# Borrowing Basics


## Instructor Guide

FDIC
Money Smart

Building: Knowledge, Security, Confidence

**FDIC Financial Education Curriculum**

# TABLE OF CONTENTS

# MODULE OVERVIEW

## Purpose

The Borrowing Basics module describes how credit works and helps students determine if they are ready to apply for credit.

## Objectives

At the end of the module, students will be able to:

- Define credit.
- Explain why credit is important.
- Distinguish between secured and unsecured loans.
- Identify three types of loans.
- Identify the costs associated with getting a loan.
- Explain why it is important to be wary of rent-to-own, pay-day loan, and refund anticipation services.
- Determine if they are ready to apply for credit.

## Presentation Time

The total presentation time is 90 minutes, depending on the level of participation and the amount of time students need to complete the exercises.

## Materials and Equipment Needed to Present This Module

**Important Note:** The materials and equipment needed to present all of the Money Smart modules are listed in the *Guide to Presenting the Money Smart Program*. Review the Guide thoroughly before attempting to present this module.

## Handouts

None

# LESSON PLAN

| Instructor Notes | Presentation |
|---|---|

## MODULE OVERVIEW

### Welcome

*1: Borrowing Basics*

*Welcome students.*

Welcome to Borrowing Basics! Sooner or later, almost everyone needs to borrow money. Used wisely, credit can benefit you and your family. But first, there are some things you should know about the value of credit and its costs. This course will help you decide when and how to use credit.

### Introduction

*2: Introduction*

*Introduce yourself and share a little of your background and experience.*

### Student Introductions

*3: Student Introductions*

Before we get started, I would like to know a little bit about you.

*Ask students to introduce themselves and state their expectations, questions, and/or concerns about what will be covered during the training.*

*If there is anything that will not be covered in the course, tell students where the information can be obtained (e.g., another module, a website).*

*Record their course-related expectations, questions, and concerns on chart paper and tape to the walls in the classroom.*

### Purpose

*4: Purpose*

*Describe the purpose of the module.*

The Borrowing Basics module describes how credit works and the types of credit that are available. It will help you determine if you are ready to apply for credit.

| Instructor Notes | Presentation |
| --- | --- |

**MODULE OVERVIEW** (Continued)

### Objectives

*5 and 6: Objectives*

*Describe the module objectives.*

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

- Define credit.
- Explain why credit is important.
- Distinguish between secured and unsecured loans.
- Identify three types of loans.
- Identify the costs associated with getting a loan.
- Explain why it is important to be wary of rent-to-own, pay-day loan, and refund anticipation services.
- Determine if you are ready to apply for credit.

### Agenda and Ground Rules

*7: Agenda and Ground Rules*

*Describe the module agenda and ground rules.*

This module will take about 90 minutes to present, depending on how long it takes us to get through the exercises and activities.

There will be one 10-minute break about halfway through the training.

I will be using a variety of training methods. I will be presenting material to you in the form of lectures.

There will also be classroom and small group discussions and exercises that give you a chance to practice what you have learned.

If you have experience or knowledge in some aspect of the training material, please share your ideas with the class.

One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your contribution to the class makes the learning experience that much better.

| Instructor Notes | Presentation |
|---|---|

**MODULE OVERVIEW** (Continued)

**Student Materials**

*Refer students to the Participant Guide.*

*Review its contents and organization.*

Each of you has a copy of the Borrowing Basics Participant Guide.  It contains:

- Materials and instructions you will need to complete the exercises.
- Checklists and tip sheets related to the module content.
- Space for you to take notes.
- A glossary of the banking terms used in this module.
- Resources for you to investigate after the class.

You will also receive a copy of the slides I will be using to present this module.

We will be using the Guide throughout the training. You will be able to take it home and use it as a reference.

