Loan to Own

Instructor Guide

Building: Knowledge, Security, Confidence

FDIC Financial Education Curriculum

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MODULE OVERVIEW

Purpose

The Loan to Own module provides general information on installment loans, including car loans and home equity loans.

Objectives

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

- Identify various types of installment loans.
- Explain why installment loans cost less than rent-to-own services.
- Identify the factors lenders use to make loan decisions.
- Identify the questions to ask when purchasing a car.
- Describe the advantages and disadvantages of borrowing against a home.

Presentation Time

The total presentation time is approximately 90 minutes, depending on how long students take 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 presenting this module.

Handouts

- Auto Financing Tips
- Home Equity Loan Tips

LESSON PLAN

Instructor Notes	Presentation

MODULE OVERVIEW

Welcome

1: Loan to Own

Welcome students.

Welcome to Loan To Own! Understanding installment loans is important when using loans to make purchases.

This training will help you understand what installment loans are all about.

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 Loan to Own module provides general information about installment loans, including car loans and home equity loans.

When you have completed this module, you will be able to describe the characteristics of consumer installment loans.

Instructor Notes	Presentation

MODULE OVERVIEW (Continued)

Objectives

5 and 6: Objectives

Describe the module objectives.

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

- Identify various types of installment loans.
- Explain why installment loans cost less than rent-to-own services.
- Identify the factors lenders use to make loan decisions.
- Identify the questions to ask when purchasing a car.
- Describe the advantages and disadvantages of borrowing against a home.

Agenda and Ground Rules

7: Agenda and Ground Rules

Describe the module agenda and ground rules.

This course 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 in this course. 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)

Refer students to the Participant Guide.

Review its contents and organization.

Each of you has a copy of the Loan to Own 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 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 course. 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 in their Participant Guide. Explain its purpose.

Purpose

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.

Provide enough time for students to complete this portion of the form.

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 talk about installment loans.

Instructor Notes	Presentation
	INSTALLMENT LOAN BASICS
Define installment loan.	**What Is an Installment Loan?**
8: Installment Loans	An installment loan is a loan that is repaid in equal monthly payments, or installments, for a specific period of time, usually several years.
Ask students … *Acknowledge students' responses.*	Can anyone give me an example of items that can be purchased with an installment loan? **Answers:** • Cars • Furniture • Computers • Household appliances
	Types of Installment Loans
9: Types of Installment Loans	There are two types of installment loans: • Secured loans. • Unsecured loans. Let's take a look at each one.
10: Secured Loan	A secured installment loan is one where the borrower offers collateral for the loan. The borrower gives up the collateral to the lender if the loan is not paid back as agreed.
Ask students … *Acknowledge students' responses.*	Can anyone tell me what collateral means?
Define collateral.	Collateral is security you provide the lender. Giving the lender collateral means that you pledge an asset you own, such as your car, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan. Generally, if the collateral is not enough to repay your loan, you are still responsible for: • The remaining balance. • Any fees and interest associated with the loan.

Instructor Notes	Presentation

INSTALLMENT LOAN BASICS (Continued)

11: Unsecured Loan

Define unsecured loan.

An unsecured loan is a loan that is not secured by collateral.

Transition to the next topic.

We are going to get into more detail regarding secured and unsecured loans. But first, let's take a look at how much installment loans cost.

Cost of Installment Loans

12: 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).
- Fixed-rate loan.
- Variable-rate loan.
- Finance charge.

Lending Terms

These terms, along with others we have already discussed, are described in your Participant Guide on page 1.

Let's take a look at the ones that are related to cost.

> *Refer students to Lending Terms on page 1 of their Participant Guide.*
>
> *Review the cost terms (APR, fixed-rate loan, variable-rate loan, and finance charge) with them, using Instructor Aid #1 on the next page to guide you.*

Instructor Aid #1

LENDING TERMS

Loan Terms

Installment loan – A loan that is repaid in equal monthly payments or installments for a specific period, usually several years.

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.

Collateral – The asset (anything owned that has monetary value) a borrower promises to give to the lender if the borrower does not pay back the loan.

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

Cost Terms

Annual percentage rate (APR) – A measure of the cost of a 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 <u>and</u> other finance charges.

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 or contract.

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

Instructor Notes	Presentation
	INSTALLMENT LOAN BASICS (Continued)
When you are finished reviewing the terms, ask students …	Now, let’s see if you can tell me which term I am describing. Stephanie took out a car loan with a 10 percent interest rate and paid $100 in loan application fees. What lending term reflects the interest plus the application fee? Answer: APR.
Ask students …	Michael took out a loan to buy a computer. He must make 24 equal payments over 2 years at 10 percent interest. Which lending term best describes this type of loan? Answer: Fixed-rate installment loan.
Ask students …	Kevin took out a loan for a car. He must pay $3,000 in interest, service charges, and loan fees. What lending term best describes these costs? Answer: Finance charges.
Ask students …	Do you have any questions about the cost of loans?
Transition to the next topic.	A loan can be expensive, but it is usually cheaper than some alternatives.

Instructor Notes	Presentation

INSTALLMENT LOAN BASICS (Continued)

Cheaper than Alternatives

Introduce the topic by asking …

Has anyone used or does anyone know of someone who has used rent-to-own services?

Ask for a show of hands.

Describe the differences between consumer installment loans and rent-to-own services.

Although there are many similarities between secured installment loans and rent-to-own services, there are very important differences.

Let's take a look at what they are.

