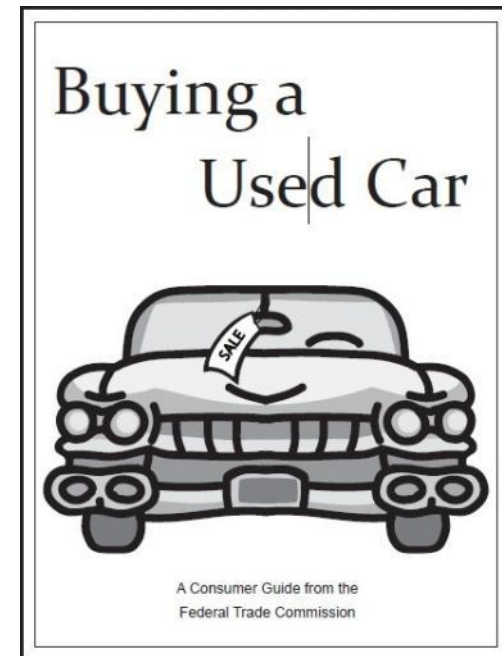
Apply for a loan and see if the loan officer will approve you:

- What is the loan for?
- How much is the loan?
- How do you qualify?



Car Loans

- **Where to get information?**
 - **Federal Trade Commission (FTC) publications**
- **You must:**
 - **Be at least 18**
 - **Have sufficient income to pay the loan**



Car Loans versus Car Leases



- **Ownership potential**
- **Wear and tear**
- **Monthly payments**
- **Mileage limitations**
- **Auto insurance**
- **Cost**



Activity 3: Car Loans versus Car Leases

Complete Activity 3 in your Participant Guide

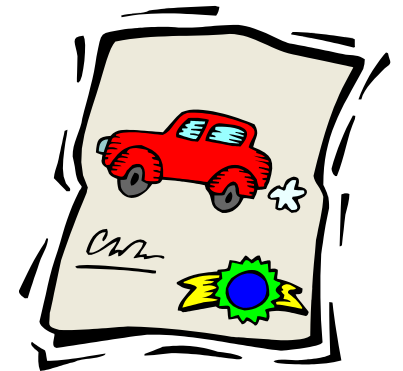
- Review difference between car loans and car leases
- Perform financing and leasing role plays
 - Car Salesman
 - Teen who wants to buy a car
 - Parent/Guardian



Financing a Car

“Getting a car loan” = “Financing a car”

- Car is collateral for the loan
- Lender holds the car title
- Amount you pay depends on the price of the car, the APR, and the length of loan



Total Cost of a Car

\$225.00 Monthly payment

x 60 Number of payments

\$13,500.00 Total of payments

\$13,500.00 Total of payments

\$2,500.00 Down payment

+ \$575.00 Tax and registration fee

\$16,575.00 Total cost of the car



Where to Obtain Car Loans

- **Banks/thrifts**
- **Credit unions**
- **Finance companies**
- **Car dealerships**



Financing Through Banks and Credit Unions

- **Start with financial institution where you already have an account**
- **Shop around**
- **Get pre-approval**
 - **Usually a free service**
 - **Not required to accept loan**



Financing Through a Car Dealer

- **To get lowest advertised rates you may have to:**
 - **Make a large down payment**
 - **Agree to a short loan term, usually 3 years or less**
 - **Have an excellent credit history**
 - **Pay a participation fee**



Activity 4: Beware of Dealer-Lender Relationships

Complete Activity 4 in your Participant Guide

- Read the scenario carefully
- Write down some things that Sam could have done differently
- Be prepared to explain your answers