*Ask students …*

Do you have any questions about the module overview?

| Instructor Notes | Presentation |
| --- | --- |
| | **WHAT DO YOU KNOW?** |
| *Refer students to the What Do You Know? form on page 11 of the Participant Guide.*<br>*Explain its purpose.* | **Purpose**<br>The What Do You Know? form lets you measure how much you have learned from this training. It also tells me what you liked about it and what needs to be improved. |
| | *Read the instructions for the "Before-the-Training" column only and walk students through each statement.*<br>*Provide enough time for students to complete this portion of the form.*<br>*Tell students they will return to this form at the end of the training to complete the remaining sections.* |
| *Transition to the next topic.* | Now let's get started on borrowing basics. |

| Instructor Notes | Presentation |
| --- | --- |
| | **OVERVIEW OF CREDIT** |
| | **Credit Defined** |
| *Ask students …* | Let's begin with some questions.<br>How many of you have ever borrowed money? This does not include borrowing from family or friends, but from a bank, credit union, or thrift.<br>*Have students respond by a show of hands*<br>What was the experience like?<br>*Guide a brief discussion, allowing students to share their experiences of borrowing money from a financial institution.* |
| *Ask students …* | Now tell me, what is credit?<br>*Ask students to define credit. Record responses on chart paper.* |
| *8: Credit*<br>*Define credit.* | Credit is money you borrow to pay for things. It is usually referred to as a loan.<br>You make a promise to pay back the money you borrowed plus some extra. The extra amount is part of the cost of borrowing money.<br>If you use credit carefully, it can be useful to you. If you are not careful in the way you use credit, it can cause problems.<br>The loans discussed in this course are used for consumer or personal reasons. Loans for business or commercial purposes will not be covered in this course. |
| *Explain what good credit means.* | You have probably heard the term "good credit." Having good credit means that you make your loan payments on time to repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future.<br>If you have problems using credit responsibly, it will be harder to borrow money in the future. |

| Instructor Notes | Presentation |
|---|---|

**OVERVIEW OF CREDIT** (Continued)

**Why Is Credit Important?**

*Ask students …*

Why do you think credit is important?

*Record responses on chart paper.*

*9: Why Credit Is Important*

*Explain why credit is important.*

Credit is important because:

- It can be useful in times of emergencies.
- It is sometimes more convenient than carrying large amounts of cash.
- It allows you to make a large purchase, such as a car or house, and pay for it over time.
- It can affect your ability to obtain employment, housing, and insurance depending on how you manage it.

*Transition to next topic.*

Credit is a loan often secured by collateral or a guarantee.

**Collateral**

*Ask students …*

Can anyone tell me what collateral means?

Do you know what a guarantee is?

*Record responses on chart paper.*

*10: Collateral*

*Define collateral.*

Lenders take a risk to lend you money. Therefore, they want to be sure that their money is secure.

Collateral is security you provide the lender. Giving the lender collateral means that you pledge an asset you own, such as your home, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

| Instructor Notes | Presentation |
|---|---|
| | **OVERVIEW OF CREDIT** (Continued) |
| *Explain what a guarantee is.* | A guarantee is a form of collateral. It occurs when someone you know agrees to be responsible for any money that you owe the lender but have not paid. This responsible person is called the cosigner of the loan. |
| *Explain what an unsecured loan is.* | An unsecured loan is not backed by collateral. Credit cards are examples of unsecured loans. |
| *11: Collateral Items*<br>*Explain what an asset is and give examples.* | An asset is something valuable that you own. Examples of assets include:<br>• A car.<br>• Savings and investment accounts.<br>• Property such as your home. |
| *Ask students …* | Can you think of other assets that could be used to secure a loan?<br>*Record responses on chart paper.* |
| *Give examples of items that cannot be used as collateral.* | Some items generally cannot be used as collateral, unless they are used to secure the purchase of that item itself. These include:<br>• Furniture<br>• Clothing<br>• Kitchenware |
| *Ask students …* | Do you have any questions? |
| *Transition to next topic.* | Now that we know what credit is, let's talk about the different types of loans that you can get. |

| Instructor Notes | Presentation |
|---|---|

## TYPES OF LOANS

*12: Types of Loans*

*Introduce the topic.*

I am going to talk about three types of loans. They are:

- Consumer installment loans
- Credit cards
- Home loans

### Consumer Installment Loan

*13: Consumer Installment Loan*

*Define "consumer installment loan" and give examples.*

A consumer installment loan is used to pay for personal expenses for you and your family. Examples are:

- Auto loans. The automobile you are purchasing is used as collateral for the loan.
- Unsecured loans for short-term needs, such as buying a computer.

