



# Borrowing Basics

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

# Purpose

Help you to determine:

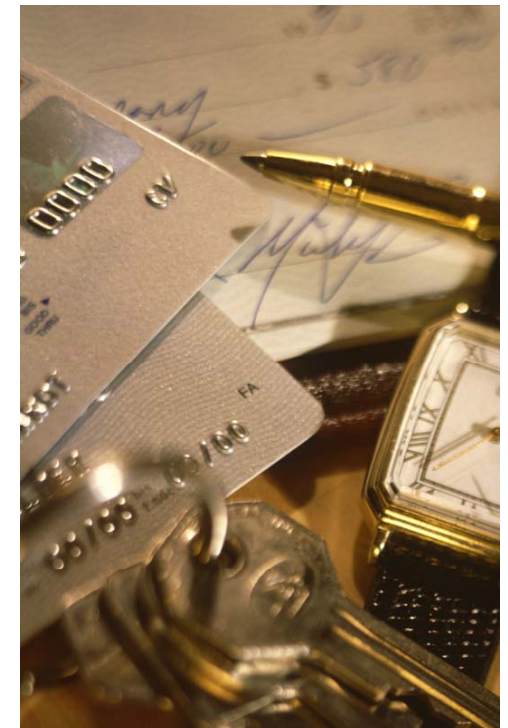
- **How to use credit appropriately**
- **What forms of credit best suit your needs**



# Objectives

By the end of this course, you will be able to:

- Define credit
- Explain why credit is important
- Identify three types of loans
- Identify the costs associated with getting a loan

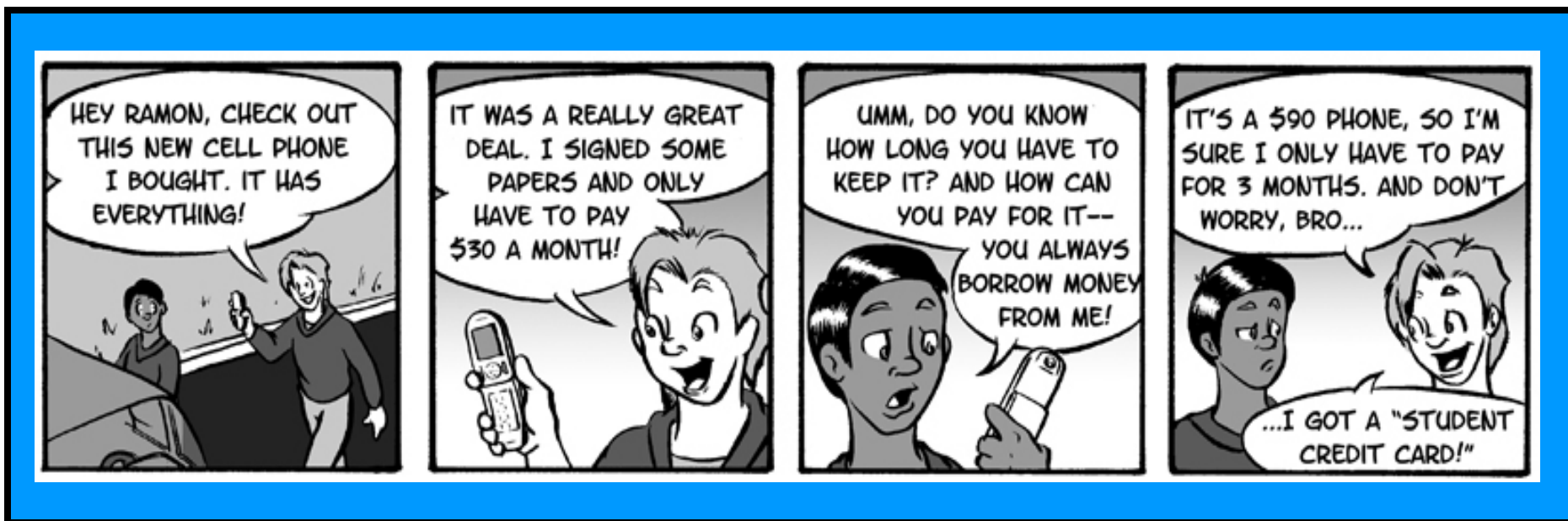


# Objectives (continued)

- **Recognize that you are protected against discrimination in the lending process**
- **Tell how you are protected against discrimination in the lending process**
- **Identify how you can guard against predatory lending practices**
- **Explain why it is important to be wary of rent-to-own, payday loan, and refund anticipation services**



