Participant Guide

FDIC Financial Education Curriculum

Loan To Own

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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.

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

Participant Materials

This *Loan to Own* Participant Guide 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

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. **What 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 perceived as 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 wary 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

Installment Loan Basics

- An *installment loan* is a loan that is repaid in equal monthly payments, or installments, for a specific period of time, usually several years.
- 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.
- *Collateral* is security you provide the lender (e.g., pledging an asset, such as your car, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan).
- 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.

Cost of Installment Loans

There are four terms you should be familiar with when it comes to understanding the cost of installment loans.

- **Annual percentage rate (APR):** The APR represents the cost of borrowing money on a yearly basis.
- **Fixed-rate loan:** A loan that has an interest rate that stays the same throughout the term of the loan.
- **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.
- **Finance charge:** The dollar amount the loan will cost with items (e.g., interest, service charges, and loan fees).

Consumer Installment Loan Versus Rent-to-Own Services

Consumer Installment Loans	Rent-to-Own Services
• 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.	• Rent-to-own allows you to use an item for a period of time. You make weekly or monthly payments in exchange for using the item. • You do not have to purchase the item. At the end of the rental period, or before you make your next weekly payment, you can return it. You will not receive a refund of money paid. • If you decide to purchase the item, the store may set up a plan for you to apply part of your weekly rental payments to the purchase price each time you make a payment. Eventually, you will have paid enough to cover the purchase price of the item and you can keep it without making any more payments. • 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.
• With installment loans you are charged interest and you can shop for the best deal by comparing APRs.	• 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 total payment are just like the interest you would pay on a loan.
• Generally, installment loans are less expensive than rent-to-own agreements.	• By making the weekly payments, you will pay much more than if you paid cash or used an installment loan.

Example

Consumer Installment Loan	Rent-to-Own
• Advertised price = $1,500 • 12% APR for 2 years • $70.61 x 24 months = $1,695 • **Chris saved $1,165.36**	• Advertised price = $55 every other week • $55 x 52 weeks = $2,860

Car Loans

There are many decisions you must make before purchasing or leasing a car. The Federal Trade Commission (FTC) has many publications that can help you. Call the FTC (**1-877-FTC-HELP**) to request a copy of its brochures or download them from FTC's website: www.ftc.gov/credit.

Car Loans versus Car Leases

Factors	Car Loans	Car Leases
Ownership potential	• 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.	• 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	• No additional costs for wear and tear are included in your loan agreement.	• 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	• Payments are higher, but you only pay them for a set term. Then you own the car.	• 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	• There are no mileage restrictions.	• 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 cents 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 then owe the dealer $450 for those miles.

Factors	Car Loans	Car Leases
Auto insurance*	• 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.	• 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.
Cost	• 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.	• 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.

*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.

Financing a 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, and used car loans typically last two to five years. Know exactly how much you are paying for the car and exactly how much you need to borrow.

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 3 years or less
- Have an excellent credit history
- Pay a participation fee (money some dealer finance companies might charge to get a low interest 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 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 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?

Other Special Promotions

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.

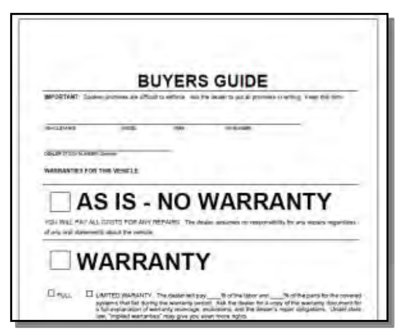
Auto Service Contracts

A *service contract* is a promise to perform (or pay for) certain repairs or services. Though it is sometimes called an extended warranty, a service contract 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

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
- "As is"



Alternative Fueled Vehicles (AFVs)

Consider the fuel type and availability, operating costs (Visit www.fueleconomy.gov for detailed information), performance/convenience, energy security/renewability, and emissions (Visit www.epa.gov/greenvehicle/).

Activity 1: Beware of Dealer-Lender Relationships

Dealers will often try to make extra profit through the loan process. Read the scenario and determine if the dealer is providing Sam the best rate. Then, answer the question below. Be prepared to explain your answer.

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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Auto Financing Tips

- 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.
- Consider paying for the tags, title, and taxes separately, rather than financing them.
- Negotiate the best price on the car if you are going to apply for a loan at the dealership.
- 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.
- Be wary of ads that promise loans for people with bad credit.

Structuring a Car Loan

Make as large as a down payment as you can so you can borrow less money and pay less in interest. Pick a repayment period that makes sense for you. 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.

Beware of Car Title Loans

Title loans are short-term (usually 1 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.