*Ask students …*

What are some other reasons for obtaining a consumer installment loan?

*Record responses on chart paper.*

*Let students know about the Loan to Own Money Smart module.*

The Loan to Own Money Smart module gives more detailed information on consumer installment loans.

### Credit Cards

*14: Credit Cards*

*Explain what credit cards are and what they are used for.*

Credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses.

Having a credit card does not mean you have the money to pay for a purchase. You need to be able to pay your monthly credit card bill.

| Instructor Notes | Presentation |
|---|---|

## TYPES OF LOANS (Continued)

### Home Loans

*15: Home Loans*

There are three main types of home loans:

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

*Describe how home purchase loans are used.*

Home purchase loans are made for the purpose of buying a house. These loans are secured by the house you are buying.

*Describe how home refinance loans are used.*

Home refinancing is a process by which an existing home loan is paid off and replaced with a new loan. Reasons homeowners might want to refinance their home loan include getting:

- A lower interest rate.
- Money for home repairs.
- Money for other personal needs.

*Explain what a home equity loan is.*

Home equity loans are secured by a property of the borrower. The amount of equity is the value of the property minus the debt. Home equity loans generally can be used for any reason.

*Write on chart paper …*

| | |
|---|---|
| Value of Home | $250,000 |
| Minus debt = | -200,000 |
| Equity | $50,000 |

Remember, if any home loan is not repaid, you might lose your house.

*Refer students to the Your Own Home Money Smart module.*

The Your Own Home module has more information about home ownership.

Now let's complete an exercise based on what you have learned so far.

*Transition to next topic.*

| Instructor Notes | Presentation |
| --- | --- |
| | **PRACTICE EXERCISE: TYPES OF LOANS**<br>**Purpose**<br><br>This exercise gives you an opportunity to practice identifying the type of loan best suited for the purchase of specific items.<br>**Instructions** |
| *16: Practice Exercise – Types of Loans* | *Refer students to the practice exercise on page 3 of their Participant Guide.*<br>*Review the instructions with students.*<br>*Give them 5 minutes to complete the exercise.*<br>*Provide the correct responses (see Instructor Aid #1 on the next page).*<br>*Answer questions.* |
| *When you have finished the exercise, ask students …* | Do you have any questions about the types of loans? |
| *Transition to next topic.* | As with any type of business transaction, it is important to remember that credit is not free. Let's look at the cost of credit. |

# PRACTICE EXERCISE:
# TYPES OF LOANS

**Purpose**

This exercise gives you an opportunity to practice identifying the type of loan best suited for particular items.

**Instructions**

1. Read the description of the purchase to be made.
2. Fill in the blank with the most appropriate loan type for that purchase.

**Types of Loans**

Consumer installment loan

Credit card

Home loan (purchase, refinance or equity)

**Description of Purchase**

To finance a college education **Consumer installment or home loan**

***Additional instructor lecture notes***

Homeowners often use home equity or home refinance loans to finance college education. People who do not own homes can get a consumer installment loan.

Some people use credit cards to pay for tuition, but that usually costs more than installment or home loans.

To make small purchases in a department store, for example, a $50 household appliance **Credit card**

To make home improvements **Home loan or consumer installment loan**

***Additional instructor lecture notes***

Homeowners often use home equity loans or refinance their mortgage to pay for home improvements. But some may use a consumer installment loan.

## PRACTICE EXERCISE:
## TYPES OF LOANS (Continued)

**Description of Purchase**

To consolidate debts **Consumer installment or home loan**

***Additional instructor lecture notes***

Homeowners often use home equity or refinance loans to consolidate debts. People who do not own homes often use consumer loans.

Borrowers should be careful of consolidation loans and make sure they are getting a better deal than their old loans. Some dishonest lenders trick people into signing up to consolidate bills with a loan that costs more than the old loan. This can leave the borrower paying more in interest and loan origination fees.

To buy a refrigerator **Credit card**

| Instructor Notes | Presentation |
|---|---|

## THE COST OF CREDIT

*17: The Cost of Credit*

*Introduce the topic.*

When you get a loan, there are generally two costs you must pay: Fees and interest.

