



# Welcome

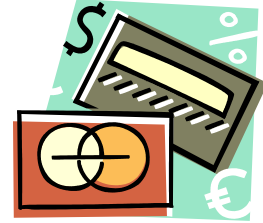


1. Agenda
2. Ground Rules
3. Introductions



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# Objectives

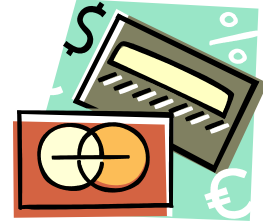


- Define what “credit” and a “loan” is
- Distinguish between secured and unsecured loans
- Identify three types of loans
- Identify the costs associated with getting a loan
- Identify the factors lenders use to make loan decisions



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# Objectives

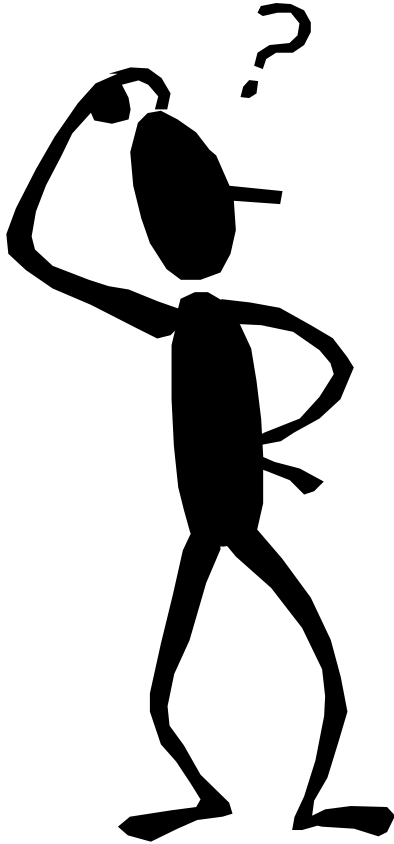


- **Explain why installment loans cost less than rent to own services**
- **Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation services**
- **Describe how to guard against predatory lending practices**



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# What Do You Know?



**What do you know or want to learn about credit?**



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# Credit

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

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



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# Credit Defined



- **Credit is:**
  - The ability to borrow money
  - Sometimes called a loan
  - A promise you make to pay back money you borrowed with interest
- **Having good credit makes it easier to borrow money in the future.**



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# Why Is Credit Important?



- **Credit:**
  - Is convenient when you do not have cash
  - Is useful in times of emergencies
  - Allows you to pay for purchases over time
  - Can affect your ability to obtain employment, housing, and insurance, depending on how you manage it



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# What is Collateral?

- Security, or an asset (or assets), you pledge to the lender
- **If you do not repay the loan, the lender is entitled to take or keep the collateral.**



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# Credit Terms



- ***Guarantee:*** a form of collateral
- ***Secured loan:*** a loan in which the borrower offers collateral for the borrowed money
- ***Unsecured loan:*** a loan that is not secured by collateral
- ***Asset:*** something valuable that you own



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# Consumer Installment Loans

- Used to pay for personal expenses for you and your family
- **What are some other reasons for obtaining a consumer installment loan?**



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# Credit Cards

- Give you the ongoing ability to borrow money for household, family, and other personal expenses
- Can be risky; you could be burdened with debt



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# Home Loans

- **Home Purchase Loans**
  - Primary loan for purchasing a home
- **Home Refinance Loans**
  - Loan that replaces primary home loan
- **Home Equity Loans**
  - Second mortgage, or loan, secured by the borrower's home



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# Home Equity

Value of Home	\$250,000
Minus debt	-200,000
<hr/>	<hr/>
<b>Equity</b>	<b>\$50,000</b>

**A lender may allow you to borrow up to a certain percentage of your home's value; generally up to 80%.**



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# Activity 1: Which Loan Is Best?

**Complete Activity 1 in the Participant Guide.**

1. Read the description of the purchase to be made.
2. Fill in the blank with the most appropriate loan type for that purchase.
3. Be prepared to explain your answers.



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# The Cost of Credit



- **Fees:**

- Charges by financial institutions for activities such as reviewing your loan application and servicing the account

- **Interest:**

- Amount of money a financial institution charges for letting you use its money
- Fixed or variable rates



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# Truth in Lending Disclosures


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



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# Activity 2: Borrowing Money Responsibly

**Complete Activity 2 in the Participant Guide.**

- 
1. Read each question carefully.
  2. Answer the questions.
  3. Be prepared to support your answer.



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# Rent-to-Own Services

## The store:

- Sets up a payment plan for you
- Owns the item until you make the final payment
- Can take the item back if you miss a payment



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# Pay-Day Loan Services

- Short-term, costly loans

Loan Amount	Loan Term	Fee	You write a check for:
\$200	2 weeks	\$30	\$230 (391%)

If you “roll over” or “renew” your loan, the lender will charge an additional fee:

**\$230 + \$30 additional fee = \$260!**



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# Refund Anticipation Loan

- A short-term loan secured by your income tax refund

## Example:

- Tax refund amount = **\$1,500**
- Fees charged by lender = **\$300**
- Money you receive from lender = **\$1,200**
- Lender keeps refund to cover the check.



