

# Loan To Own



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# Welcome



1. Agenda
2. Ground Rules
3. Introductions



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# Objectives



- **Identify various types of installment loans**
- **Identify the factors lenders use to make home loan decisions**
- **Identify how federal laws protect you when applying for a loan**
- **Identify the questions to ask when purchasing a car**



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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 loan services**
- **Guard against predatory lending practices**



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# What Do You Know?



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



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# 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



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# Secured Installment Loans

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



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# 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



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# Unsecured Installment Loan

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



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# Cost of Installment Loans

APR

Finance Charges

Fixed-rate loan

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



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# Cost of Installment Loans

APR

Finance Charges

Fixed-rate loan

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



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# Identify the Term

APR

Finance Charges

Fixed-rate loan

Variable-rate loan

- 1. 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**



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# Identify the Term

APR

Finance Charges

Fixed-rate loan

Variable-rate loan

2. 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



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# Identify the Term

APR

Fixed-rate loan

Finance Charges

Variable-rate loan

- 3. 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**



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# 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**



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# Purchasing or Leasing a Car

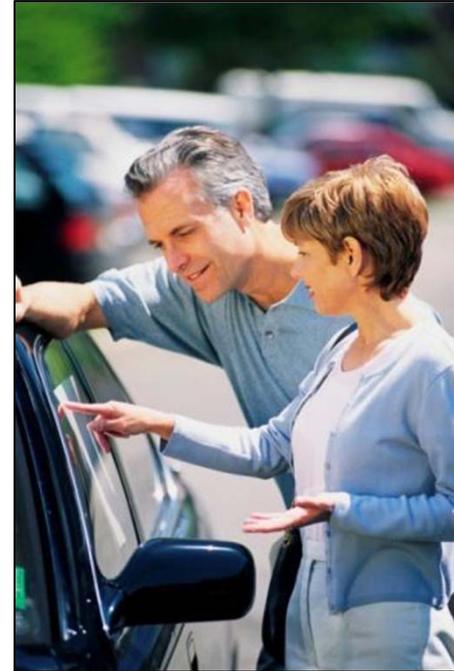
- **What are some questions to ask yourself when looking for a car?**
  - Should I get a new or used car?
  - Should I lease or buy?
  - How much can I afford?
  - Should I trade in my old car?



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# Car Loans Versus Car Leases

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



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# Financing a Car



- **The car is the collateral for the loan.**
- **The title indicates who owns the car.**
- **When considering a car loan:**
  - Know the costs and how much you need to borrow
  - Shop for the best deal



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# Where to Obtain Car Loans

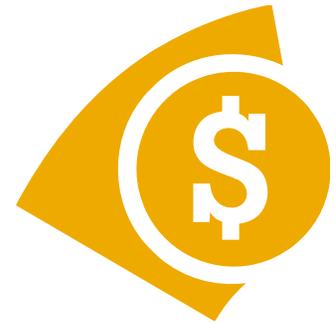
- **Banks/thrifts**
- **Credit unions**
- **Finance companies**
- **Car dealerships**



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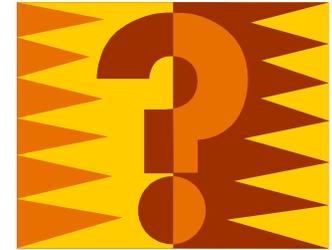
# When Dealers Offer Low Interest Rates

- **The best deal may require:**
  - Large down payment
  - Short loan term (3 years or less)
  - Excellent credit history
  - Participation fee



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# Low Interest Rates



- **Ask about:**
  - Price of low-rate financing
  - Advantages of paying with cash/using your own financing
  - Down payment required
  - Limits on the length of the loan
  - Balloon payments, if due at the end of the loan



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# Special Promotions

- **Ask about:**
  - Trade-in allowance
  - Limits on special offers
  - Meaning of dealer's invoice



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# 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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# 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"

**BUYERS GUIDE**

IMPORTANT: Spoken promises are difficult to enforce. Ask the dealer to put all promises in writing. Keep this form.

\_\_\_\_\_  
VEHICLE MAKE                      MODEL                      YEAR                      VIN NUMBER

\_\_\_\_\_  
DEALER STOCK NUMBER (Optional)

**WARRANTIES FOR THIS VEHICLE:**

**AS IS - NO WARRANTY**  
YOU WILL PAY ALL COSTS FOR ANY REPAIRS. The dealer assumes no responsibility for any repairs regardless of any oral statements about the vehicle.

**WARRANTY**

FULL     LIMITED WARRANTY. The dealer will pay \_\_\_\_% of the labor and \_\_\_\_% of the parts for the covered systems that fail during the warranty period. Ask the dealer for a copy of the warranty document for a full explanation of warranty coverage, exclusions, and the dealer's repair obligations. Under state law, "implied warranties" may give you even more rights.



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# Alternative Fueled Vehicles

- **Before buying or leasing, consider:**
  - Fuel type and availability
  - Operating costs
  - Performance/convenience
  - Energy security/renewability
  - Emissions



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# Activity 1: Beware of Dealer-Lender Relationships

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

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



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# 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



# Beware of Car Title Loans

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



# Equity

- The value of the home minus the debt

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

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



# How Home Equity Loans Work

**Appraised value of home: \$250,000**

**Lender's maximum loan-to-value ratio: 80%**

**Maximum you can borrow against the home:  
 $\$250,000 \times 80\% = \$200,000$**

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**Maximum value of home equity loan:  
 $\$200,000 - \$180,000$  (existing mortgage)  
 $= \$20,000$**



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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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# 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
- Owning more than your home is worth



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# 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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# 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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# Refund Anticipation Loans

- Short-term loans secured by your income tax refund

- **Example:**

• Refund:	\$1,500
• Fees:	<u>- \$300</u>
• Check to you:	\$1,200



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# 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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# 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!



# Emergency Options for Cash

- **Talk to your financial institution for loan options (e.g., line of credit)**
- **Build a savings fund**



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# 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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# Consumer Protection Laws

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



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# Activity 2: How Lending Laws Protect You

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



1. Read the scenario carefully.
2. Answer the questions.
3. Be prepared to explain your answers.



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# Resolving Complaints



- **Write to the Federal Deposit Insurance Corporation (FDIC):**
  - State the problem
  - Include pertinent information
- **Send copies of documents that may help explain your problem**
  - Keep the original documents
- **Sign and date your letter**



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# Additional Consumer Protection Laws

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



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# 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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# 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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# Predatory Payday Loans

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



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# 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



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# Activity 3: Predatory Lending Practices

**Complete Activity 3 in the Participant Guide.**



1. Read the scenario carefully.
2. Answer the questions.
3. Be prepared to explain your answers.



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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:**
  - 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



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