### Fees

*18: Fees*

*Describe the fees a credit card company charges.*

Fees are charged by financial institutions for activities such as reviewing your loan application and servicing the account. For example:

- A credit card company might charge you an annual maintenance fee of $30.
- A credit card company might also charge a service fee when you get a cash advance or a penalty fee for charging over your credit limit.
- A lender might charge a $25 late fee when you do not pay your bill on time.

### Interest

*19: Interest*

*Explain what interest is.*

Interest is the amount of money a financial institution charges for letting you use its money.

The interest rate can be either fixed or variable.

- Fixed rate means the interest rate stays the same throughout the term of the loan.
- Variable rate means the interest rate might change during the loan term. The loan agreement will show the details of the rate changes.

### Truth in Lending Disclosures

*20: How Much Does Credit REALLY Cost?*

Credit terms can be confusing because of the various rates and fees lenders charge.

The Federal Truth In Lending law requires banks to state charges in a clear and uniform manner so consumers can easily compare the actual cost of borrowing.

| Instructor Notes | Presentation |
|---|---|
| | **THE COST OF CREDIT** (Continued) |
| | **What Lenders Must Disclose** |
| *Explain the information lenders are required by law to disclose.* | • Amount financed — The amount of the loan the lender is letting you borrow. In this example, you are borrowing $5,000 for 1 year.<br>• Annual Percentage Rate (APR) — The cost of your loan expressed as a yearly percentage rate. For this example, the APR is 12 percent. The APR reflects the total cost of lending rather than just the interest charge. It is the primary tool you should use to compare lending options. The law generally requires that the APR appear in 18-point font on most credit card applications so it is easily seen.<br><br>Two terms associated with credit card APRs with which you should be aware are "penalty APR" and "universal default." |
| *Explain what penalty APR is.* | - The terms of your credit card agreement may provide that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time or if you exceed your credit limit. This is called the **penalty APR**.<br><br>For example, the penalty rate may apply if you are late on more than two payments in a 6-month period. The Truth in Lending disclosures will provide details on whether the creditor has penalty APRs and when they apply. |
| *Explain what universal default is.* | - A related concept is **universal default**. Some lenders have policies that will raise your credit card interest rate to the highest possible rate if you are late on any other account. For example, if you have five credit cards and you are late on one, the interest rate for the other four cards may be increased by a large amount. The Truth in Lending disclosures will tell you if your lender has such a policy. |

| Instructor Notes | Presentation |
|---|---|
| | **THE COST OF CREDIT** (Continued) |

- Finance charge — The total dollar amount the loan will cost you. It includes items such as interest, service charges, and loan fees. For this example, the finance charge total is 12% of $5,000, or $600.00.
- Total payments — The amount you will have paid after you have made all payments as scheduled. In the example, the total payment is $5,600.00.

For this example, we are assuming the loan is for 1 year. But if the length of the loan is longer, the monthly payments will be lower. However, you will end up paying more interest in the end.

*Ask students …*

Do you have any questions about the cost of credit?

*Transition to the practice exercise.*

Now that you understand some of the costs associated with credit, we are going to do an activity that will help you borrow money responsibly.

| Instructor Notes | Presentation |
| --- | --- |

## PRACTICE EXERCISE – BORROWING MONEY RESPONSIBLY

### Purpose

The purpose of this exercise is to give you practice making decisions on when a loan is appropriate for purchasing certain items.

### Instructions

*21: Practice Exercise – Borrowing Money Responsibly*

*You can present this topic in one of three ways:*

- *Have students work individually to match the service with the description.*
- *Have students work in table groups.*
- *Read the description and ask for volunteers to provide the correct service.*

*Refer students to the practice exercise on page 5 of their Participant Guide.*

*Review the instructions with students.*

*Give them 5 minutes to complete the exercise.*

*The answers to these questions are neither right nor wrong. In the discussion, use the comments after each question (see Instructor Aid #2 on the next page) to help students see the possible consequences of credit decisions.*

*Answer questions.*

*When you have finished the exercise, ask students …*

Do you have any questions about how to borrow money responsibly?

*Transition to the practice exercise.*

Now let's take a look at some services you need to be wary of.