Home Equity Loans

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
minus debt	=	- 180,000
Equity	=	$ 70,000

There are two main types:

- The traditional *home equity loan* is a one-time loan for a lump sum, and typically at a fixed interest rate. The loan is 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 and will change with movements in interest rates.

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.

Home Equity Loan Tips

- 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 Federal Deposit Insurance Corporation's (FDIC) 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.

Unsecured Installment Loans

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

Unsecured Installment Loan Tips

- Make sure the new APR is lower than your current APR if consolidating loans.
- Beware of companies and websites that charge high rates and application fees.
- Beware of debt consolidation traps. Research different lenders and collect quotes before deciding.
- Consider credit counseling if you are unable to make the payments or have trouble paying your bills.

Refund Anticipation Loans

Refund anticipation loans are short-term loans secured by your income tax refund. 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. 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 cost you substantially more money.

Borrow From Yourself First

The best way to avoid a cash crunch and having to pay to borrow is to put money into an emergency savings account. You can perhaps even link your savings account to your checking account to protect yourself if you were to ever accidently overdraw your checking account.

Experts say your emergency savings fund should equal about three to six months of living expenses. 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.

Emergency Cash Options from Banks

Many banks offer reasonably priced, small loans that enable you to borrow money and repay the money (plus interest) later. One example is a line of credit, which you can use to borrow money for a short period of time.

Be cautious of using fee-based overdraft programs to deliberately overdraw your account if you need cash quickly. 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.

Four Cs of Loan Decision Making

- *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.

Lending Laws

You should know that financial institutions must follow certain federal laws and regulations that protect your rights as a consumer. 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 and 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, and exercise of rights under the Consumer Credit Protection Act. For example: you cannot be denied a loan because you have filed a complaint against the bank. The ECOA also 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 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, and 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).

The lender must 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, and either a statement of the specific reasons for denial or a notice that you may request the specific reasons for your denial.

Truth in Lending Act

The Truth in Lending Act (TILA) requires lenders to disclose the total cost of your loan, including the finance charge and the APR. In addition, it gives consumers the right to cancel certain types of home loans within three days. A Truth in Lending disclosure will include the APR, finance charge, amount financed, and total payment.

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

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). It also allows you to withhold payments on defective goods. **Note:** The Electronic Fund Transfer Act and the TILA also have methods for correcting billing errors.

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

Read the scenario about Angela and answer the questions. Use the lending law descriptions on the previous pages to help you answer the questions.

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?

____

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?

____

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 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?

____

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? ____

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.

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?

____

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?

____

What should she do?

____

____

____

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 allow Angela to tell the collection agency to stop calling her at work.

Which law is this?

____

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?

____

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 (day and evening numbers with area code).
>
> Sincerely,
>
> Your Name
> Enclosures
> 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?

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If Angela's letter did not produce the desired result, what should she do to follow up?

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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.

Additional Lending Laws

There are some additional laws you should know about that may give you additional protection.

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). The act provides protection pertaining to civil judicial proceedings, residential rentals, mortgage loans, consumer loans, and credit card interest rates.

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.

The act also provides protection in the event of a foreclosure or repossession that occurs during active-duty service. If you claim such eligibility under the SCRA, 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.

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.

Predatory Lending Practices

Predatory lending occurs when companies offer loan products using certain marketing tactics, abusive collection practices, and loan terms that deceive and exploit borrowers. 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. 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 Payday Loans

Two types of predatory loans that you should be aware of are: predatory payday loans and predatory mortgage loans. *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.

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 at the same time.
- 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 it a payday loan fee.

Predatory Mortgage Lending Practices

Predatory mortgage loans involve a wide variety of abusive practices:

- **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 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 get 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.

Activity 3: Predatory Lending Practices

Read each scenario carefully and identify the predatory mortgage lending practices used in each scenario. Be prepared to explain your answer.

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.

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.

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.

Read the two offers on the following pages 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's Easy to Qualify!
No Credit Check Required! Apply Online! It's 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 can't 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 can't 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's ok. We automatically renew loans for our online customers, so if you don't have the money in the bank, it's 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. Don't 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.

What is wrong with the following offer?

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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 won't 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'll 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

What is wrong with the following offer?

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. Make sure your credit history is accurate by reviewing your credit report every year.
- Be an informed consumer. Make sure to 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.
- 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. Lenders cannot require you to purchase credit insurance from their company. There may be better alternatives to credit life insurance (e.g., a life insurance policy purchased separately).
- 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. To find a local program, 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/.

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

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 requires creditors to promptly credit payments and 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 (SCRA): 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 United States (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, 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.

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			
I can:	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
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.

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