

FDIC



FDIC Financial Education Curriculum



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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 beginning 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 9: Loan to Own 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
7-8	5	Checking In	<ul style="list-style-type: none"> Introduction of instructor and materials 	<ul style="list-style-type: none"> Everyone
9-10, 54	5	Pre-Test and/or What Do You Know?		<ul style="list-style-type: none"> Everyone
11-15	15	Installment Loan Basics	<ul style="list-style-type: none"> Types, costs, and benefits of installment loans, consumer installment loans versus rent-to-own 	<ul style="list-style-type: none"> Those considering installment loans or rent-to-own services
16-26	20	Car Loans	<ul style="list-style-type: none"> Car loans versus leases, loan pre-approval, dealer offers, auto service contracts, used car warranty protection, alternative fueled vehicles, car title loans Activity 1: Beware of Dealer-Lender Relationships 	<ul style="list-style-type: none"> Those considering purchasing or leasing a car
27-29	10	Home Equity Loans	<ul style="list-style-type: none"> Advantages and dangers of home equity loans, home equity loan tips 	<ul style="list-style-type: none"> Anyone who owns a home and is considering a home equity product
30-33	10	Unsecured Installment Loans	<ul style="list-style-type: none"> Benefits and drawbacks of unsecured installment loans, refund anticipation loans, borrowing from yourself, emergency cash options from banks 	<ul style="list-style-type: none"> Those considering an unsecured installment loan or short-term loan
34	5	The Four Cs of Loan Decision-Making	<ul style="list-style-type: none"> Capacity, capital, character, collateral 	<ul style="list-style-type: none"> Those who intend to apply for a loan
35-42	15	Lending Laws	<ul style="list-style-type: none"> Equal Credit Opportunity Act, Truth in Lending Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, Fair Credit Billing Act, resolving complaints Activity 2: What Lending Laws Protect You? 	<ul style="list-style-type: none"> Those who intend to apply for a loan Those with established loans/credit accounts Those with accounts that have gone to a debt collection service
43-44	5	Additional Lending Laws	<ul style="list-style-type: none"> Servicemembers Civil Relief Act, Real Estate Settlement Procedures Act, Fair Housing Act, Consumer Leasing Act 	<ul style="list-style-type: none"> Servicemembers Those considering buying a home or leasing an item
45-51	15	Predatory Lending Practices	<ul style="list-style-type: none"> Subprime lending, predatory payday loans, predatory mortgage lending Activity 3: Predatory Lending Practices 	<ul style="list-style-type: none"> Everyone
52	5	Wrap-Up		<ul style="list-style-type: none"> Everyone

Please read the Layering Table Instructions in the [Guide to Presenting Money Smart for Adults](#).

Pages	Time (Min.)	Topic	Subtopic & Activities	Target Audiences
53-54	5	Post-Test and/or What Do You Know?		<ul style="list-style-type: none"> Everyone
55-56	5	Evaluation		<ul style="list-style-type: none"> 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 *Loan to Own* module teaches participants about installment loans, including car loans and home equity loans.

Objectives

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

- Identify various types of installment loans
- Explain why installment loans cost less than rent-to-own services
- Identify the questions to ask when purchasing a car
- Identify the factors lenders use to make home loan decisions
- Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation loan services
- Identify how federal laws protect them when applying for a loan
- Guard against predatory lending practices

Presentation Time

Each topic has an approximate completion time listed in the *Loan to Own* 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 a larger group.

Completing the entire presentation may take two hours or more. The class can be divided into two sessions taught on different days if this is more convenient for participants.

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: Beware of Dealer-Lender Relationships
- Activity 2: How Lending Laws Protect You
- Activity 3: Predatory Lending Practices

Instructor Notes

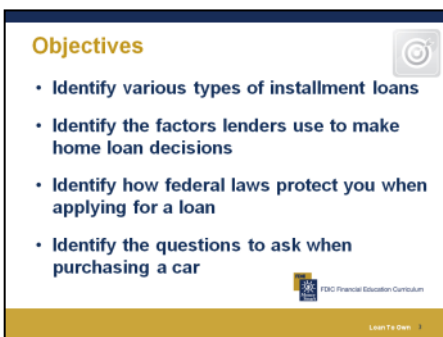
Presentation

5 minutes



Slide 2

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 the lesson content met their expectations.



Checking In

Welcome

Welcome to the *Loan to Own* module! Understanding installment loans is important when borrowing money to make purchases. This module will help you understand what installment loans are all about.

Agenda and Ground Rules

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 contribution to the class will make the learning experience that much better. If something is not clear, please ask questions!

Introductions

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

Objectives

After completing this module, you will be able to:


- Identify various types of installment loans
- Explain why installment loans cost less than rent-to-own services
- Identify the questions to ask when purchasing a car
- Identify the factors lenders use to make home loan decisions
- Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation loan services
- Identify how federal laws protect you when applying for a loan
- Guard against predatory lending practices

Instructor Notes

Presentation

Objectives

- Explain why installment loans cost less than rent-to-own services
- Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation loan services
- Guard against predatory lending practices



Loan To Own 1

Slides 3–4



Review Participant Guide contents and organization with participants.

What Do You Know?

 What do you know or want to learn about installment loans?



Loan To Own 2

Slide 5

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.

Participant Materials

Each of you has a copy of the *Loan to Own* 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?

Before we begin, we will see what you know about installment loans.

[If using the What Do You Know? form]

The *What Do You Know?* form on page 31 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”?

[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* on pages 4 and 5 of your Participant Guide.

Which questions were you unable or unsure of how 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 installment loans before you go through the course.

1. Installment loans can be either:
 - a. Credit cards
 - b. Secured by collateral
 - c. Loans from a payday lender
 - d. Unsecured by collateral
 - e. a and d
 - f. b and d**

2. Which of the following do you need to consider when deciding between obtaining a car loan or car lease?
 - a. Monthly payments
 - b. Ownership potential
 - c. Wear and tear
 - d. Auto insurance
 - e. a and c
 - f. All of the above**

3. Which four factors do lenders generally use when they decide whether to make a loan?
 - a. Collateral, capacity, capital, and whether you purchase their credit protection insurance
 - b. Capital, character, bounce protection, and collateral
 - c. Capacity, capital, collateral, and character**
 - d. Character, collateral, capacity and credit limit

4. Which of the following are true? Select all that apply.
 - a. If you miss payments on either a secured installment loan or a rent-to-own agreement, the company can repossess the item or property.**
 - b. Secured installment loans are loans in which you make weekly or monthly payments for as long as you use the item.
 - c. Installment loans are generally less expensive than rent-to-own agreements.**
 - d. With rent-to-own services, you always make equal monthly payments for a specific period.

5. When shopping for and comparing car loans, what is the main factor you should consider when looking for the best buy over the life of the loan?
 - a. Monthly payments
 - b. Annual Percentage Rate (APR)**
 - c. Finance charges or service fees
 - d. Down payment required

-
6. Which of the following may be an indication of a predatory lending practice? Select all that apply.
- a. The lender discloses the listing terms, including the finance charges and APR
 - b. The lender approves a loan based on your equity in the home rather than your income**
 - c. The lender gives you time to read disclosures and make decisions
 - d. A home improvement contractor knocks on your door to offer his services and then refers you to a lender for a home equity loan to pay for the work he wants to perform**
7. Which federal law generally gives you three days to reconsider a signed home equity loan agreement and cancel the loan without a penalty?
- a. Mortgage Servicing Act
 - b. Right to rescind or right to cancel**
 - c. Fair Credit Practices Act
 - d. Home Mortgage Loan Act
8. Which of the following should you be careful of when considering payday loan services? Select all that apply.
- a. Costly fees**
 - b. Being encouraged to borrow the maximum amount you qualify for**
 - c. Threats of criminal prosecution if you cannot repay the loan**
 - d. The limited number of loans you may have at one time

Instructor Notes

Presentation

15 minutes

What is an Installment Loan?

- A loan that is repaid in equal monthly payments/installments for a specific period of time
- What items can be purchased with an installment loan?
 - Cars
 - Furniture
 - Computers
 - Household appliances



Loan To Own 6

Slide 6

Have participants provide examples of installment loans before clicking the space bar, right arrow, or mouse to reveal the answers.

Secured Installment Loans

- Have lower interest rates than unsecured loans
- Require collateral
- Examples: Mortgages and home equity loans





Loan To Own 7

Slide 7

Participants can follow along on page 6 of their Participant Guide.

Collateral

- What does *collateral* mean?
 - It is an asset you own and pledge to the lender if you cannot repay the loan
- If you are unable to repay the loan and the collateral is insufficient to cover the balance, you are still responsible for:
 - The remaining balance
 - Any fees and interest associated with the loan



Loan To Own 8

Slide 8

Allow participants to respond before clicking the space bar, right arrow, or

Installment Loan Basics

What is an Installment Loan?

An *installment loan* is a loan that is repaid in equal monthly payments, or installments, for a specific period of time, usually several years.

Can anyone give me an example of items that can be purchased with an installment loan?

Answers:

- Cars
- Furniture
- Computers
- Household appliances

Types of Installment Loans

There are two types of installment loans:

- Secured loans
- Unsecured loans

A *secured installment loan* is one in which you offer collateral for the loan.

- The interest rates for secured loans are comparatively lower than unsecured loans.
- You must give up the collateral to the lender if the loan is not paid back as agreed.
- Mortgages and home equity loans are examples of secured installment loans.

Can anyone tell me what collateral means?

- *Collateral* is security you provide the lender.
- Giving the lender collateral means that you pledge an asset you own (e.g., your car) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.
- Generally, if you are unable to repay your loan and the collateral is insufficient to cover the remaining balance of the loan, you are still responsible for:
 - The remaining balance
 - Any fees and interest associated with the loan

Instructor Notes

mouse to display the definition of collateral.

Unsecured Installment Loan

- Not secured by collateral
- Tougher underwriting standards than secured loans
- Examples: personal loans and private student loans

Slide 9

Slides 10–14

Have participants answer each question before clicking the space bar, right arrow, or mouse to reveal the answer and progress to the next question or slide.