**Instructor Aid #2**

# PRACTICE EXERCISE:
# BORROWING MONEY RESPONSIBLY

### Purpose

To help you make wise decisions about borrowing money.

### Instructions

- Read each questions carefully.
- Answer the question.
- Be prepared to support your answer.

### Questions

1. Would you use credit to pay overdue bills? **No**

   ***Additional instructor notes***

   It is usually not a good idea to use credit to pay overdue bills. If you are charged a fee for getting a loan, you owe the cost of the bills and the fee you were just charged. On top of that, you will have to pay interest.

   If you have problems with paying bills, you may need to reduce spending or negotiate with creditors for smaller payments.

   Most areas have free credit counseling services that can help you manage your credit problems.

2. Would you use credit to make a purchase even if you could pay cash? **Yes**

   ***Additional instructor notes***

   You may want to use credit in such a situation to establish a record of responsible credit use.

3. Would you use credit if you really wanted something but could not afford the monthly payment? **No**

   ***Additional instructor notes***

   If you cannot afford the monthly payment, do not buy the item.

   Be careful of sales people who try to sell you products based on monthly payments only. Be sure to understand the total cost of the purchase.

| Instructor Notes | Presentation |
|---|---|

## THE TRUE COST OF ALTERNATIVE FINANCIAL SERVICES

*Introduce the topic.*

*22: The True Cost of Alternative Financial Services*

Getting credit is not cheap. However, getting a bank loan is usually less expensive than other alternatives. We are going to take a look at three of these alternatives:

- Rent-to-own services
- Pay-day loan services
- Refund anticipation services

### Rent-to-Own Services

*23: Rent-to-Own Services*

*Explain how rent-to-own services work.*

Rent-to-own services let you use an item for a period of time by making monthly or weekly payments. If you want to purchase the item, the store will set up a plan for you to rent it until you pay enough to own it.

The store is the legal owner of the item until you make the final payment. If you miss a payment, the store can take the item back. If this happens, you will not own the item, and you will not get your money back.

Rent-to-own agreements are technically loans, so no interest is charged. However, the difference between the cash price and your total payment is like the interest you pay on a loan. Generally, using rent-to-own services is more expensive than getting a consumer installment loan to buy the item outright.

| Instructor Notes | Presentation |
|---|---|

## Pay-Day Loan Services

*24: Pay-Day Loans*

*Explain how pay-day loans work.*

You also need to be careful of pay-day loans. Pay-day loans are usually made to people who need money right away and plan to pay it back with their next paycheck.

Pay-day loans should be used only 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.

If you do not have the money to pay the loan within the agreed-upon time period, the lender will renew the loan and charge you additional fees. This increases the total amount you owe.

*Record the dollar figures in the example on chart paper.*

Let's look at an example of how this would work.

- Assume you go to a pay-day lender and borrow $200.
- The pay-day lender will usually make a 2-week loan and might charge a fee of $30.
- You will write a postdated check to the lender for $230.
- The pay-day lender holds the check for 2 weeks. When the money is due, you can repay the loan by letting the lender cash the check, or you can give the lender the full amount due in cash.
- The APR for this transaction is 391%. An APR for a typical pay-day loan may vary and be even higher than this example.
- Most pay-day lenders allow you to "roll over," or renew, your loan. The lender will charge an additional fee. In this case, you would write another postdated check, this time for $260 ($230 + $30 additional fee).

| Instructor Notes | Presentation |
|---|---|

**THE TRUE COST OF ALTERNATIVE FINANCIAL SERVICES** (Continued)

*Tell students about the CFSA.*

These lenders are usually not federally insured financial institutions. As a result, they are not as closely monitored by the Government as banks are.

Before deciding to use a pay-day lender, ask if it is a member of the Community Financial Services Association of America (CFSA). CFSA has adopted some best practices that its members must follow and that will protect you.

You may also ask your bank or credit union for other available options.

If you want to learn more about how to protect yourself, take the Money Matters, Keep It Safe, and Loan to Own modules in the Money Smart course.

**Refund Anticipation Services**

*25: Refund Anticipation Loans*

*Explain how refund anticipation loans work.*

Refund anticipation loans are short-term loans secured by your income tax refund. Although the business preparing your income tax return will give you the money, you are actually receiving a loan from a bank or finance company.