# Todd, the Cell Phone and the Student Credit Card: Fact or Fiction?



# Credit

- **Money you borrow to pay for things**

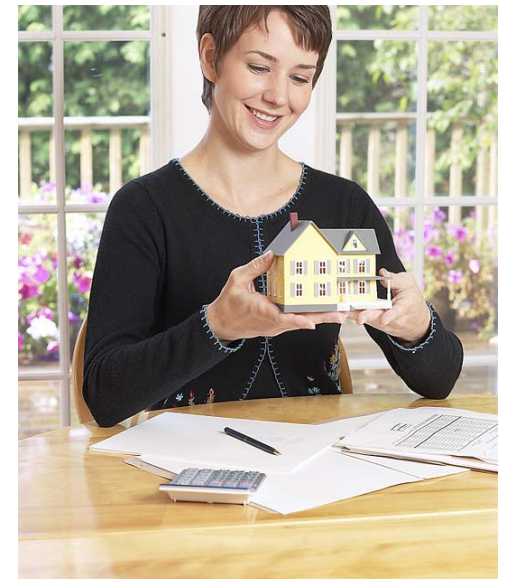
- **A loan**

**“Good credit”**

- **Making payments on time**

**“Bad credit”**

- **Harder to borrow in the future**



# Why is Credit Important

- **Useful in emergencies**
- **More convenient than carrying cash**
- **Allows for large purchases**
- **May affect your ability to get:**
  - **Employment**
  - **Housing**
  - **Insurance**



# Types of Loans

- **Credit cards**
- **Consumer installment loans**
- **Home loans**





# Credit Cards

- **Allow you to borrow money**



# Installment Loans

Money you borrow to pay for:

- **Automobile**
- **Computer**
- **Other personal expenses**



# Home Loans

- Home purchase loans
- Home refinance loans
- Home equity loans



# Activity 1: Types of Loans

## Complete Activity 1 in your Participant Guide

- Take 5 minutes to read and complete
- Select the appropriate loan type for each type of purchase
- Discuss your answers with the class



# Fees

- **Annual maintenance fees**
- **Service charges**
- **Late fees**



# Interest

Financial institutions charge money at a certain rate to let you use their money:

## Fixed

- Interest rate stays the same during the term of the loan

## Variable

- Interest rate may change during the loan's term



# How much does credit really cost?

Amount Financed	\$5,000.00
APR	12%
Finance charge	\$600.00
Total paid	\$5,600.00



**Beware of “Penalty APRs” and  
“Universal Default” on credit cards**



# Activity 2: Borrowing Money Responsibly

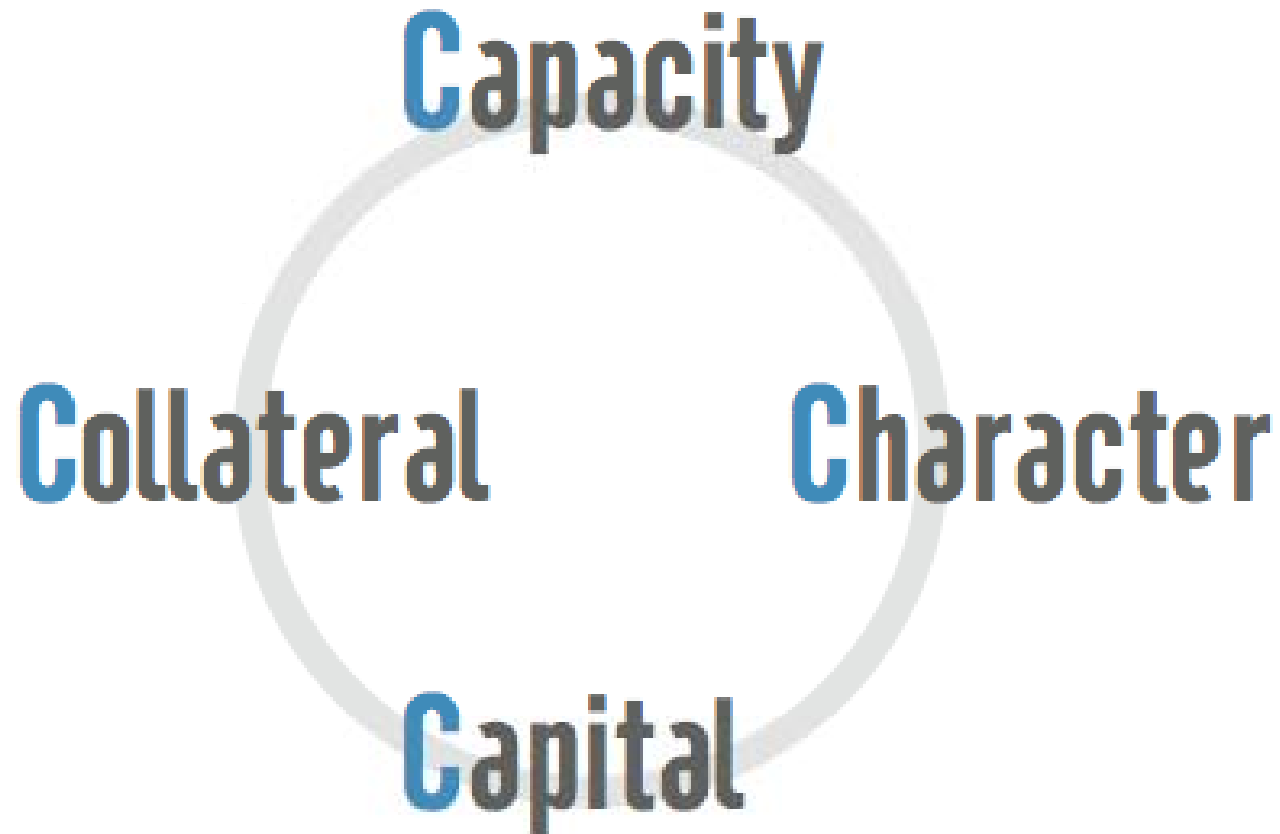
## Complete Activity 2 in your Participant Guide

- Work in pairs to answer the questions
- Discuss your answers with the class





# The Four Cs of Credit Decision Making



# Capacity

- **Do you have a job?**
- **How much money do you make?**
- **What are your monthly expenses?**



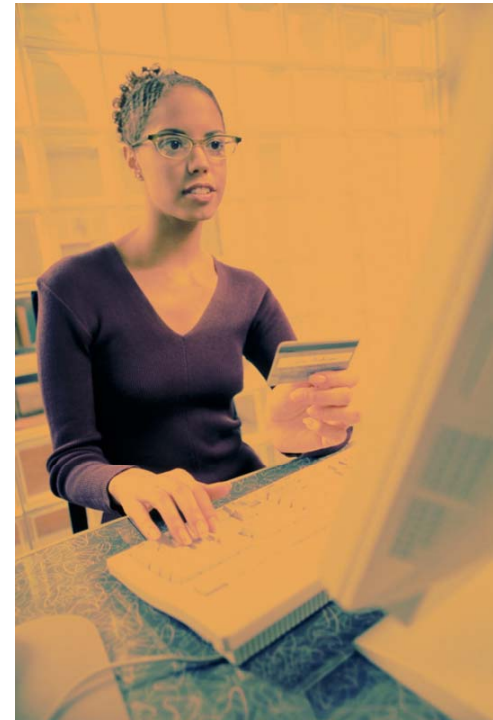
# Capital

- **How much money do you have in your checking and savings accounts?**
- **Do you have other investments or assets?**



# Character

- **Have you had credit in the past?**
- **How many credit accounts do you have?**



# Collateral

- Do you have assets to provide to secure the loan beyond your capacity to pay the loan?