Cost of Installment Loans

APR Fixed-rate loan
Finance Charges Variable-rate loan

1. Dollar amount the loan will cost, including: interest, service charges, and loan fees
Answer: Finance charges
2. Loan with interest rate that might change during any period of the loan
Answer: Variable-rate loan

Cost of Installment Loans

APR Fixed-rate loan
Finance Charges Variable-rate loan

3. Cost of borrowing money on a yearly basis
Answer: APR
4. Loan with interest rate that stays the same throughout the term of the loan
Answer: Fixed-rate loan

Presentation

An *unsecured installment loan* is a loan that is not secured by collateral. Underwriting standards are tougher for unsecured loans. Examples include personal loans and private student loans.

Secured and unsecured installment loans are generally available only if you have good credit and a stable source of income.

We are going to get into more detail regarding secured and unsecured loans after we look at how much installment loans cost.

Cost of Installment Loans

There are four terms you might be familiar with when it comes to understanding the cost of installment loans. These terms are located at the top of the screen. See if you can match them with their definition.

1. The dollar amount the loan will cost, including: interest, service charges, and loan fees
Answer: Finance charge.
2. A loan that has an interest rate that might change during any period of the loan, as written in the loan agreement or contract
Answer: Variable-rate loan.
3. The cost of borrowing money on a yearly basis
Answer: APR. When shopping for the best loan rates, compare the APRs rather than the interest rates, since APRs reflect both the interest you are charged and any fees.
4. A loan that has an interest rate that stays the same throughout the term of the loan
Answer: Fixed-rate loan. Most installment loans have fixed rates.

These definitions are also on page 6 of your Participant Guide.

Now, see if you can tell me which of these terms I am describing in each scenario.

1. Stephanie took out a car loan with a 10 percent interest rate and paid \$100 in loan application fees. What lending term reflects the interest plus the application fee?
Answer: APR.

Instructor Notes

Presentation

Identify the Term

APR Fixed-rate loan
Finance Charges Variable-rate loan

- Stephanie took out a car loan with a 10% interest rate and paid \$100 in loan application fees. What lending term reflects the interest plus the application fee?
Answer: APR



Loan To Own 11

Identify the Term

APR Fixed-rate loan
Finance Charges Variable-rate loan

- Michael took out a loan to buy a computer. He must make 24 equal payments over 2 years at 10% interest. Which lending term best describes this type of loan?
Answer: Fixed-rate loan



Loan To Own 12

Identify the Term

APR Fixed-rate loan
Finance Charges Variable-rate loan

- Kevin took out a loan for a car. He must pay \$3,000 in interest, service charges, and loan fees. What lending term(s) best describe(s) these costs?
Answer: Variable rate loan, Finance charges



Loan To Own 13

Why Do Borrowers Prefer Installment Loans?

- Clear monthly payment amount and repayment period
- Lower rates than credit cards
- Lower loan balances during loan term because payment includes principal



Loan To Own 15

Slide 15



Answer any questions.

- Michael took out a loan to buy a computer. He must make 24 equal payments over two years at 10 percent interest. Which lending term best describes this type of loan?
Answer: Fixed-rate installment loan.

- Kevin took out a loan for a car. He must pay \$3,000 in interest, service charges, and loan fees. What lending term best describes these costs?
Answer: Finance charges.

Why Do Borrowers Prefer Installment Loans?

When you need to borrow money for a larger purchase, there are certain advantages of borrowing through an installment loan instead of through a credit card or rent-to-own service:

- You are aware of the monthly payment amount and the time period allowed to pay off the loan.
- Installment loans, especially when secured by collateral, generally have much lower rates so it costs you less to borrow money.
- Repaying an installment loan includes principal and interest. according to a preset payment schedule. This reduces the original loan balance during the term of the loan.

What questions do you have about installment loans?

A loan can be expensive, but it is usually cheaper than some alternatives.

Instructor Notes

Presentation

Consumer Installment Loan Versus Rent-to-Own Services

Has anyone used or does anyone know of someone who has used rent-to-own services?

Although there are many similarities between secured installment loans and rent-to-own services, there are very important differences.



Ask for a show of hands to the question.



Refer participants to Consumer Installment Loan Versus Rent-to-Own Services on page 6 of their Participant Guide. Explain the differences between consumer installment loans and rent-to-own services.

Consumer Installment Loans	Rent-to-Own Services
<ul style="list-style-type: none"> Secured installment loans are loans that are repaid in equal monthly payments for a specific period and are secured by the item you purchased. You can use the item you purchased while you are paying. 	<ul style="list-style-type: none"> Rent-to-own services allow you to use an item while you make weekly or monthly payments. When renting or leasing the item, you do not have to purchase the item, and can return it at the end of the rental period or before you make your next weekly payment. You will not receive a refund of money paid. If you decide to purchase the item, the store may give you a price to buy the item or set up a plan to apply weekly rental payments toward the purchase price. The store is the legal owner until you make the final payment. If you miss a payment, the store may repossess the property, which means they take the property back from you.
<ul style="list-style-type: none"> With installment loans, you are charged interest and you can shop for the best deal by comparing APRs. 	<ul style="list-style-type: none"> Rent-to-own agreements are technically not loans, so no interest is charged and, often, no credit check is performed. However, the fees included in your rental payment are just like the interest you would pay on a loan.
<ul style="list-style-type: none"> Generally, installment loans are less expensive than rent-to-own agreements. 	<ul style="list-style-type: none"> By making the weekly payments, you will pay much more than if you paid cash or used an installment loan.

Instructor Notes

Presentation



Refer participants to the example on page 7 of their Participant Guide.

Example:

Chris is trying to decide between getting an installment loan and using a rent-to-own service to buy a television. A local electronics store is selling the television Chris wants for \$1,500. A nearby rent-to-own store advertises the same model for \$55 every other week. After seeing the advertisement, Chris goes in to the rent-to-own store to get more details.

The manager tells Chris he would own the television after 52 payments or two years. Chris multiplies $\$55 \times 52$ weeks and gets \$2,860. Chris also finds out that if he misses one payment, the rent-to-own service will take the television back. If he makes 50 payments on time – that is $50 \times \$55 = \$2,750$ – and misses payment 51, he loses the television and is out \$2,750.

The manager told Chris that with rent-to-own, he could return the television with no obligation. Chris did another quick calculation. If he uses the rent-to-own company and returns the television after a year, he would pay \$1,430—that is $26 \text{ weeks} \times \55 —nearly the price of purchasing the television. Although \$55 every other week sounds affordable, it actually costs more in the end!

Chris decides to purchase the television at the electronics store for \$1,500.

- He obtains a two-year installment loan with a 12 percent APR.
- His monthly payments for the installment loan are \$70.61.
- Chris makes timely payments and pays off the loan in two years for a total of \$1,694.64 ($\70.61×24).
- By obtaining an installment loan, he saved over \$1,100!

Consumer Installment Loan	Rent-to-Own
<ul style="list-style-type: none"> • Advertised price = \$1,500 • 12% APR for 2 years • $\\$70.61 \times 24 \text{ months} = \\$1,695$ • Chris saved \$1,165.36 	<ul style="list-style-type: none"> • Advertised price = \$55 every other week • $\\$55 \times 52 \text{ weeks} = \\$2,860$



Answer any questions. Then introduce the next topic.

What questions do you have about the difference between consumer installment loans secured by collateral and rent-to-own services?

Now we will talk about a specific type of secured installment loan: car loans.


Instructor Notes

Presentation

20 minutes

Purchasing or Leasing a Car

- **What are some questions to ask yourself when looking for a car?**
 - Should I get a new or used car?
 - Should I lease or buy?
 - How much can I afford?
 - Should I trade in my old car?



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Loan To Own 16

Slide 16

Write participants' responses to the question on chart paper. Then click the space bar, right arrow, or mouse to reveal the answers.



Refer participants to Car Loans on page 7 of their Participant Guide.

Car Loans Versus Car Leases

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



FTC Financial Education Curriculum

Loan To Own 17

Car Loans

Where to Get Information

There are many decisions you must make before purchasing or leasing a car. Can you name some questions to ask yourself when looking for a car?

Answers:

- **Should I get a new or used car?**
- **Should I lease or buy?**
- **How much can I afford?**
- **Should I trade in my old car?**

The Federal Trade Commission (FTC) has many publications that can help you answer these questions so you can buy a car at the best price, including:

- *Buying a New Car*, which includes tips on how to choose a car, information on negotiating the price, and considerations when financing a car
- *Buying a Used Car*, which includes information explaining different payment options, dealer sales, private sales, and warranties

Other publications include:

- *Financing a Car*
- *Fueling Up*
- *Leasing a Car*
- *Renting a Car*

You can call the FTC to request a copy of its brochures or download them from the FTC's website. The FTC's phone number and website are listed on page 30 of your Participant Guide. Now we will look at the difference between car loans and car leases.

Car Loans Versus Car Leases

There are six factors that you need to consider when deciding between getting a car loan or a car lease:

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

Instructor Notes

Presentation

Slide 17

Factors	Car Loans	Car Leases
Ownership potential	<ul style="list-style-type: none"> The car belongs to you and the bank that gave you the loan until you have paid off the loan. Then, the car becomes yours. 	<ul style="list-style-type: none"> You are essentially renting the car from the dealership. The lease is like a rental agreement. You make monthly payments to the dealership for a set number of months. The car does not belong to you. When the lease ends, you have to return the car to the dealership. You may decide to purchase the car at the end of the lease. However, the total cost generally ends up being more than it would have been if you had bought the car.
Wear and tear	<ul style="list-style-type: none"> No additional costs for wear and tear are included in your loan agreement. 	<ul style="list-style-type: none"> Most leases charge you extra money for any damage found at the end of the lease that goes beyond normal wear and tear.
Monthly payments	<ul style="list-style-type: none"> Payments are higher, but you only pay them for a set term. Then, you own the car. 	<ul style="list-style-type: none"> Payments are lower because you are not purchasing the car; the dealership still owns it. As long as you lease a car, you will continue to make monthly payments.
Mileage limitations	<ul style="list-style-type: none"> There are no mileage restrictions. 	<ul style="list-style-type: none"> Leases restrict the number of miles you can drive the car each year. If you exceed the mileage allowed, you have to pay the dealer for each mile over the limit, according to your lease. For example, a dealer may charge you \$.15 for every mile that you drive over 24,000 miles in 2 years. If you drive the car an additional 3,000 miles, you would owe the dealer \$450 for those miles.
Auto insurance*	<ul style="list-style-type: none"> It is usually less expensive than auto insurance for leased cars. Insurance may cost more during the loan than it will after the loan is repaid because the lender may require more coverage. 	<ul style="list-style-type: none"> It usually costs more if you lease a car than it does if you buy. Most car leases require you to carry higher levels of coverage than purchase agreements do. Some insurance carriers may also consider leasing to be higher risk than purchasing.