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.

*Record the dollar figures in the example on chart paper.*

For example:

- Your refund is $1,500.
- The fees associated with filing your income tax return with the tax preparation service and getting the refund anticipation loan equal $300.
- You will receive a check for $1,200.
- But you are actually paying $300 in fees to obtain your income tax refund.

| Instructor Notes | Presentation |
|---|---|

**THE TRUE COST OF ALTERNATIVE FINANCIAL SERVICES** (Continued)

It is important to remember that the paperwork you sign to receive a refund anticipation loan will legally obligate you to repay a $1,500 loan.

So, if your actual refund is only $800, you are responsible for repaying $700, plus interest to the lender that made the refund anticipation loan.

And the higher the loan amount, the higher the refund anticipation loan fee will be.

Here are some typical costs associated with getting a refund anticipation loan.

*Record the dollar figures in the example on chart paper.*

| | |
|---|---|
| • Tax preparation fee | $100 |
| • Refund anticipation fee | 75 |
| • Electronic filing fee | 40 |
| • Document preparation | 33 |
| Total Cost | $248 |

*Discuss e-filing and VITA programs.*

When you electronically file (e-file) your tax return and request direct deposit, your refund is often deposited in your bank account within 2 weeks. Sometimes refund anticipation loans take just as long, yet cost you substantially more money.

Many organizations host Volunteer Income Tax Assistance (VITA) sites. VITA is an IRS-coordinated program that provides free income tax assistance and e-filing.

Income eligibility restrictions may apply. Contact the IRS for a location near you.

The Money Matters module has more information about free income tax preparation services.

*Ask students …*

Do you have any questions about loan services to be wary of?

*Transition to the next topic.*

Now that we know more about loans and the services to be wary of, let's look at how banks decide to lend you money.

| Instructor Notes | Presentation |
| --- | --- |

## HOW CREDIT DECISIONS ARE MADE

*26: The Four Cs of Credit Decision Making*

*Introduce the topic and explain what the Four Cs represent.*

When you apply for credit, the lender will review the "Four Cs" to decide whether you are a good credit risk, or in other words, whether you are likely to pay back the loan.

- Capacity refers to your present and future ability to meet your payments.
- Capital refers to the value of your assets and your net worth.
- Character refers to how you have paid your bills or debts in the past.
- Collateral refers to property or assets offered to secure the loan.

*Checklist for Credit Decisions*

Let's take a look at the Checklist for Credit Decisions. It contains some of the questions a lender will ask in order to review your capacity, capital, character, and collateral.

> *Refer students to the Checklist for Credit Decisions on page 8 of their Participant Guide.*

### Capacity

*Review the questions and discuss how they relate to the Four Cs and a person's ability to obtain credit.*

First, let's discuss capacity.

***How long have you been in your job?***

Generally, a lender would like to see that you have held the same job or same type of job for at least a year.

***How much money do you make each month?***

***What are your monthly expenses?***

A bank will compare the amount you owe and your other monthly expenses with your monthly income. This is called a debt-to-income ratio. It helps determine how much money you can afford to borrow.

### Capital

Next, let's talk about capital.

***How much money do you have in your checking and savings accounts?***

***Do you own a house?***

| Instructor Notes | Presentation |
|---|---|

**HOW CREDIT DECISIONS ARE MADE** (Continued)

***Do you have investments or other assets (e.g., a car)?***

Lenders want to determine the value of your assets. Assets are things you own that have financial value.

Lenders will also compare the difference between the value of your assets and the amount of debt you have. This is called net worth. A positive net worth demonstrates your ability to manage your money.

**Character**

Let's discuss character.

***Have you had credit in the past?***

If you have a good credit history of repaying your other loans, you will have an easier time getting your loan request approved.

***How many credit accounts do you have?***

If you have never had a credit account, you may have difficulty getting approved for a loan. Having a good credit history shows a lender you can borrow money responsibly.

Some lenders let you prove this without a credit history. For example, they might ask for proof that you pay your rent and utility and phone bills on time or that you make regular deposits to a savings account.