# Costs for Refund Anticipation Loan

Typical costs may include...	
Tax preparation fee	\$100
Refund anticipation fee	\$75
Electronic filing fee	\$40
Document preparation	\$33
<b>Total</b>	<b>\$248</b>

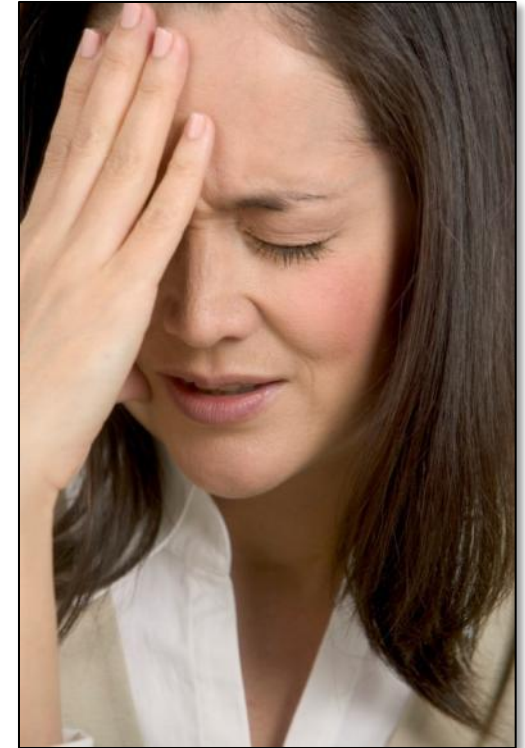
- **Suggested Alternative:**
  - File your return electronically and direct-deposit it into your bank account!



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# When You Need Money Fast

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



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# When You Need Money Fast

- **Borrow from yourself first – put money into an emergency savings account**
- **Comparison shop for loans by looking at total dollar costs and APRs**
- **Check out emergency cash options with your bank**



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# The Four Cs

- ***Capacity:*** Your ability to meet payments
- ***Capital:*** Value of your assets and net worth
- ***Character:*** How you paid your bills or debts in the past
- ***Collateral:*** Property/assets used to secure the loan



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# Capacity

- How long have you been on your job?
- How much money do you make each month?
- What are your monthly expenses?



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# Capital

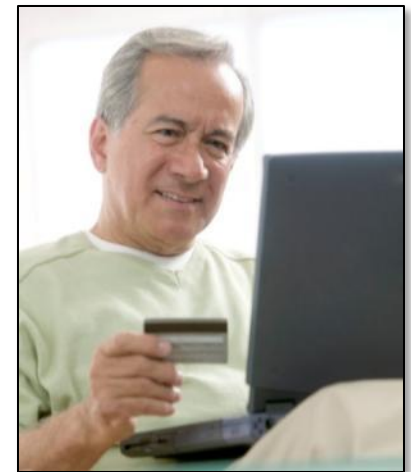
- How much money do you have in your checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., a car)?



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# Character

- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever:
  - Filed for bankruptcy?
  - Had any outstanding judgments?
  - Had property repossessed or foreclosed upon?
  - Made late payments?



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# Free Annual Credit Report

Visit: [www.annualcreditreport.com](http://www.annualcreditreport.com)

Call: 1-877-322-8228

Mail:

Annual Credit Report Request Service

P. O. Box 105281

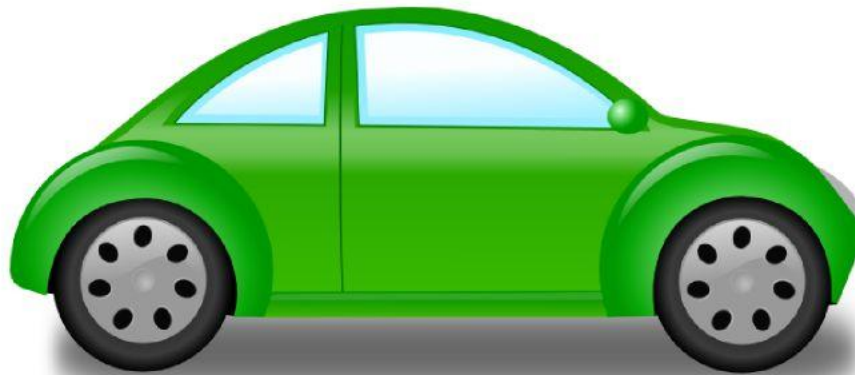
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# Collateral

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



# Predatory Lending Practices

- Certain marketing tactics, collection practices, and loan terms that deceive and exploit borrowers
- **Predatory loans:**
  - Are usually more expensive than other loans
  - Have repayment terms many consumers cannot meet



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# Guard Against Predatory Lending Practices

- Deal with reputable loan providers
- Shop around
- Read and understand all terms and conditions
- Ensure you can afford and make payments according to the loan terms



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# Summary

- **What final questions do you have?**
- **What have you learned?**
- **How would you evaluate the training?**



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# Conclusion

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



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