Instructor Notes	Presentation
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Cost	<ul style="list-style-type: none"> Purchasing a car is usually more cost effective if you plan to keep the car long term. However, in the short term, the costs will probably be greater than a car lease because your total loan amount and monthly payments are likely to be higher. 	<ul style="list-style-type: none"> A lease will probably cost less than a car loan in the short term because your total loan amount and monthly payments are likely to be lower. However, if you exceed the mileage on a leased car and/or decide to buy it outright once your lease has expired, it will end up costing you more.
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*Make sure you find out what the requirements are and get a cost estimate from your insurance company before you decide whether to lease or buy. Remember, you will have to have insurance coverage for your new car before you can legally drive it away from the dealership.



Answer any questions. Then introduce the next topic.

What questions do you have about the differences between car loans and car leases?

Understand the differences and carefully consider all the costs and benefits before deciding whether to buy or lease. To help you understand the cost of buying a car, we will talk about getting a car loan.

Financing a Car

Getting a car loan is also referred to as financing a car.

- A car loan can be used to purchase a new or used car.
- Your car becomes the collateral for the loan, which means the lender will hold the car title (indicating who owns the car) until the loan is paid off. If you do not pay off the loan, the bank can repossess the car and sell it to get the remaining loan amount back.
- New car loans typically last three to seven years, while used car loans typically last two to five years.
- A car loan might be one of the biggest expenses you have. Therefore, if you decide to purchase a car, you should know exactly how much you are paying for the car and exactly how much you need to borrow.



Slide 18
Refer participants to *Financing a Car* on page 8 of their Participant Guide.

When considering a car loan, be sure to shop around for the best deal before you make a commitment. What is one of the main factors you should

Instructor Notes

Presentation

consider when comparing loans for the best buy?

Answer: APR.

Where to Obtain a Car Loan

You can obtain a car loan from:

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



Slide 19



Explain what it means to pre-approve a loan.

Loan Pre-Approval

Most lenders can pre-approve you for a car loan. This means the financial institution calculates how much money you can borrow to buy a car. Most financial experts would suggest borrowing less than the maximum you are pre-approved to borrow so you can save more money.

This is typically a free service and does not obligate you to accept a loan offer from the institution.

When Dealers Offer Low Interest Rates

Dealers sometimes offer low loan rates and other special promotions. However, to get the lowest advertised rate, you might have to:

- Make a large down payment
- Agree to a short loan term, usually three years or less
- Have an excellent credit history
- Pay a participation fee



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Explain what you sometimes have to do to get a low interest rate. Explain what a participation fee is.

A *participation fee* is money that some dealer finance companies might charge to get a low interest rate. For example, although a zero percent APR might be advertised, the company might charge you a participation fee of \$200 up front to get the low rate.

Ads promising high trade-in allowances and free or low-cost options may help you shop, but finding the best deal requires careful comparisons.

- Many factors determine whether a special offer provides genuine savings. The interest rate, for example, is only part of the car

Instructor Notes

Presentation

dealer's financing package.

- Terms like the amount of the down payment also affect the total financing cost.

Questions to Ask About Low Interest Loans

A call or visit to a dealer should help clarify details about low interest loans.

Consider asking these questions:

- Will you be charged a higher price for the car to qualify for the low-rate financing? Would the price be lower if you paid cash or supplied your own financing from your bank or credit union?
- Does the financing require a larger than normal down payment? Perhaps 25 percent or 30 percent?
- Are there limits on the length of the loan? Are you required to repay the loan in a condensed period of time, say 24 or 36 months?
- Is there a significant balloon payment—possibly several thousand dollars—due at the end of the loan?



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Refer participants to *Questions to Ask about Low Interest Loans* on page 9 of their Participant Guide.



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Review the questions to consider when dealers advertise special promotions.

Other Special Promotions

Other special promotions include high trade-in allowances and free or low-cost options. Some dealers promise to sell the car for a stated amount over the dealer's invoice. Asking questions like these can help you determine whether special promotions offer genuine value:

- Does the advertised trade-in allowance apply to all cars, regardless of their condition? Are there any deductions for high mileage, dents, or rust?
- Does the larger trade-in allowance make the cost of the new car higher than it would be without the trade in? You might be giving back the big trade-in allowance by paying more for the new car.
- Is the dealer who offers a high trade-in allowance and free or low-cost options giving you a better price on the car than another dealer who does not offer promotions?
- Does the dealer's invoice reflect the actual amount that the dealer pays the manufacturer? You can consult consumer or automotive publications for information about what the dealer pays.

You are not limited to the financing options offered by a particular dealer. Before you commit to a deal, check to see what type of loan you can arrange with your bank or credit union.

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Auto Service Contracts

Auto Service Contracts

- A promise to perform (or pay for) certain repairs or services
- Ask questions before buying auto service contracts.



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When buying a car you also may be encouraged to buy an auto service contract to help protect against unexpected, costly repairs.

- It may sound like a good idea, but do not buy in until you understand both the terms of the contract and who is responsible for providing the coverage.
- A *service contract* is a promise to perform (or pay for) certain repairs or services.
- Though a service contract is sometimes called an extended warranty, it is not a warranty.
- A service contract may be arranged at any time and always costs extra; a warranty comes with a new car and is included in the original price.

Used Car: Warranty Protection

Used Car: Warranty Protection

- Look for the Buyer's Guide sticker to indicate whether the vehicle is being sold:
 - With a warranty
 - With implied warranties
 - "As is"



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When shopping for a used car, look for a Buyer's Guide sticker posted on the car's side window. This sticker is required by the FTC on all used cars sold by dealers. It tells whether a service contract is available. It also indicates whether the vehicle is being sold with a warranty, with implied warranties only, or "as is."

- **Warranty.** If the manufacturer's warranty is still in effect on the used car you may have to pay a fee to obtain coverage, making it a service contract. However, if the dealer absorbs the cost of the manufacturer's fee the coverage is considered a warranty.
- **Implied Warranties Only.** There are two common types of implied warranties. Both are unspoken and unwritten and based on the principle that the seller stands behind the product.
 - Under a *warranty of merchantability*, the seller promises the product will do what it is supposed to do. If the car does not run, implied-warranties law says that the dealer must fix it (unless it was sold "as is").
 - A *warranty of fitness* for a particular purpose applies when you buy a vehicle on a dealer's advice that it is suitable for a certain use, like hauling a trailer. Used cars usually are covered by implied warranties under state law.
- **"As Is" - No Warranty.** If you buy a car "as is," you must pay for all repairs, even if the car breaks down on the way home from the dealership. However, if you buy a dealer-service contract within 90 days of buying the used car, your state's implied warranties law may give you additional rights.

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- Some states prohibit “as is” sales on most or all used cars. Other states require the use of specific words to disclaim implied warranties. In addition, some states have used car lemon laws under which a consumer can receive a refund or replacement if the vehicle is seriously defective.

To find out about your state laws, check with your local or state consumer protection office or attorney general.

Alternative Fueled Vehicles

Alternative Fueled Vehicles (AFVs) are vehicles that operate on alternative fuels (i.e., methanol, ethanol, compressed natural gas, liquefied petroleum gas, or electricity), as designated by the United States (U.S.) Department of Energy. Some AFVs, which can run on conventional fuels (e.g., gasoline and alternative fuels), are called dual-fueled vehicles.

Required labels must be in plain view on the surface of all new and used AFVs.

- The labels on new AFVs must include the vehicle’s cruising range as estimated by the manufacturer, and general descriptive information.
- It is important to know how many miles your new AFV will travel on a supply of fuel because, gallon-for-gallon, some AFVs do not travel as far as gasoline-powered vehicles.
- Be sure to find out what kind of fuel powers the vehicle and whether refueling or recharging facilities are available in your area.

Fuel and maintenance costs for AFVs can vary considerably and may differ from gasoline or diesel-fueled vehicles. Visit www.fueleconomy.gov for detailed information on gas mileage and cruising range for conventional vehicles and AFVs.

Hybrid electric vehicles are another option for car buyers, although the AFV rule’s labeling requirements do not apply to them.



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Explain what to look for when considering an alternative fueled vehicle.

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Refer participants to Activity 1: Beware of Dealer-Lender Relationships on page 10 of their Participant Guide. Complete the activity as a class or have participants work in small groups or individually. Relate participants' responses to the Auto Financing Tips in the next topic.

Activity 1: Beware of Dealer-Lender Relationships

It is important to shop around for the best financing for your car.

- Dealers will often try to make extra profit through the loan process.
- A dealer might have business relationships with many different lenders, so when you ask for dealer financing the dealer might call several lenders.
- Instead of picking the lender with the best rate for you, some dealers might pick the lender that makes the most profit for the dealership.
- For referring you and other customers, the lender might pay money to the dealership.

Read Sam's scenario and think about what he could have done differently.

Scenario:

Sam assumed the dealer would give him the best deal and did not shop around for a car loan. After all, he was able to negotiate the best price at this dealership: \$6,000 for a used pickup truck.

The dealer told Sam that if he put up \$1,000 as a down payment, he could get a car loan for 16 percent. Sam accepted the agreement without researching other possibilities.

This is what happened:

- The car dealer called several lenders in the area for Sam.
- Lender A told the dealer that Sam qualified for a \$5,000 car loan for as low as 10 percent.
- However, Lender A had an agreement with the dealer stating that for any rate over 10 percent, the lender and the dealer would split the profit. This gives the dealer an incentive to work with Lender A and to charge Sam a high interest rate.
- In this case, the dealer quoted Sam a 16 percent rate.
- The difference between a 16 percent loan and 10 percent loan is \$921. That means Sam paid \$921 more than he had to.
- The dealer and Lender A split the \$921.

What could Sam have done differently?

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Presentation



Refer participants to the Auto Financing Tips on page 11 of their Participant Guide. Compare the tips with their responses from the previous activity.