Other examples of alternative ways to show a creditor that you are a good credit risk may include:

- Insurance premium payments.
- Payments of medical bills.
- Payments for school tuition.
- Childcare payments.
- Payments of personal loans (documented by a written loan agreement and canceled checks).

Ask the lender to consider alternative forms of history. If a lender is not willing to do this, shop around for one who will.

| Instructor Notes | Presentation |
|---|---|

**HOW CREDIT DECISIONS ARE MADE** (Continued)

***Have you ever:***

- ***Filed for bankruptcy?***
- ***Had any outstanding judgments?***
- ***Had property repossessed or foreclosed upon?***
- ***Made late payments?***

If you answer yes to any of these questions, you will likely have more difficulty getting approved for a loan.

However, some lenders will ask you to explain what happened. Depending on your circumstances, a lender might be willing to approve your loan request.

*Be prepared to provide the following definitions if students ask.*

*This is optional information and covered in the To Your Credit module.*

- Attachment — A lien against personal property.
- Bankruptcy — A legal declaration of insolvency. Bankruptcy will not fix credit record problems and will be part of your credit history for 10 years. A new law now requires that you get credit counseling before you can file for bankruptcy. The law also requires you to pay a portion of your unsecured debt if you are able to.
- Foreclosure — A legal proceeding initiated by a creditor to take possession of collateral that secured a defaulted loan.
- Garnishment — A process by which a lender obtains directly from a third party, such as an employer, part of an employee's salary to satisfy an unpaid debt. Part of the employee's salary is taken each pay period until the debt is fully paid. This process must be authorized by a court order.
- Judgment — A court order requiring a debtor to pay money to the creditor. The judgment places a security lien on the debtor's property until the judgment is satisfied (the debt is repaid).
- Lien — A creditor's claim against property to secure repayment of a debt.
- Repossession — Seizure of collateral that secured a loan in default.

| Instructor Notes | Presentation |
|---|---|

**HOW CREDIT DECISIONS ARE MADE** (Continued)

Banks will use credit reports to obtain character information.  You can request a copy of your credit report by contacting any of the three credit reporting agencies.

- Equifax
- Experian (formerly TRW)
- TransUnion

More information about credit reports is covered in the To Your Credit module of the Money Smart course.

**Collateral**

Finally, let's discuss collateral.

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

Collateral is security you provide the lender.  As we have seen, giving the lender collateral means that you pledge an asset that you own, such as your home, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

A cosigner is equally responsible, for repaying the loan if you cannot. Sometimes a person with no credit history will use a cosigner to get a loan.

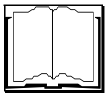
*Ask students …*

Do you have any questions about the Four Cs of Credit Decision Making?

| Instructor Notes | Presentation |
| --- | --- |

**HOW CREDIT DECISIONS ARE MADE** (Continued)

**Questions to Ask Before Applying for Credit**



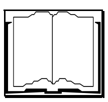
*Refer students to the Questions to Ask Yourself Before Applying for Credit on page 9 of their Participant Guide.*

*Review the questions with students.*

Here are some important questions you need to ask yourself before applying for credit:

- Do I need this?
- Do I need this now?
- Can I wait until I have cash to pay for it?
- Can I get credit?
- How much more will I pay if I buy on credit?
- Can I afford the monthly payments?
- What is the total cost of the credit?
- Are there any fees?
- What is the annual percentage rate?

**Tips for Managing Your Credit**



*Refer students to the Tips for Managing Your Credit on page10 of their Participant Guide.*

*Review the tips with students.*

Once you have decided you want to get a loan and have been approved, you need to keep these tips in mind to use the money you have borrowed wisely.

- If possible, pay off your entire bill each month. If you cannot, try to pay more than the minimum balance due. This will reduce finance charges and total interest paid.
- Pay on time to avoid late fees and to protect your credit history. If you cannot pay on time, call your creditor immediately to explain the situation. The creditor may waive the late fees or be willing to make other payment arrangements.
- Always check your monthly statement to verify that it accurately lists the things you bought. Call your creditor right away if you suspect errors in your statement.
- Ignore offers creditors may send you to reduce or skip payments. You will still be charged finance charges during this period.

| Instructor Notes | Presentation |
| --- | --- |

**HOW CREDIT DECISIONS ARE MADE** (Continued)

- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit.

