

Borrowing Basics



FDIC



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Welcome

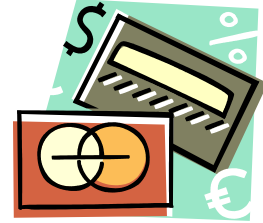


1. Agenda
2. Ground Rules
3. Introductions



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Objectives

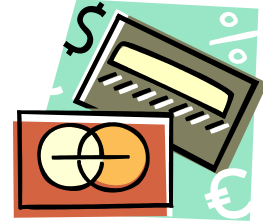


- Define what “credit” and a “loan” is
- Distinguish between secured and unsecured loans
- Identify three types of loans
- Identify the costs associated with getting a loan
- Identify the factors lenders use to make loan decisions



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Objectives

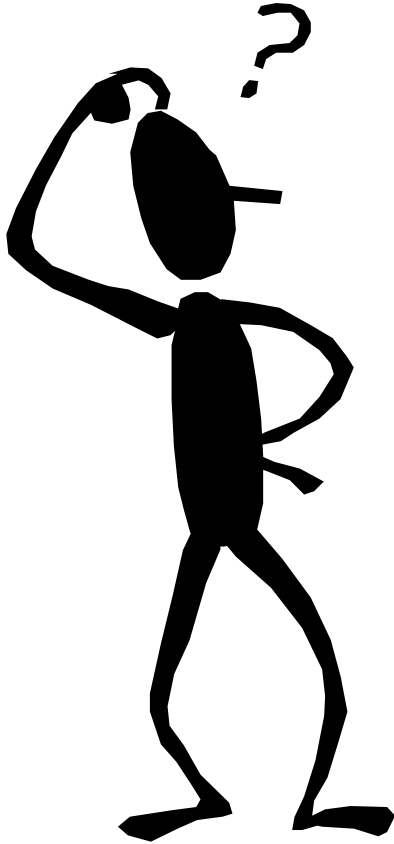


- **Explain why installment loans cost less than rent to own services**
- **Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation services**
- **Describe how to guard against predatory lending practices**



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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

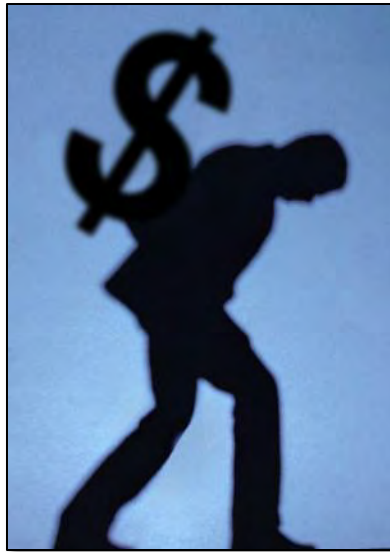
- Used to pay for personal expenses for you and your family
- **What are some other reasons for obtaining a consumer installment loan?**



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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/>
Equity	\$50,000

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



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.

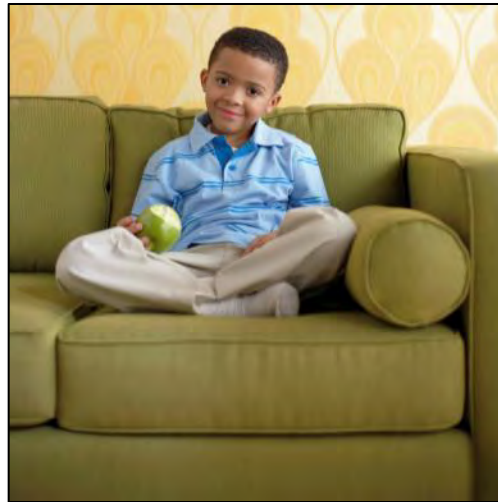


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Rent-to-Own Services

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
Total	\$248

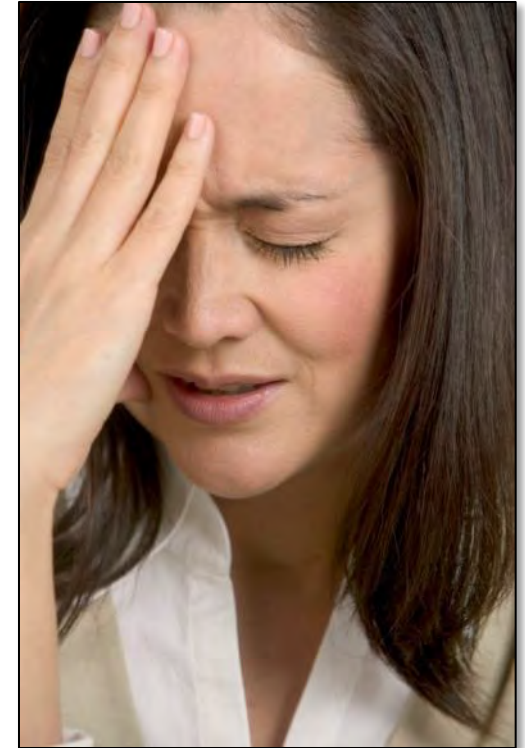
- **Suggested Alternative:**
 - File your return electronically and direct-deposit it into your bank account!



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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

Call: 1-877-322-8228

Mail:

Annual Credit Report Request Service

P. O. Box 105281

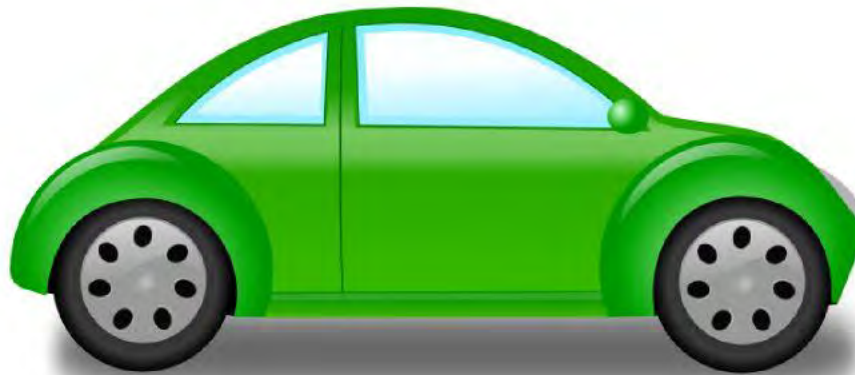
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Collateral

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



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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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