Auto Financing Tips

Consider the following auto financing tips when purchasing a car:

- Order a copy of your credit report and correct any errors several months before shopping for a car.
- Shop around for auto financing before going to the dealer. Get pre-approved for a loan by a bank or credit union.
- Compare APRs from local banks, thrifts, credit unions, websites, and newspapers.
- Make the largest down payment you can. Beware of a low down payment or long repayment plans. The more you borrow and the longer you pay on the loan, the more interest you will pay. And if you have to sell your car in the first few years, you could owe the lender more than the car is worth.
- Consider paying for the tags, title, and taxes separately, rather than financing them. This can reduce the amount of interest you pay.
- Negotiate the best price on the car if you are going to apply for a loan at the dealership. Beware of dealers who insist on asking you how much you can afford to pay every month. These dealers might be trying to make you stretch out the term of the loan to make the loan sound more affordable. However, extending the length of the loan will increase your total cost.
- Be aware of penalties. Some lenders might charge you a *pre-payment penalty* for paying off your loan early.
- Ask whether you will get your deposit back, if required, and you change your mind. If so, get it in writing.
- Be aware that service contracts, credit insurance, extended warranties, and other options are not required and can be costly over the term of the loan. You might be given the option to buy credit insurance to pay off your loan if you should die or become disabled. Before you buy credit insurance consider the cost, and whether it is worthwhile. Check your existing policies to avoid duplicating benefits. Credit insurance is not required by federal law.
- Be careful of ads that promise loans for people with bad credit. These deals often require a higher down payment or have a very high APR.

Instructor Notes

Presentation

Structuring a Car Loan

- **Make as large a down payment as possible**
- **Consider the total cost of the loan:**
 - Example: \$15,000 at 4% interest for 36 months = **\$443** versus 48 months = **\$339** a month
 - Total cost: **\$15,948 versus \$16,272**
- **Be cautious about taking on an auto loan term of 5 years or more**

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Explain the importance of making a significant down payment and share the repayment period example.



Answer any questions. Introduce the next topic.

Beware of Car Title Loans

- **You risk losing your car if you can't pay.**
- **They can be costly loans.**
- **Example:**
 - 1st month: \$500 loan + \$100 interest ($\$500 \times 20\%$) = \$600
 - 1 year: \$500 loan + \$1,200 interest ($\$110 \times 12$) = 240% APR

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Explain what car title loans are. Share the example.

Structuring a Car Loan

Generally speaking, the more money you borrow the more you pay in interest over the life of the loan. Make as large a down payment as you can so you can borrow less money and pay less in interest.

After you determine how big a loan you need, pick a repayment period that makes sense for you.

- For example, a \$15,000 loan at 4 percent interest for 36 months equals a monthly payment of \$443.
- Stretch the same loan out to 48 months and the monthly payment drops to \$339.
- While it is tempting to go with a longer loan to reduce your payment, you must consider the total cost of the loan.
- By extending the term of the loan, even if the payments are lower, you will be paying additional interest.

As a guideline, you should be cautious about taking on an auto loan term of five years or more. If you must take on a five- to seven-year loan, it is quite possible you are buying more car than you can afford. Think about the amount of time you plan to own the car and how long you anticipate the car to perform well. You may owe more on the loan than the trade-in value, or you may still be making payments on it while paying for extensive repair and maintenance costs.

What questions do you have about financing a car? Once you own your car, you also need to be careful of title loans.

Beware of Car Title Loans

Title loans are short-term (usually one month) loans that allow you to use your car as collateral to borrow money. They may sound like a good way to get quick cash, but they can be very costly.

Here is an example of how costly a title loan can be:

- Michael had \$500 in unexpected medical expenses and needed a loan. He saw a television commercial that declared, “If you have a car, you can get a loan.” Michael had a car worth about \$2,500, so he decided to apply for the loan.
- The finance company Michael saw in the commercial loaned him \$500 at 20 percent interest per month. Note that the finance

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company did not advertise the APR. The finance company took his car title as collateral and Michael kept the car.

- With a 20 percent monthly interest rate on the \$500 loan, Michael owed \$600 at the end of the month: the \$500 loan plus \$100 in interest.
- Michael could not repay the \$600 at the end of the month. The lender could have repossessed the car. However, the lender gave Michael the option of just paying the \$100 interest and gave him until the next month to pay the loan. At the end of the next month, Michael still owed \$600 (\$500 loan + another \$100 in interest).
- Michael went back in every month for the next 11 months to pay \$100 to extend the loan another month. Finally, Michael received a bonus from work and was able to pay off the \$600.
- By the end of one year, Michael had paid \$1,200 in interest for his \$500 loan – \$100 every month = \$1,200. This equates to a loan with a 240 percent APR. This is an expensive way to borrow money!



Answer any questions. Introduce the next topic. Note: Now may be a good time to take a break if you have not already done so.

What questions do you have about car title loans?

Now that you know about car title loans, it is time to talk about another kind of secured installment loan: home equity loans.

Instructor Notes

Presentation

10 minutes



Refer participants to *Home Equity Loans* on page 12 of their *Participant Guide*.

Equity

- The value of the home minus the debt

Value of home	\$250,000
minus debt	- 180,000
Equity	\$ 70,000

- A **home equity loan** allows you to borrow against the value of your home.

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How Home Equity Loans Work

80% loan-to-value ratio:
 $\$250,000 \times 80\% = \$200,000$

\$200,000 (value of home)
 \$180,000 (mortgage)
 \$20,000 (value of home equity loan)

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Types of Home Equity Loans

- Home Equity Loan:**
 - One-time loan for a lump sum
 - Typically at a fixed interest rate
- Home Equity Line of Credit (HELOC)**
 - Line of credit that works like a credit card
 - Interest rates are typically variable

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Home Equity Loans

What is a Home Equity Loan?

We have talked about car loans that are secured by the purchased item, namely a car. The car is the collateral that secures the loan. There are also loans secured by an asset that is not being purchased (e.g., home equity loans or loans secured by savings accounts).

If you own your home, you have the option of borrowing against the value of your home. This is called a *home equity loan*. *Equity* is the value of the home minus the debt:

Value of home	=	\$250,000
<u>minus debt</u>	=	<u>- 180,000</u>
Equity	=	\$ 70,000

Home equity loans can be used for almost any purpose. Many home owners use home equity loans for home improvements and college tuition.

The way these loans work is that a lender may allow you to borrow up to a certain percentage of your home's value, generally up to 80 percent. If your house is worth \$250,000 then you can have no more than 80 percent, or \$200,000 ($\$250,000 \times 80\text{ percent} = \$200,000$) in loans on this property. If the balance on your mortgage is \$180,000 you can borrow an additional \$20,000 for a home equity loan, and still maintain the 80 percent loan-to-value ratio.

There are two main types of home equity loans—installment loans for a specific amount, and a line of credit that allows you to borrow up to a certain dollar amount.

The traditional *home equity loan* is:

- A one-time loan for a lump sum
- Typically offered at a fixed interest rate
- Repaid in equal monthly payments over a set period of time

A *home equity line of credit (HELOC)* works like a credit card. You receive a line of credit from which you can draw money. As you repay the principal, your available credit goes up again just like a credit card. Typically, the interest rate on a line of credit is variable, meaning that it is tied to an index

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Presentation

and will change with movements in interest rates.

Advantages and Dangers of Borrowing Against Your Home

Can anyone tell me an advantage of taking out a home equity loan?

Answer: Home equity products offer homeowners great flexibility to finance major expenses, including home improvements and college tuition. They usually have a lower interest rate than credit cards, and the interest often is tax-deductible (check with your tax advisor).

What is the danger of borrowing against your home?

Answer: If you cannot make your monthly payments, you could lose your home. With both types of home equity products you also are at risk if there is a drop in the value of your home. Although homes usually increase or appreciate in value, there is always a chance that real estate values will go down.

There is a law that gives you three days to reconsider a signed home equity loan agreement and cancel the loan without a penalty.

- This is called the *right to rescind* or *right to cancel*.
- It applies when you use your primary home as collateral.

HELOCs often come with extra-low interest rates for an introductory period (e.g., six months), but these are variable rates that could go up during the life of the loan.

When deciding whether a line of credit is right for you, you must decide if:

- You are comfortable with a fluctuating monthly mortgage payment, or prefer a fixed interest rate and stable payments.
- You can afford the monthly payments and increased payments after the introductory period ends or when interest rates rise.

Remember that you are drawing out the money you have invested in your home, so you should think carefully about what you do with that money.

If you must borrow against your home, it is generally best to invest your home equity in another asset of long-term value (e.g., a home renovation or college tuition) instead of paying for a car or a vacation.

The flexibility these loans give you can be dangerous because if you are not disciplined about how you use the funds, you could end up paying a lot of

Borrowing Against Your Home

- What are the advantages of taking out a home equity loan?
 - Lower interest rates
 - Tax-deductible interest
- What is the danger of borrowing against your home?
 - Losing your home
 - Owing more than your home is worth

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Have several participants respond to the each question before clicking the space bar, right arrow, or mouse to reveal the answer.

Right to Rescind/Right to Cancel

- You have 3 days to reconsider a signed home equity loan agreement and cancel the loan without a penalty when you use your primary home as collateral.

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Is a Line of Credit Right for You?

- Can you afford the increased monthly payments after the introductory period ends or when interest rates rise?
- Are you comfortable with fluctuating monthly mortgage payments?
- Will you be investing your home equity in another asset of long-term value?

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money over a long period of time for something you no longer own or that did not add any value to your existing assets.

Home Equity Loan Tips

When considering a home equity loan:

- Do not agree to a home equity loan if you do not have enough income to make the monthly payments. Refer to the *Putting Your Home on the Loan Line Is a Risky Business* publication, available on the FDIC's website at www.fdic.gov.
- Do not let anyone pressure you into signing any documents. Read them carefully and ask questions if you do not understand something.
- Shop around for the best rates.
- Remember that all home equity loans, which are secured by your primary home, have a three-day *right to rescind* or *right to cancel*.
- Contact an attorney if you think you are a victim of a predatory loan. Most communities have legal offices that provide free legal services, called pro-bono programs, to individuals with limited income. The American Bar Association has a directory of pro-bono programs staffed by lawyers who have agreed to provide free legal services. The following link can help you find a program in your area: www.findlegalhelp.org.

To get more information on home improvement, including: how to hire contractors, how to understand your payment options, and how to protect against home improvement scams read the FTC brochure *Home Sweet Home Improvement*, available at the FTC website, www.ftc.gov. You can also call the FTC to request the brochure. The phone number is listed in the *For Further Information* section of your Participant Guide.

