

Student Take Home Guide

Money Smart

Loan To Own



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Money Smart

The *Money Smart* curriculum is brought to you by the National Association of Federal Credit Unions (NAFCU). *Money Smart* is adapted from a curriculum developed by the Federal Deposit Insurance Corporation (FDIC). The *Money Smart* Program includes the following courses:

- **Credit Unions: Here To Serve You**
an introduction to consumer financial services
- **Borrowing Basics**
an introduction to credit
- **Check It Out**
how to choose and keep a checking account
- **Money Matters**
how to keep track of your money
- **Pay Yourself First**
why you should save, save, save
- **Keep It Safe**
your rights as a consumer
- **To Your Credit**
how your credit history will affect your credit future
- **Charge It Right**
how to make a credit card work for you
- **Loan to Own**
know what you're borrowing before you buy
- **Your Own Home**
what homeownership is all about

Loan To Own

Welcome to Loan To Own! Understanding installment loans is important when using loans to make purchases. This course will provide you with general information on installment loans, including car loans. When you have completed this course, you will be able to describe the characteristics of consumer installment loans.

Lending Terms

Installment loans are loans that are repaid in equal monthly payments (installments) for a specific period (usually several years). The following terms are basic lending concepts.

Fixed rate loan—A loan that has an interest rate that stays the same throughout the term of the loan. Most installment loans have fixed rates.

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 (contract).

Annual Percentage Rate (APR)—The APR is a measure of the cost of your loan expressed as a yearly percentage rate. When shopping for the best loan rates, compare the APRs rather than the interest rates since APRs reflect the cost of interest and other finance charges.

The chart below shows how the APR can make a difference for a 5-year \$5,000 loan.

APR	Monthly Payments	Total Cost over 5 years
10%	\$106.24	\$6,374.40
11%	\$108.71	\$6,522.60
12%	\$111.22	\$6,673.20
13%	\$113.77	\$6,826.20
14%	\$116.34	\$6,980.40
15%	\$118.95	\$7,137.00
16%	\$121.59	\$7,295.40

Finance Charge—The dollar amount the loan will cost you. It includes items such as interest, service charges, and loan fees.

Collateral—The asset (anything owned that has monetary value) you promise to give to the lender if you do not pay back the loan.

Secured 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.

Unsecured loan—A loan where the lender does not require collateral.

Consumer Loan Versus Rent-to-Own

Example: A local electronics store was selling the television Chris wanted for \$500. A nearby rent-to-own store advertised the same model for \$15 a week. After seeing the advertisement, Chris went to the rent-to-own store to get more details. The manager told Chris he would own the television in 72 weeks.

Chris decided to purchase the television at the electronics store for \$500. He obtained a 1-year installment loan with a 10% APR.

As shown in the table below, using a rent-to-own store would have cost Chris \$1,080. By obtaining a short-term installment loan, Chris saved \$552.48 (\$1,080 - \$527.52 = \$552.48).

Although \$15 a week sounds affordable, it can actually cost you more in the end.

Consumer Installment Loan	Rent-to-Own
Advertised price = \$500	Advertised price = \$15 per week
10% APR for 1 year	
\$43.96 x 12 months = \$527.52	\$15 x 72 weeks = \$1,080
Chris saved \$552.48	

Differences Between a Car Loan and a Lease

Before you get your next car, it is important to evaluate the costs and benefits of leasing versus buying a car.

- **Ownership**—With a lease you do not own the car. Leases are basically long-term rental agreements. You make monthly payments to the dealership. These agreements might last 2-5 years. If you obtained a car purchase loan, you would own the car at the end of the loan.
- **Wear and Tear**—Most leases charge for exceeding “normal” wear and tear. If you buy, you would not have any additional costs for wear and tear in your purchase agreement.
- **Monthly Payments**—You will have lower monthly payments if you lease a car rather than finance a car. The reason monthly lease payments would be lower than monthly loan payments is because you are not purchasing the car. The dealership owns the car. Once the lease agreement is over, you usually turn in the car. Although you have the option of purchasing the car at the end of the lease, the total cost would be more than if you had initially bought the car. On the other hand, with a car loan, you actually pay for the purchase of the vehicle. Once you finish making the payments, you own the car.
- **Mileage limitations**—Leases usually restrict the number of miles you drive each year. You must pay the dealer for each additional mile driven, as stated in your lease contract. For example, a two-year lease might have a 24,000-mile restriction, and cost you \$0.15 for each mile driven over 24,000. This can add up if you drive a lot. Driving 2,000 miles over the limit would cost you \$300 ($2000 \times \$0.15 = \300). If you buy a car, there are no mileage restrictions.
- **Auto insurance**—Auto insurance usually costs more if you lease than if you purchase a car. Most car leases require you to purchase higher levels of insurance coverage. Make sure you find out what the requirements are and get an estimate from your insurance company before you decide on leasing.