Remember, if you purchase a $500 stereo with a credit card that has a 20% APR, it could cost you $1,084 and could take 9 years to pay off your debt.

*Ask students …*

Do you have any questions?

*Transition to the next topic.*

Let’s review what you have learned today.

| Instructor Notes | Presentation |
|---|---|
| | **SUMMARY AND CONCLUSION** |
| | **Summary** |
| | Congratulations! You've completed the Borrowing Basics module. We have covered a lot of information today about loans and credit. You learned about: |
| *Review what was covered in the course.*<br>*Review the chart papers with student expectations to make sure they have all been covered.* | • Credit and what "good" credit means.<br>• Secured and unsecured loans.<br>• Types of loans.<br>• The cost of credit and the cost of using non-loan services.<br>• How lenders make credit decisions. |
| | You should now be able to decide when and how to use credit. |
| *Ask students …* | Do you have any final questions? |
| | **Evaluation Form** |
| *Refer students to pages 11 through 13 of their Participant Guide.*<br>*Allow time for students to complete it.* | To improve the training, we will need your feedback. The After-the-Training column on the What Do You Know? form and the Evaluation Form will identify changes that can make this training better.<br>Please complete the After-the-Training column and the Evaluation Form now. |
| *Make sure you collect all the forms.* | Great job on completing the Borrowing Basics module! Thank you for participating. |

## WHAT DO YOU KNOW – BORROWING BASICS

Instructor: ________________________________ Date:______________________

This form will allow you and the instructors to see what you know about borrowing both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

| I know: | Before-the-Training: Strongly Disagree | Before-the-Training: Disagree | Before-the-Training: Agree | Before-the-Training: Strongly Agree | After-the-Training: Strongly Disagree | After-the-Training: Disagree | After-the-Training: Agree | After-the-Training: Strongly Agree |
|---|---|---|---|---|---|---|---|---|
| 1. How to define credit. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 2. Why credit is important. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 3. How to distinguish between secured and unsecured loans. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 4. Three major types of loans. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 5. The costs associated with getting a loan. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 6. Why it is important to be wary of rent-to-own, pay-day loan, and refund anticipation services. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 7. How to determine if I am ready to apply for credit. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |

# EVALUATION FORM

This evaluation will allow you to assess your observations of the Borrowing Basics 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:<br>[ ] Excellent<br>[ ] Very Good<br>[ ] Good<br>[ ] Fair<br>[ ] Poor | | | | | |
| 2. I achieved the following training objectives: | | | | | |
| a. Define credit. | 1 | 2 | 3 | 4 | 5 |
| b. Explain why credit is important. | 1 | 2 | 3 | 4 | 5 |
| c. Distinguish between secured and unsecured loans. | 1 | 2 | 3 | 4 | 5 |
| d. Identify three types of loans. | 1 | 2 | 3 | 4 | 5 |
| e. Identify the costs associated with getting a loan. | 1 | 2 | 3 | 4 | 5 |
| f. Explain why it is important to be wary of rent-to-own, pay-day loan, and refund anticipation services. | 1 | 2 | 3 | 4 | 5 |
| g. Determine if I am ready to apply for credit. | 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 students 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. | 0 | 1 | 2 | 3 | 4 | 5 |
| 13. My knowledge/skill level of the subject matter upon completion of the module. | 0 | 1 | 2 | 3 | 4 | 5 |

**Continued on next page…**

# EVALUATION FORM (Continued)

**Instructor Rating**

Please use the response scale and circle the appropriate number.

| **Response Scale:**<br>**5 Excellent**<br>**4 Very Good**<br>**3 Good**<br>**2 Fair**<br>**1 Poor** | **Name of Instructor** |
|---|---|
| Objectives were clear & attainable | **5 4 3 2 1** |
| Made the subject understandable | **5 4 3 2 1** |
| Encouraged questions | **5 4 3 2 1** |
| Had technical knowledge | **5 4 3 2 1** |

What was the most useful part of the training?

_______________________________________________

_______________________________________________

_______________________________________________

What was the least useful part of the training?

_______________________________________________

_______________________________________________

_______________________________________________