What questions do you have about home equity loans?

Now we will look at unsecured installment loans.



Refer participants to the Home Equity Loan Tips on page 12 of their Participant Guide.



Answer any questions. Introduce the next topic.

Instructor Notes

Presentation

10 minutes

Unsecured Installment Loans

- Loans used for a variety of personal expenses with no collateral required
- Terms: 1 to 5 years
- Benefits: fast approval times, lower interest rates than credit card rates
- Drawbacks: Higher interest rates, stricter credit requirements

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Explain what unsecured installment loans are. Then click the space bar, right arrow, or mouse to reveal the benefits and drawbacks as discussed.



Refer participants to *Unsecured Installment Loan Tips* on page 13 of their Participant Guide.

Unsecured Installment Loans

About Unsecured Installment Loans

Unsecured installment loans, sometimes called personal or signature loans, can be used for a variety of personal expenses (e.g., bill consolidation, education expenses, or medical expenses).

- There is no collateral requirement for an unsecured loan.
- The terms of the loan might range from one to five years.
- Since credit cards have become popular, the use of unsecured consumer installment loans has declined. However, some financial institutions still offer unsecured installment loans.

Benefits of Unsecured Installment Loans

Benefits of unsecured installment loans generally include:

- Fast approval times
- Lower interest rates than credit card rates

Drawbacks of Unsecured Installment Loans

Can you think of any drawback to unsecured loans?

Answer:

- **Interest rates are generally higher than on secured loans.**
- **Lenders might have stricter credit requirements since there is no collateral to collect if the borrower does not pay.**

Unsecured Installment Loan Tips

When getting an unsecured installment loan:

- Make sure the new APR is lower than your current APR if you plan to use an unsecured installment loan to consolidate your other loans.
- Beware of companies and websites that charge high rates and application fees. Look for hidden charges. Ask for references before signing an agreement.
- Beware of debt consolidation traps when you consider getting a loan to pay off what you owe on several credit cards. These loans may be secured loans (e.g., home equity loans or unsecured loans). Shop around so that you have the information to decide on the debt consolidation loan that best meets your needs and budget. Research different lenders and collect quotes before deciding. Choosing the wrong debt consolidation loan can make matters worse and put you further into debt.

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- Consider credit counseling if you become overwhelmed and are unable to make the payments, or have trouble paying your bills. Reputable credit counseling agencies can help you budget and negotiate with your lenders to make loan payments more manageable.

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.
- Because you do not have to pay any fees associated with obtaining a refund anticipation loan at the time you receive the money, you may not realize how much this loan is really costing you.

Refund Anticipation Loans	
• Short-term loans secured by your income tax refund	
• Example:	
• Refund:	\$1,500
• Fees:	- \$300
• Check to you:	\$1,200

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Explain refund anticipation loans.

For example:

- Your tax refund is \$1,500.
- The income tax return preparer's fees and the fees for the loan total \$300.
- You will receive a check for only \$1,200.
- 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. This is true even if your refund is less than the amount the preparer initially calculated the refund to be.

Keep in mind, 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 they 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.

What questions do you have about loan services?



Answer any questions. Introduce the next topic.

Instructor Notes

Presentation

Borrow From Yourself First

- Establish an emergency savings account
- Save at least 6 months of living expenses
- Consider making small, simple changes in your habits or banking practices to save



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Describe ways participants can borrow from themselves first.

Borrow From Yourself First

When needing money fast, many people turn to alternative financial services providers, including:

- Pawnshops
- 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. The best way to avoid a cash crunch and having to borrow at a high cost is to put money into an emergency savings account that you can use to pay for unforeseen expenses.

- Experts say this fund should equal about three to six months of living expenses to get you through a difficult period, without having to take out a loan or borrow from retirement savings.
- You can perhaps even link your savings account to your checking account to protect yourself if you were to ever accidentally 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 your emergency account.

Can you think of other ways you can save and build an emergency fund?


Comparison Shop

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'd 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!
- And 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!

Comparison Shop

- If you must borrow money, look at both total dollar costs and APR
- Example:
 - \$75 interest on a \$500 loan for 2 weeks translates into 391% APR!
 - If you pay \$75 to renew or roll over the \$500 loan, you will owe more in fees (\$525) in 14 weeks than the original loan!



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Describe emergency savings accounts.



Answer any questions. Introduce the next topic. Note: Now may be a good time to break if you are dividing the class into two sessions.

Emergency Cash Options from Banks

If you find that you must borrow money, beware of alternative financial services providers that may promise quick cash. As we just saw, these services (e.g., 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 in advance of 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*, available online at www.federalreserve.gov/pubs/bounce/default.htm.

Ultimately, it is a good idea to build 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 unsecured installment loans and short-term loans?

Now we will look at the criteria lenders use to decide whether to give you a loan.

Instructor Notes

Presentation

5 minutes

The Four Cs

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

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Refer participants to *Four Cs of Loan Decision-Making* on page 14 of their *Participant Guide*.



Answer any questions. Introduce the next topic.

The Four Cs of Loan Decision Making

What are the Four Cs?

Lenders generally review the Four Cs to decide whether to make a loan to you. The Four Cs are: capacity, capital, character, and collateral.

- *Capacity* refers to your present and future ability to meet your payment obligations. This includes whether you have enough income to pay your bills and other debts.
- *Capital* refers to the value of your assets and your net worth.
- *Character* refers to how you have paid bills or debts in the past. Your credit report is one tool lenders use to consider your willingness to repay your debts.
- *Collateral* refers to property or assets offered to secure the loan.

The *Money Smart* module *Borrowing Basics* has more information about the Four Cs. The *To Your Credit* module discusses credit reports in detail.

What questions do you have about the Four Cs?

We will now look at lending laws and how they protect your rights throughout the loan process.

Instructor Notes

Presentation

15 minutes



Refer participants to *Lending Laws* on beginning on page 14 of their *Participant Guide*.



Slide 41

Introduce and describe each of the lending laws that protect you when applying for a loan or for credit.

Lending Laws

When Applying for a Loan or for Credit

There are many federal consumer protection laws. In fact, there are too many to cover in this module. However, you should know that financial institutions must follow certain laws and regulations that protect your rights as a consumer.

Laws that protect you when you are applying for a loan or credit include the:

- Equal Credit Opportunity Act
- Truth in Lending Act
- Fair Credit Reporting Act
- Fair Debt Collection Practices Act
- Fair Credit Billing Act

There may also be state laws that give you additional protections. Contact your state's Department of Consumer Protection or attorney general for more information about your state's laws.

Equal Credit Opportunity Act

The Equal Credit Opportunity Act (ECOA):

- Protects consumer rights throughout all stages of the loan process.
- Promotes the availability of credit to all creditworthy applicants without regard to:
 - Race
 - Color
 - Religion
 - National origin
 - Sex
 - Marital status
 - Age
 - Receipt of public assistance income
 - Exercise of rights under the Consumer Credit Protection Act (e.g., you cannot be denied a loan because you have filed a complaint against the bank)
- Restricts the lender from requesting certain information during the loan application process. In general, the lender may not ask:
 - For information about a spouse or former spouse unless your spouse is applying with you. If you are jointly applying or if the loan is secured, the lender may ask your marital

Instructor Notes

Presentation

status; but may only use the terms married, unmarried, and separated. If you do not qualify on your own, lenders may require a cosigner or guarantor, but they may not require that it be your spouse.

- **Note:** If you live in a community property state, a lender may request information concerning your spouse. Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin are community property states, as is Puerto Rico.
- For income derived from alimony or child support, unless you want it considered as part of your income. The lender cannot discount or refuse to consider consistent part-time income, annuities, pensions, alimony, or child support payments.
- About birth control practices or intentions of having children. However, a lender may ask about the number and ages of your dependents.
- About whether you are male or female. Courtesy titles (Mr., Mrs., Miss, Ms.) may be requested, but these are optional.
- For your race, color, religion, or national origin.

Note: In most cases, lenders cannot request the information above. However, for certain home loans, lenders must collect some of the information (race, sex, marital status, and age).

- Requires the lender to notify you in writing, within 30 days of the date of the loan application, if you have been approved or denied the loan. If you are denied, the notice will contain:
 - The name and address of the lender
 - The name and address of the federal agency you can contact if you feel you have been discriminated against
 - Either a statement of the specific reasons for denial or a notice that you may request the reasons for your denial

Truth in Lending Act

The Truth in Lending Act (TILA) requires lenders to disclose the total cost of the loan, including the finance charge and the APR, and gives you the right to cancel certain types of home loans within three days of signing the loan agreement.

A Truth in Lending disclosure will include the following information:

- APR
- Amount financed
- Finance charge
- Total payment

Instructor Notes

Presentation

Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA) requires that the lender notify you if you are denied a loan or credit because of information in your credit report. This notice is usually combined with the notice denying the loan or credit.

The FCRA notice should contain:

- The name, address, and telephone number of the credit reporting agency that provided the credit report to the lender
- A statement that the credit reporting agency did not make the decision to deny your application
- A notice of your right to obtain a free copy of your credit report within 60 days of receiving the notice
- A notice of your right to dispute the information in your credit report

The *Money Smart* module *To Your Credit* covers credit reports and how to correct inaccurate information.

Fair Debt Collection Practices Act

The Fair Debt Collection Practices Act (FDCPA) helps eliminate abusive debt collection practices. Under this law, debt collectors other than your creditor cannot:

- Contact you at any unusual time or place
- Contact you at work if you have informed them not to call you there
- Use threats of violence or other criminal means to harm you or your property
- Call you with the intent to annoy, abuse, or harass you
- Call you without identifying themselves
- Use deceptive or misleading methods to collect debt

Report any problems you have with a debt collector to your state Attorney General's office (www.naag.org) and the FTC (www.ftc.gov).

Fair Credit Billing Act

The Fair Credit Billing Act (FCBA):

- Requires creditors to promptly credit payments and correct billing mistakes for open-ended accounts (e.g., credit cards)
- Allows you to withhold payments on defective goods

Note: The Electronic Fund Transfer Act and the Truth in Lending Act also

Instructor Notes

Presentation

have methods for correcting billing errors. Examples of billing errors include:

- A charge for something you did not buy
- A charge that is different from the actual purchase price
- An error in math (e.g., the total does not add up or an interest miscalculation)

If you think there is an error on your bill you should, within 60 days of receipt of your incorrect bill, notify your creditor **in writing** and keep a copy of the letter.