Auto Financing Tips

- Shop around for auto financing before going to the dealer. Get pre-approved for the loan.
- Compare APRs from credit unions, banks, thrifts, websites, and newspapers.
- Order a copy of your credit report and correct any errors a few months before shopping for a car.
- Make the largest downpayment you can. Beware of a low downpayment or long repayment plans. The more you borrow and the longer you take to pay the loan, the more interest you pay and the more your car will cost you in the end. Additionally, if you have to sell your car in the first few years, you could owe the lender more than the car is worth.
- Consider paying for the tags, title search, and taxes separately, rather than financing them. This can reduce the amount of interest you will pay.
- If you are going to apply for a loan at the dealership, make sure you first negotiate the best price on the car. Beware of dealers who insist on asking you how much you can afford every month. These dealers might be interested in making you stretch out the term of the loan to make the loan sound more affordable. However, by extending the length of the loan, your total cost will increase.
- Be aware of penalties. Some lenders might charge you for paying off your loan early.
- If you need to give the dealer a deposit, make sure you know whether you will get the money back if you change your mind. It is best to get this in writing.
- 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. These deals often require a higher downpayment or have a very high APR.

Home Equity Loan Tips

- Do not agree to a home equity loan if you do not have enough income to make the monthly payments. Remember, you can lose your home if you do not repay the loan.
- Do not let anyone pressure you into signing any documents; read and understand all closing papers carefully. Do not be afraid to ask questions.
- Remember to shop around for the best rates. The Federal Trade Commission has a home equity shopping list. This can be found on the following website:
www.ftc.gov/bcp/online/pubs/alerts/shopeqvalrt.htm
- Remember, all home equity loans secured by your primary home have a three-day cancellation period. This means you have three days to change your mind.

For Further Information

National Credit Union Administration

1775 Duke Street
Alexandria, VA 22314
1-703-518-6300

www.ncua.gov

Federal Deposit Insurance Corporation (FDIC)

Division of Compliance and Consumer Affairs
550 17th Street, NW
Washington, DC 20429
1-877-ASK-FDIC (877-275-3342)

Email: consumer@fdic.gov

www.fdic.gov

www.firstgov.gov

workers.gov

www.consumer.gov

These websites provide access to all online U.S. Federal Government resources.

www.pueblo.gsa.gov

1-800-688-9889

The **Federal Consumer Information Center (FCIC)** provides free online consumer information. The FCIC produces the Consumer Action Handbook, which is designed to help citizens find the best source for assistance with their consumer problems and questions.

www.ftc.gov/ftc/consumer.htm

1-877-382-4357

The **Federal Trade Commission (FTC)** publishes a variety of consumer education brochures.

consumerworld.org

Consumer World is a public service, which catalogs over 2000 consumer resources.

www.consumersunion.org

Consumers Union is a nonprofit organization that provides information on a variety of consumer issues.

Buying a Car

The Federal Trade Commission (FTC) has information that can help you buy a car and help you get the best price. The website, www.ftc.gov/bcp/menu-auto.htm, has brochures such as:

- *Buying a New Car*—includes tips on how to choose a car, information on negotiating the price, and considerations when financing a car.
- *Buying a Used Car*—includes information explaining different payment options, dealer sales, private sales, and warranties.

Home Improvement

For more information on home improvement, including how to hire contractors, how to understand your payment options, and how to protect yourself from home improvement scams, read the FTC brochure, *Home Sweet Home...Improvement*. You can find the brochure at the following website:

<http://www3.ftc.gov/bcp/online/pubs/services/homeimpv.pdf>.

Legal Services

If you think you are a victim of a scam, contact local law enforcement and an attorney. Most communities have programs that provide free legal services to individuals with little or no income. Look in the community services pages of your phone book or look in the white pages under “Legal Services of...” for the phone number of the local program.

The American Bar Association has a directory of pro bono programs (volunteer lawyer programs). The programs use local lawyers who have agreed to provide free legal services. To find a program in your area, you can go to the following website:

www.abanet.org/legalservices/probono/foreword.html.

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- Government of the District of Columbia, Department of Employment Services
- Government of the District of Columbia, Department of Banking and Financial Institution

Reference materials from the following sources were especially helpful in the development of the *Money Smart* program:

- *Consumer Action Handbook*, 2001, Federal Consumer Information Center, United States General Services Administration
- Fannie Mae
- *Gateway to a Better Life—Making Every Dollar Count*, 1998, Cooperative Extension, University of California
- *Helping People in Your Community Understand Basic Financial Services*, Financial Services Education Coalition
- Internal Revenue Service
- *Saving Fitness A Guide to Your Money and Your Financial Future*, U.S. Department of Labor, Pension, and Welfare Benefits Administration
- Social Security Administration
- United States Department of Agriculture, Rural Development, Rural Housing Service
- United States Department of Housing and Urban Development
- United States Veterans Administration, Department of Veterans Affairs Home Loan Program

Course Evaluation – Loan To Own

Instructor: _____ Date: _____

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information/skill taught in the course is useful to me.	1	2	3	4
8. I am confident that I can use the information/skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

What was the least helpful part of this course?

Would you recommend this course to others?

Any comments/suggestions?

What Do You Know – Loan To Own

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about your rights and responsibilities as a consumer of financial products and services both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

<i>I know:</i>	Before-the-Course				After-the-Course			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. How to describe different types of consumer installment loans	1	2	3	4	1	2	3	4
2. How to determine the right consumer installment loan for my needs	1	2	3	4	1	2	3	4