Activity 5: Beware of Car Title Loans

Complete Activity 5 in your Participant Guide

- Read the scenario
- Answer the question



Financial Aid Overview

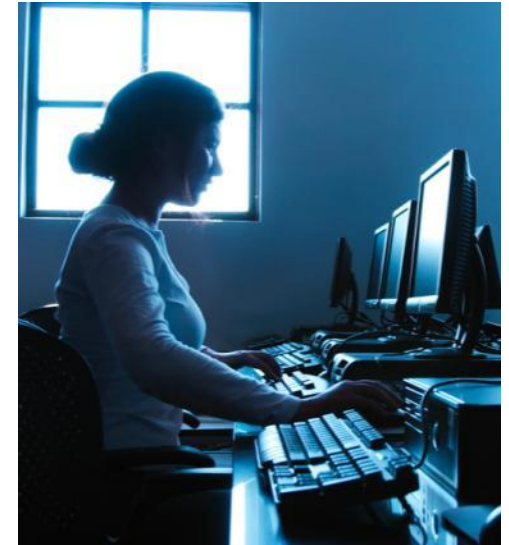
- **Federal Student Aid (FSA) programs include:**
 - Pell grants
 - Student loans
 - College work-study program
- **Complete the Free Application for Federal Student Aid (FAFSASM)**
- **FAFSA is used to calculate your Expected Family Contribution (EFC)**



Tips to Getting Aid



- **Apply early**
- **Read the instructions**
- **File electronically**
- **Complete tax returns**
- **Complete any additional forms**



Scholarships

- **Money for college that you will not be expected to repay**
- **Designated for students who fit a particular profile**
- **Avoid scholarships scams by visiting the FTC's website**



Potential Grant Programs

- **Federal Pell Grants**
- **Federal Supplemental Educational Opportunity Grant (FSEOG)**
- **Teacher Education Assistance for College and Higher Education Grant (TEACH Grant)**
- **Iraq and Afghanistan Service Grant**
- **Institutional grants**



Federal Loan Programs

- **Do your homework**
- **Ask questions**
- **Compare loans**
- **Complete the FAFSA**



Federal Loan Programs

- **Federal loans include:**
 - **Federal Perkins Loan**
 - **Direct Stafford Loans (Direct LoansSM)**
 - **Direct Subsidized Loans**
 - **Direct Unsubsidized Loans**
 - **Direct PLUS Loans**
 - **Direct Consolidation Loans**



Repaying Your Federal Loan



- **After you graduate, leave school, or drop below half-time enrollment you have a “grace period” before you must repay your loan:**
 - **Federal Perkins Loan: 9 months**
 - **Federal Direct Stafford Loan: 6 months**
 - **Direct PLUS Loan: no grace period**



Managing Your Student Loan Payments

- **Choose a repayment plan**
- **Research the pros and cons before applying for a student loan consolidation**
- **Visit the United States (U.S.) Department of Education's National Student Loan Data System (NSLDSSM) at www.nslds.ed.gov**



Nonfederal Loans

- **A private student loan is issued by a lender (e.g., a bank or credit union).**
 - They often have higher interest rates and loan fees.
 - They usually require a credit check.
 - They do not provide the benefits of federal student loans.



Activity 6: Ways to Pay for College

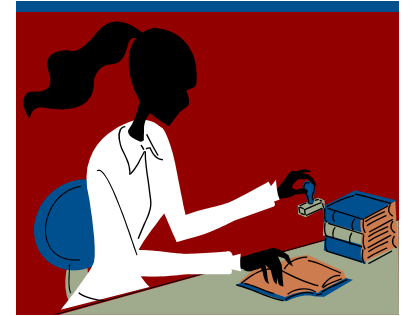
Complete Activity 6 in your Participant Guide

- Read each scenario
- Determine whether each student may be eligible for a:
 - Scholarship
 - Grant, and/or
 - Federal student loan



Federal Work-Study Program

- **Provides part-time jobs for undergraduate and graduate students who need financial assistance**
- **Jobs: usually with your school; may be with private nonprofit organization or a public agency**



College Costs

- **Tuition**
- **Books**
- **Fees**
- **Housing**



- **Use the “Cost of College Calculator”**



Module Summary



Module Summary

Congratulations! You learned about:

- **Secured and unsecured loans**
- **The Four Cs of loan decisions**
- **Car loans and auto financing**
- **Some of the ways to finance a college education**