- You should always include your name, account number, and what you believe is the error.
- The lender is required to acknowledge your letter within 30 days.
- Within two billing cycles (no longer than 90 days), the lender must either correct the problem or explain why it believes the bill is correct.

Activity 2: How Lending Laws Protect You

Before we cover some additional lending laws, we will complete an activity so you can see how the laws, which we have reviewed so far, protect you. Read the scenario about Angela, who is applying for a home loan, and answer each of the questions. You can refer to the lending law descriptions on the previous pages in your Participant Guide if needed.

Scenario

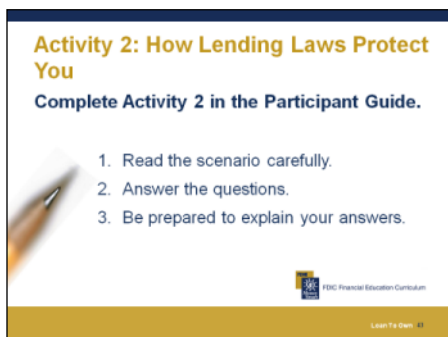
Angela is a 43-year-old woman who is divorced, has two children, and is working part time. She wants to apply for a loan, but is not sure she will get one because she is not married. She does not realize that there is a law that protects her from discrimination based on her marital status.

What law protects Angela from discrimination based on marital status?

Answer: The Equal Credit Opportunity Act (ECOA).

Angela decides to go ahead and apply for the loan. But first, she wants to shop around for the best loan so she will need information about how much the loan will cost. What law requires lenders to tell Angela how much it costs to borrow money? **Answer: The Truth in Lending Act (TILA).**

Angela learns that the best way to compare loan costs is to use the APR. She finds out that it reflects interest plus other loan fees. She notices that the APR is listed in big, bold print on the disclosures she received from several



Slide 42

Refer participants to Activity 2: How Lending Laws Protect You beginning on page 16 of their Participant Guide. Complete the activity as a class or have participants work in small groups or individually.

Instructor Notes

Presentation

banks. Angela wants to borrow \$5,000. At one bank, the APR is 12 percent and the finance charge is \$600.00. What is the total amount that Angela would have to pay back on this loan?

Answer: \$5,000 + \$600.00 = \$5,600.00.

Now Angela knows how to compare costs by looking at the APRs. She finds a bank that has the best APR and begins the loan application process. Angela sits down with the lender to discuss her application. The lender asks Angela why she got divorced. Angela does not feel comfortable answering this question. She asks the lender what her divorce has to do with her loan application. The lender tells her that they would prefer to lend money to a husband and wife because they are better able to repay the loan. Did the lender break a lending law in asking about Angela's divorce? If yes, which law? **Answer: Yes. The Equal Credit Opportunity Act (ECOA).**

A few weeks later, Angela learned that she was denied the loan. Here is the letter she received:

SAMPLE NOTICE OF ACTION TAKEN AND STATEMENT OF REASONS	
Date	
Dear Applicant:	
Thank you for your recent application. Your request for a loan was carefully considered, and we regret that we are unable to approve your application at this time, for the following reasons:	
Your Income:	
___x___	is below our minimum requirement.
_____	is insufficient to sustain payments on the amount of credit requested.
_____	could not be verified.
Your Employment:	
_____	is not of sufficient length to qualify.
_____	could not be verified.
Your Credit History:	
___x___	of making payments on time was not satisfactory.
_____	could not be verified.
Your Application:	
_____	lacks a sufficient number of credit references.
_____	lacks acceptable types of credit references.
_____	reveals that current obligations are excessive in relation to income.

Instructor Notes

Presentation

Other: _____

The consumer reporting agency that provided information that influenced our decision in whole or in part was [name, address and toll-free telephone number of the reporting agency]. The reporting agency is unable to supply specific reasons why we have denied credit to you. You do, however, have a right under the Fair Credit Reporting Act to know the information contained in your credit file. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency. Any questions regarding such information should be directed to the consumer reporting agency.

If you have any questions regarding this letter, you should contact us at [creditor's name, address, and telephone number].

NOTICE: The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant is enrolled in a public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act). The Federal agency that administers compliance with this law concerning this creditor is the FDIC, 2345 Grand Avenue, Suite 100; Kansas City, Missouri 64108.

The first thing Angela did was contact the credit reporting agency to get a copy of her credit report. Which law allows Angela to do this?

Answer: The Fair Credit Reporting Act (FCRA).

Angela found nothing in her credit report to indicate that she had ever missed making payments on her bills. She believes she was denied the loan based on her marital status. Which law could help Angela if she has been discriminated against? **Answer: The ECOA.**

What should she do? **Answer: Complain to the creditor in writing and promptly report possible violations to the responsible government agency. The agency's name and address will be listed in the denial notice.**

It was determined that Angela was discriminated against. The decision to deny her the loan was reversed. Angela now has the loan. Later in the year, Angela got behind on her credit card payments. She started getting calls at work from a collection agency about her past-due payments. A law could

Instructor Notes

Presentation

allow Angela to tell the collection agency to stop calling her at work. Which law is this? **Answer: The Fair Debt Collection Practices Act (FDCPA).**

Shortly after Angela got caught up on her payments, she noticed that she was charged twice for her \$150 purchase at the department store. What law protects Angela when creditors make billing errors?

Answer: The Fair Credit Billing Act (FCBA).

Angela decides to make a written complaint to her credit card company. Her complaint letter looks something like the one below. Note that some credit card companies include a form on the back of your periodic statement that you can use instead of sending a letter.

Your Name
Your Address
Your City, State, Zip Code
Date
Name and Title of Contact Persons (if available)
Consumer Complaint Division (if you have no contact person)
Bank of Anytown
Street Address
City, State, Zip Code
RE: Account # XYZ-123
Dear (Contact Person):
On (date), I bought a \$150 item at (name of department store). I was reviewing my credit card statement and I noticed I was billed twice for the same item.
To resolve this problem, I would appreciate your crediting my account for \$150. Enclosed is a copy of my receipt.
I look forward to your reply and a resolution to my problem, and anticipate hearing from you before (set a time limit). Please contact me at the address above or by phone (include day and evening numbers with area code).
Sincerely,
Your Name
Enclosures

Instructor Notes

Presentation

cc: (reference the person to whom you are sending a copy of this letter, if anyone)

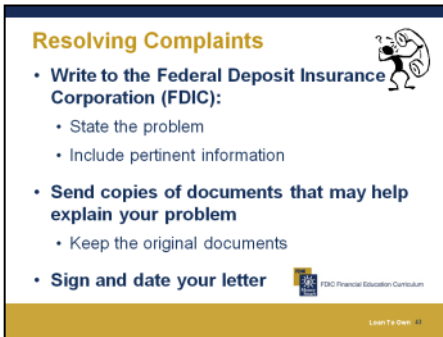
How long does the credit card company have to respond to Angela's letter?
Answer: 30 days, and it must resolve the matter within two billing cycles (no longer than 90 days).

If Angela's letter did not produce the desired result, what should she do to follow up? **Answer: She needs to write to the credit card company's federal regulator.**

Resolving Complaints

If you have written a letter to the bank that does not produce the results you desire, you can write to the bank's regulator for assistance. Sometimes that means writing to the FDIC. As in the complaint letter that Angela wrote, include the following information to help the regulators investigate your complaint:

- State the problem briefly. Explain what occurred and how you would like to see the matter resolved.
- Include your full name, address, and daytime and evening telephone numbers with area codes.
- Provide the **complete** name and address of the financial institution, along with the names of employees who have assisted you with your problem.
- Include pertinent account information, including: account numbers and the type of product you have (e.g., checking account, savings account, home equity loan, or home loan).
- Include important dates (e.g., the date a transaction took place or the date you contacted the financial institution about your problem).
- Send copies of documents that may help explain your problem; keep the original documents.
- Sign and date your letter.



Slide 43

Refer participants to *Lending Laws: Resolving Complaints* on page 20 of their Participant Guide.



Answer any questions. Then introduce the next topic.

What questions do you have about these lending laws?

There are a few more laws and regulations that you need to know about before we continue.

Instructor Notes

Presentation

5 minutes



Refer participants to Additional Lending Laws beginning on page 21 of their Participant Guide.



Slide 44

Introduce and describe each of the additional lending laws.

Additional Lending Laws

Additional Protection from Other Lending Laws

Some additional lending laws that give you additional protection include the:

- Servicemembers Civil Relief Act
- Real Estate Settlement Procedures Act
- Fair Housing Act
- Consumer Leasing Act

Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act (SCRA):

- Provides important legal rights to active-duty military members and reservists, or members of the National Guard called to active duty and, in limited situations, dependents of military members (e.g., in certain eviction actions)
- Provides protection pertaining to civil judicial proceedings, residential rentals, mortgage loans, consumer loans, and credit card interest rates
 - For example, the interest rate on loans a service member received before entering active-duty status is capped at 6 percent if the service member's military service materially affects his or her ability to pay.
 - In addition, a service member on active duty may be able to successfully ask a court to postpone civil or administrative hearings that the service member is unable to attend due to his or her military duties.
- Provides protection in the event of a foreclosure or repossession that occurs during active-duty service
 - If eligible, notify your creditors by phone and in writing (attach a copy of your orders) and visit your local military installation's servicing legal office for assistance with any specific questions concerning your rights under the act.

Instructor Notes

Presentation

Real Estate Settlement Procedures Act

The Real Estate Settlement Procedures Act (RESPA) requires that lenders provide you with accurate and timely disclosures of the costs of settlement (e.g., loan origination fees (points), broker's commissions, and title charges). RESPA was designed to prevent abusive practices (e.g., kickbacks for loan referrals).

Fair Housing Act

The Fair Housing Act (FHA) prohibits discrimination on the basis of race, color, religion, sex, national origin, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), or handicap (disability) in housing-related transactions.

Consumer Leasing Act

The Consumer Leasing Act (CLA) requires clear disclosure of leasing terms so consumers can compare leases. Disclosures must be made before a lease is signed, and must be available for the consumer to keep.



Answer any questions. Then introduce the next topic. Note: Now may be a good time to take a break if you have not already done so.

What questions do you have about lending laws?