# Activity 3: The Four C's and Barriers to Borrowing Money

## Complete Activity 3 in your Participant Guide

- Why are these barriers to borrowing money?
- Any problem with capital, collateral, character and/or capacity?
- Assign one or more of the Four Cs to each item



# Activity 4: Questions to Ask Before Applying for Credit

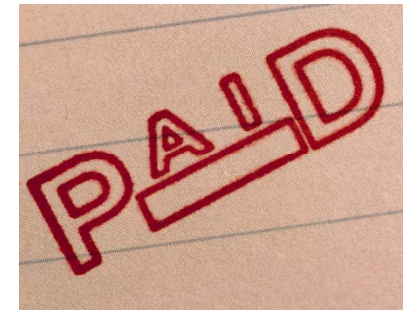
## Complete Activity 4 in your Participant Guide

- What questions should you ask before applying for credit?
- List your questions



# Tips for Managing Your Credit

- Pay off your entire credit card bill every month
- Stop using it if you can't pay it off
- Pay on time - avoid late fees
- Ignore credit card offers
- Be aware that money borrowed costs money





# Predatory Lending Practices

- **Some sub-prime loans**
- **Pay day loans**
- **Mortgage loans**



# Activity 5: Indicators of Possible Predatory Lending Practices

## Complete Activity 5 in your Participant Guide

In your small group, review and discuss your assigned predatory practices:

- Why are these practices “predatory?”
- Be prepared to explain your reasons to the class



# Catch Phrases of Abusive Lenders

**“125 percent of your home/car’s value”**

**“Incredibly low monthly payment”**

**“No upfront fees”**

**“Even if you have a bad credit history...”**

**“It’s free and you have nothing to lose”**

**“Act now, this is a limited-time offer”**



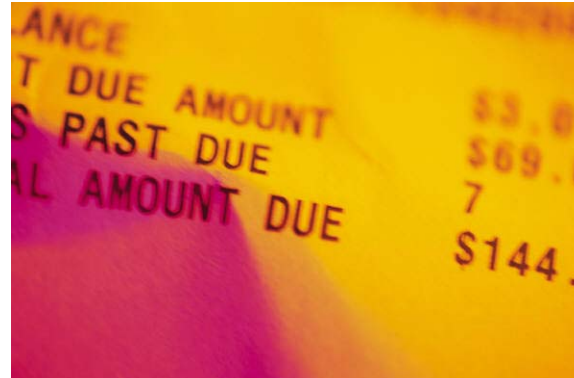
# True Cost of Alternative Financial Services

- Rent-to-own services
- Payday loan services
- Refund anticipation services



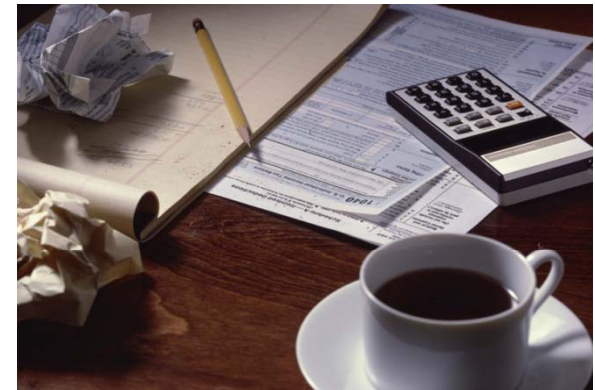
# Rent-to-Own

- You use the item while you make monthly or weekly payments
- The store owns the item until you make your final payment
- Generally more expensive than a consumer installment loan



# Refund Anticipation Loans

- **Short-term loans secured by your income tax refund**
- **Money comes from a bank or finance company**
- **Cost more than you might think**



# Be Smart! Tips

## Do

- **Pay your bills on time**
- **Shop around**
- **Ask for advice**
- **Take your time**
- **Be careful**

## Don't

- **Respond to pressure tactics**
- **Respond to ads making lending sound cheap**
- **Don't refinance just after signing a mortgage**



# CONCLUSION: Todd, the Cell Phone and the Student Credit Card





# Borrowing Basics



**Congratulations! You have completed the *Borrowing Basics* Module. You have learned:**

- **What credit is and what “good credit” means**
- **The different types of loans**
- **The cost of credit and the cost of using non-loan services**
- **How lenders make credit decisions**



# Assess Your Knowledge

**Don't forget to complete the Knowledge Check in your Participant Guide.**