Now we will discuss ways to protect yourself from predatory lending practices.

Instructor Notes

Presentation

15 Minutes



Refer participants to *Predatory Lending Practices* on page 22 of their *Participant Guide*.

Predatory Lending Practices

- **Includes the use of:**
 - Certain marketing tactics
 - Abusive collection practices
 - Loan terms that deceive and exploit borrowers
- **Occurs in mortgage, home equity, credit card, auto lending, and payday lending markets**

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Slide 45

Explain what predatory lending is.

Subprime Lending

- **Involves extending credit to borrowers with a poor credit history:**
 - Most predatory loans are made to subprime borrowers, but not all subprime loans are predatory.
 - Interest rates and loan fees may be higher to offset the higher costs associated with lending to these borrowers.

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Loan To Own

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Predatory Payday Loans

- **Small cash advances minus the lender's fees**
 - E.g., You agree to pay \$230
 - You receive \$200
 - Lender fees: \$30 (which equals 390% APR)



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Loan To Own

Slide 47

Explain how predatory payday loans work.

Predatory Lending Practices

About Predatory Lending Practices

Predatory lending has become a serious problem. It occurs when companies offer loan products using certain marketing tactics, abusive collection practices, and loan terms that deceive and exploit borrowers.

Abusive practices can occur in the mortgage, home equity, credit card, auto lending, and payday lending markets. Most of the problems are not caused by federally insured financial institutions.

Subprime Lending

Subprime lending involves extending credit to borrowers whose credit history reflects late payments, collections, bankruptcy, etc.

- These types of borrowers are considered to be higher risk.
- Most predatory loans are made to subprime borrowers, but not all subprime loans are predatory.

Subprime lending can be beneficial if performed in a fair, reasonable, and legal manner. It may be the only alternative available to some borrowers.

- Predatory lending often affects borrowers in the subprime market.
- Subprime lenders typically charge higher interest rates and loan fees to offset the higher costs associated with lending to borrowers with credit history problems.

Two types of predatory loans that you should be aware of are:

- Predatory payday loans
- Predatory mortgage loans

Predatory Payday Loans

The first type of predatory loan is a payday loan made using predatory practices. *Payday loans* are small cash advances, usually of \$500 or less. To get a loan, you must give a payday lender a postdated personal check or an authorization for automatic withdrawal from your bank account. In return you receive cash, minus the lender's fees.

Remember that payday loans should only be used for emergencies. If you cannot fully repay the loan within a few pay periods, you should consider a longer term loan from a financial institution.

Instructor Notes

Presentation

Several Indicators of Possible Predatory Payday Lending Practices

There are several signs that a payday loan may be a predatory loan:

- The company advertises terms that it does not actually offer.
- You are not given disclosures listing terms (e.g., the finance charge and APR).
- There is no cooling off or waiting period between the time you repay a payday loan and the time you are allowed to obtain another loan.
- You can get a payday loan even if you currently owe payday loans to other companies.
- You can obtain as many payday loans as you want each year.
- You can get a payday loan to finance unpaid interest and fees.
- The payday lender encourages you to borrow the maximum you are eligible to borrow.
- The company threatens to prosecute you criminally for writing a bad check even though it knew you had insufficient funds in your account to pay the check and you paid a payday loan fee.



Answer any questions. Then introduce the next topic.

What questions do you have about how to spot a predatory payday loan?

Now we will look at predatory mortgage loans.

Predatory Mortgage Lending Practices

Predatory mortgage loans involve a wide variety of abusive practices, including:

- **Excessive Fees:** Points and fees are costs not directly reflected in interest rates. Because these costs can be financed, they are easy to disguise or downplay. On predatory loans, fees totaling more than 5 percent of the loan amount are common.
- **Abusive Prepayment Penalties:** Borrowers with higher interest subprime loans have a strong incentive to refinance as soon as their credit improves. However, most subprime mortgages carry a prepayment penalty—a fee for paying off a loan early. Be careful of prepayment penalties that last more than three years and/or cost more than six months' interest.
- **Kickbacks to Brokers (Yield Spread Premiums):** When brokers deliver a loan with an inflated interest rate (i.e., higher than the rate acceptable to the lender), the lender often pays the broker a fee known as a yield spread premium. This payment makes the loan

Predatory Mortgage Lending Practices

- Excessive fees
- Abusive repayment penalties
- Kickback to brokers (yield spread premium)
- Loan flipping
- Unnecessary products
- Asset-based lending
- Steering and targeting

FDIC Financial Education Curriculum

Loan To Own

Slide 48

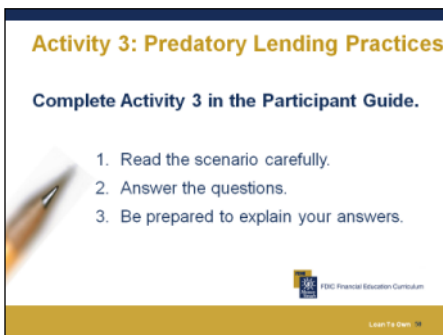
Review abusive predatory mortgage lending practices.

Instructor Notes

Presentation



Answer any questions. Then introduce the next topic.



Slide 49

Refer participants to Activity 3: *Predatory Lending Practices* beginning on page 23 of their Participant Guide. Complete the activity as a class or have participants work in small groups or individually. Have participants share and explain their responses. Provide

more costly to the borrower. You can avoid this by shopping around for the best rate.

- **Loan Flipping:** A lender flips a loan by refinancing it several times within a short timeframe to generate fee income, without providing any net tangible benefit to the borrower. Flipping can quickly drain borrower equity and increase monthly payments—sometimes on homes that had been previously owned free of debt.
- **Unnecessary Products:** Sometimes borrowers may pay more than necessary because lenders sell and finance unnecessary insurance or other products along with the loan.
- **Asset-Based Lending:** Predatory lenders may approve a loan based on the value of a customer's equity in the home, instead of his or her ability to repay the loan. The lender may later encourage the customer to default so the lender can take ownership of the home.
- **Steering and Targeting:** Predatory lenders may steer borrowers into subprime mortgages, even when the borrowers could qualify for a less expensive, typical loan. Vulnerable borrowers may face aggressive sales tactics and sometimes outright fraud.

What questions do you have about how to spot a predatory mortgage loan?

Now see if you can identify some predatory lending practices.

Activity 3: Predatory Lending Practices

This exercise will give you an opportunity to identify predatory lending practices we just covered. See if you can name the predatory mortgage lending practices in these scenarios.

Alice had \$10,000 in credit card debt when she got a letter offering to refinance her home. The lender never asked for her income. She soon regretted her decision to accept the offer. The \$40,000 subprime refinance loan she took out ballooned to \$65,000 almost immediately because of prepayment penalties and unanticipated fees.

Answers: Steering and targeting, excessive fees, asset-based lending.

Jim, 68 years old, took out a mortgage loan on his home in the amount of \$20,334. His loan was refinanced six times in 6 years, bringing the final loan amount to nearly \$55,000. He paid for credit life insurance all six times, with each premium exceeding \$2,300.

Answers: Loan flipping, unnecessary products.

Instructor Notes

the correct answers.

***Note:** You may want to display the previous slide while participants complete the first portion of the activity.*

Presentation

Laid off after 29 years of working, Katherine was struggling. Although she had a part-time job working in the school cafeteria, she was not earning enough to pay her bills. When she received a call from a man who said he could help her come up with some cash, it seemed like the answer she had been waiting for. The man said he worked for a home improvement company and that he could find her a loan that would both pay for some remodeling on her house and leave enough cash to pay her bills.

Answers: Steering and targeting, asset-based lending.

Read the following two offers and identify any information or terms that you consider predatory lending practices.

Offer #1**Do You Need Cash Fast?**

Get an immediate payday loan from \$100 to \$1,000 in less than 24 hours!

Borrow Against Your Next Paycheck! It is Easy to Qualify!
No Credit Check Required! Apply Online! It is Never Been Easier!

It costs you less to get a payday loan than it does to pay overdraft fees when you bounce a check. The cost is far less than the price of losing your job if you cannot get to work. The fees vary and are determined based on the information you provide on your application. It is emergency cash when you need it and that is exactly what cash advance loans are for. They save you the headache of being stuck in a bad spot between paydays. Your cash will be wired to your bank upon approval!

Repaying your loan is just as easy and convenient as securing the loan. The loan amount plus fees will be drafted from your bank account on your next payday. If you cannot come up with all of the money, we will allow for a loan extension and deduct just the loan fee. When you are ready to repay, your loan plus fees will be deducted from your bank account.

If you cannot pay your cash advance back on your next payday, it is ok. We automatically renew loans for our online customers, so if you do not have the money in the bank, it is not a problem. We will deduct the fee from your bank account and you can pay your loan back including additional fees on your next payday. Do not worry: you can get as many payday loans each year as you want!

The Annual Percentage Rate (APR) on a 14-day loan is 780%, which is \$30.00 per every \$100.00 borrowed. Additional fees will apply if your loan is renewed.

Instructor Notes

Presentation

Answers:

- **Triple-digit interest rate (780 percent)**
- **Short minimum loan term**
- **Single balloon payment**
- **No limit on the number of payday loans offered each year**

Offer #2

Dear Homeowner:

Do you want extra cash? **AAA Lender** can help you get the money you have been hoping for. Our free services have already helped thousands of homeowners get low interest loans to consolidate bills and get out of debt.

We are a top-rated professional referral agency, and our mission is to provide homeowners like you with carefully selected lenders. We use the best network of affiliated mortgage banking companies in the country! We have hundreds of lenders across the United States ready to meet your needs.

We can provide you with lenders who will loan you up to 125% of your home's value or \$100,000, even if you have no equity in your home or have a bad credit history!

Best of all, our lenders offer the lowest interest rates available. They can set you up with an incredibly low monthly payment.

There are no upfront fees! This means you will not pay a dime, so you have absolutely nothing to lose!

Use the cash you receive from the loan for:

- Home improvements
- Credit card debt
- College tuition
- Dream vacation
- A new car
- Business start-up
- Or for whatever else you need!

Your loan can often be approved within 24 hours. You will have the cash in your hands in one to two weeks.

You owe it to yourself to request a free loan evaluation. Call now and find out how easy it is. Act now! This is a limited time offer.

Sincerely,

AAA Lender

Instructor Notes

Presentation

Answers:

- **“125 percent of your home’s value:”** It can be dangerous to borrow more than your home is worth. If you stop making payments, you can lose your house and still owe money.
- **“Incredibly low monthly payment”:** There is no disclosure as to how the lender intends to calculate monthly payments. The lender might have you pay only interest and not the principal, so you will never pay off the loan.
- **“No upfront fees”:** This does not mean there are no fees. Many times, there are expensive fees added on to the cost of the loan and you will pay interest on these loan fees. For example, if a \$5,000 loan fee is added into the amount you borrow, you are paying \$5,000 plus interest over the life of the loan.
- **“Even if you have a bad credit history”:** If you have a bad credit history, you will most likely pay higher interest rates and more expensive loan origination fees. All lenders take your credit history into account and predatory lenders have been known to target low-income homeowners for high-cost, high-interest loans. Predatory lenders knowingly make loans to homeowners that cannot make the monthly payments. They would rather foreclose on the house and take the equity.
- **“It is free and you have nothing to lose”:** If it sounds too good to be true, it probably is! Even though the initial loan evaluation is free, there are other ways predatory lenders will take money from you. There might be hidden fees.
- **“Act now; this is a limited-time offer”:** Many predatory lenders try to pressure you into acting fast, even though you are not comfortable with the loan conditions.

How to Avoid Predatory Lenders

There are several steps you can take to avoid being a victim of predatory lenders:

- Pay your bills on time to ensure you have a good credit history and review your credit report every year.
- Be an informed consumer. Shop around for the best deal. If a lender is unwilling to give you the information you need to comparison shop, you should not do business with him or her.
- Ask friends, family, and credit counselors for advice. Take someone along with you when you talk to a lender.



Refer participants to How to Avoid Predatory Lenders beginning on page 26 of their Participant Guide.

Instructor Notes

Presentation

- Take your time before deciding on the best loan or lender. Do not let lenders pressure you into a decision before you are ready.
- Be careful of lenders who tell you they do not care about your credit history or how much you earn. Many of these lenders charge higher interest rates and higher fees.
- Disregard advertisements that make lending sound cheap and easy.
- Be careful of offers to refinance your loan shortly after you just refinanced it. Make sure you really need the loan and the loan makes economic sense for you.
- Be careful of home improvement contractors that promise to get you a loan.
- Read and understand all documents before you sign them. Keep copies of what lenders give you.
- Consider alternatives to credit insurance (e.g., a life insurance policy). Lenders cannot require you to purchase credit insurance from their company, and the alternatives may be a better deal.
- Ask if your mortgage has a balloon payment (when most, or all, of the loan amount is due on a specific date). If so, make sure the terms make sense for you.
- Ask if your mortgage has a mandatory arbitration clause. If so, understand what it means for you.
- Contact your state's consumer protection division or an attorney if you think you are a victim of a predatory loan. Many communities have legal offices that provide free legal services to individuals with limited income. Look in the community services pages of your phone book or look in the white pages under "Legal Services of..." or visit www.abanet.org/legalservices/probono/.



Answer any questions. Then introduce the next topic.

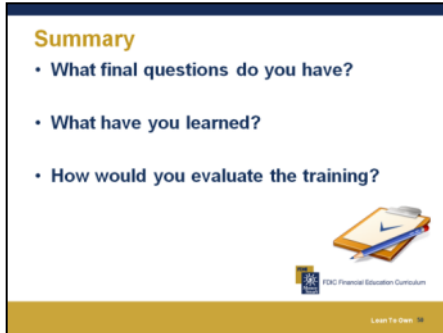
What questions do you have about predatory lending practices?

Let us look at what we have learned today.

Instructor Notes

Presentation

10 minutes



Slide 50

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



Slide 51

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

Wrap-Up

Summary and Post-Test

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

Now we will see what you have learned by completing [a short Post-Test beginning on page 27 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 on pages 32 and 33 of your Participant Guide.

Conclusion

Congratulations! You have completed the *Loan to Own* module. You learned about:

- Secured and unsecured loans
- The cost of loans
- Car loans and auto financing
- Home equity loans
- The Four Cs of loan decisions
- Predatory lending practices

You should now know what to consider when shopping for these loans.

Great job on completing the *Loan to Own* module! Thank you for participating.

Post-Test

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

1. If you pledge an asset (e.g., house, car) as collateral for a loan, it is considered what type of loan?
 - a. **Secured loan**
 - b. Unsecured loan
2. When purchasing an item over time rent-to-own services are usually less expensive than consumer installment loans.
 - a. True
 - b. **False**
3. What must you compare or consider when shopping for a loan?
 - a. APR
 - b. Finance charges
 - c. Whether you can afford the monthly payment
 - d. Type of interest rate (fixed or variable)
 - e. **All of the above**
4. How can you avoid predatory lenders?
 - a. Select a lender who does not care about your credit history or how much you earn
 - b. Respond to advertisements advertising cheap and easy lending
 - c. Trust home improvement contractors that can get you a loan
 - d. **Read and understand all documents before you sign them**
5. What four factors do lenders use when they decide whether to make a loan?
 - a. Collateral, capacity, capital, and length of employment
 - b. Capital, character, credit worthiness, and collateral
 - c. **Capacity, capital, collateral, and character**
 - d. Character, collateral, capacity and credit limit
6. Which of the following factors must you consider when deciding between obtaining a car loan or car lease?
 - a. Ownership potential
 - b. Monthly payment
 - c. Mileage limitations
 - d. **All of the above**
7. Which laws prohibit discrimination in lending transactions? Select all that apply.
 - a. Fair Debt Collection Practices Act
 - b. **Equal Credit Opportunity Act**
 - c. Truth in Lending Act
 - d. **Fair Housing Act**
8. Why should you be wary of rent-to-own and payday loan services?
 - a. Lenders may use deceptive marketing tactics
 - b. Lenders may use abusive collection practices
 - c. Lenders may charge higher interest rates and loan fees
 - d. **All of the above**

What Do You Know? – Loan to Own

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about installment loans 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			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
I can:								
1. Identify various types of installment loans	1	2	3	4	1	2	3	4
2. Explain why installment loans cost less than rent-to-own services	1	2	3	4	1	2	3	4
3. Identify the questions to ask when purchasing a car	1	2	3	4	1	2	3	4
4. Identify the factors lenders use to make home loan decisions	1	2	3	4	1	2	3	4
5. Explain why it is important to be wary of rent-to-own, payday loan, and refund anticipation loan services	1	2	3	4	1	2	3	4
6. Identify how federal laws protect me when applying for a loan	1	2	3	4	1	2	3	4
7. 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 *Loan to Own* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

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

Auto Service Contract: A promise to perform (or pay for) certain repairs or services.

Capacity: Your present and future ability to meet your payment obligations.

Capital: The value of your assets and your net worth.

Character: How you have paid bills or debts in the past.

Consumer Leasing Act (CLA): A law that requires clear disclosure of leasing terms so consumers can compare leases.

Collateral: The asset a borrower promises to give to the lender if the borrower does not pay back the loan.

Equal Credit Opportunity Act (ECOA): A law that protects consumer rights throughout all stages of the loan process and promotes the availability of credit to all creditworthy applicants.

Equity: The value of the home minus the debt.

Fair Credit Billing Act (FCBA): A law that requires creditors to promptly credit payments and to correct billing mistakes for open-ended accounts (e.g., credit cards).

Fair Credit Reporting Act (FCRA): A law that requires that the lender notify you if you are denied a loan or credit because of information in your credit report.

Fair Debt Collection Practices Act (FDCPA): A law that helps eliminate abusive debt collection practices.

Fair Housing Act (FHA): A law that prohibits discrimination on the basis of race, color, religion, sex, national origin, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), or handicap (disability) in housing-related transactions.

Finance Charge: The dollar amount the loan will cost. It includes items (e.g., interest, service charges, and loan fees).

Fixed-Rate Loan: A loan that has an interest rate that stays the same throughout the term of the loan.

Home Equity Loan: A one-time loan for a lump sum that allows you to borrow against the value of your home.

Home Equity Line of Credit (HELOC): A line of credit from which you can draw money.

Installment Loan: A loan that is repaid in equal monthly payments or installments for a specific period.

Payday Loans: Small cash advances, usually of \$500 or less.

Pre-Payment Penalty: Charge for paying off your loan early.

Predatory Lending: When companies offer loan products using certain marketing tactics, abusive collection practices, and loan terms that deceive and exploit borrowers.

Real Estate Settlement Procedures Act (RESPA): A law that requires that lenders provide you with accurate and timely disclosures of the costs of settlement (e.g., loan origination fees (points), broker's commissions, and title charges).

Refund Anticipation Loan: Short-term loan secured by your income tax refund.

Rent-to-Own Services: Weekly or monthly payments are made in exchange for using the item.

Right to Rescind or Right to Cancel: A law that gives you 3 days to reconsider a signed home equity loan agreement and cancel the loan without a penalty. It applies when you use your primary home as collateral.

Secured Installment Loan: A loan where the borrower offers collateral for the loan. The borrower gives up his or her right to the collateral if the loan is not paid back as agreed.

Servicemembers Civil Relief Act: A law that provides servicemembers with protection pertaining to civil judicial proceedings, residential rentals, mortgage loans, consumer loans, and credit card interest rates.

Subprime Lending: Extending credit to borrowers whose credit history reflects late payments, collections, bankruptcy, etc.

Title Loans: Short-term (usually one month) loans that allow you to use your car as collateral to borrow money.

Truth in Lending Act (TILA): A law that requires lenders to disclose the total cost of your loan, including the finance charge and the Annual Percentage Rate (APR).

Unsecured Installment Loan: A loan where the lender does not require collateral.

Variable-Rate Loan: A loan that has an interest rate that might change during any period of the loan, as written in the loan agreement or contract.

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.

Department of Education

www.ed.gov/participants/

The Department of Education provides Information relating to college, financing, and student aid.

For other education-related resources:

- Complete the Free Application for Federal Student Aid (FAFSA) online at www.fafsa.ed.gov/
- Find out more about scholarships at www.ftc.gov/bcp/menus/consumer/education/scholarships.shtm
- For more information on federal loan programs, visit <http://studentaid.ed.gov>

Department of Housing and Urban Development

www.hud.gov

1-800-669-9777

The Housing and Urban Development (HUD) website offers educational resources on buying and renting homes.