Consumer Installment Loan Versus Rent-to-Own

Refer students to Consumer Installment Loan Versus Rent-to-Own on page 2 of their Participant Guide.

Review the differences with them.

Then discuss the example.

Use Instructor Aid #2 beginning on the next page to guide you.

When you have finished discussing this topic, ask students …

Do you have any questions about the difference between consumer installment loans secured by collateral and rent-to-own services?

Transition to the next topic.

Now let's talk about a specific type of secured installment loan: car loans.

Instructor Aid #2

CONSUMER INSTALLMENT LOAN VERSUS RENT-TO-OWN

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. However, if you decide to purchase the item, the store may set up a plan for you to rent the item until it is paid off. 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 you do not own it.
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. The difference between the cash price and your total payment is just like 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.

Instructor Aid #2

CONSUMER INSTALLMENT LOAN VERSUS RENT-TO-OWN

(Continued)

EXAMPLE:

Chris is trying to decide between getting an installment loan and using a rent-to-own service to buy a television.

A local electronics store was selling the television Chris wanted for $1,500. A nearby rent-to-own store advertised the same model for $55 every other 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 52 payments or 2 years. Chris multiplied $55 x 52 weeks and got $2,860.

Chris also found out that if he misses one payment, the rent-to-own service will take the television back. If he makes 50 payments on time – that is 50 x 55 = $2,750 – and misses payment 51, he loses the television and is out $2,750.

The manager told Chris that with rent-to-own, he could return the television with no obligation. Chris did another quick calculation. If he used the rent-to-own company and returned the television after a year, he would pay $1,430 – that is 26 weeks x $55.

Chris decided to purchase the television at the electronics store for $1,500. He obtained a 2-year installment loan with a 12 percent APR.

Chris made timely payments and paid off his loan in 2 years. He paid a total of $1,695.00. His monthly payments for the installment loan were $70.61, which is less than what he would have paid with a rent-to-own agreement – that is $55 x 52 weeks = $2,860

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**	Advertised price = $55 every other week (hidden costs) $55 x 52 weeks = $2,860

Although $55 every other week sounds affordable, it actually costs more in the end.

Instructor Notes	Presentation

CAR LOANS

Where to Get Information

Introduce the topic.

There are many decisions you must make before purchasing or leasing a car.

We are going to focus on financing and leasing, but let's first talk about some points you need to consider when looking for a car.

Ask students …

What are some questions to ask yourself when looking for a car?

Record students' responses on chart paper.

Give these answers if students do not provide them.

Answers:

- Should I get a new or used car?
- Should I lease or buy?
- How much can I afford?
- Should I trade in my old car?

Federal Trade Commission Publications on Buying a Car

Refer students to Federal Trade Commission Publications on Buying a Car on page 4 of their Participant Guide.

Describe the information available at the FTC site using the points below.

The Federal Trade Commission (FTC) has many publications that can help you answer these questions so you can buy a car at the best price. At the FTC Website, you can download brochures such as:

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

Instructor Notes	Presentation
	CAR LOANS (Continued) Other publications include: • Financing a Car. • Fueling Up. • Leasing a Car. • Renting a Car.
Resource List	You can also call the FTC at the phone number listed on page 17 of your Participant Guide to request a copy of its brochures.
Transition to the next topic.	Now let's take a look at the difference between car loans and car leases.
	Car Loans Versus Car Leases
13: Car Loans versus Car Leases *Describe five factors to consider.*	There are six factors that you need to consider when deciding between getting a car loan or a car lease: • Ownership potential. • Wear and tear. • Monthly payments. • Mileage limitations. • Auto insurance. • Cost.
Car Loans Versus Car Leases	Let's take a look at each one. *Refer students to Car Loans Versus Car Leases on page 5 of their Participant Guide.* *Review the differences with them, using Instructor Aid #3 on the next page to guide you.*
When you have finished describing the differences, ask students …	Do you have any questions about the differences between car loans and car leases?
Transition to the next topic.	Understand the differences and carefully consider all the costs and benefits before deciding whether to buy or lease. To help you understand the cost of buying a car, let's talk about getting a car loan.

Instructor Aid #3

CAR LOANS VERSUS CAR LEASES

Factors	Car Loans	Car Leases
Ownership potential	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. But the car does not belong to you. When the lease ends, you have to return the car to the dealership.
Wear and tear	No additional costs for wear and tear 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; however, at the end of the loan, you own the car.	Payments are lower because you are not purchasing the car; the dealership still owns it. Once your lease ends, you turn the car back in and the dealership can sell it or lease it to another customer. You may decide to purchase the car at the end of the lease; however, the total cost ends up being more than it would have been if you had bought the car instead of leasing it.
Mileage limitations	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 owe the dealer $450 for those miles.

Instructor Aid #3

CAR LOANS VERSUS CAR LEASES (Continued)

Factors	Car Loans	Car Leases
Auto insurance	May cost more during the loan than it will after the loan is repaid because the lender may require more coverage, but usually still less expensive than auto insurance for leased cars.	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	Probably will cost more in the short term than a car lease; your total loan and monthly payments are likely to be higher. However, once the loan is repaid, the car is yours.	Probably will cost less in the short term than a car purchase; your total loan 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.

Remember, you will have to have insurance coverage for your new car before you can legally drive it away from the dealership.

Instructor Notes	Presentation

CAR LOANS (Continued)

Financing a Car

14: Financing a Car

Describe what it means to finance a car.

Getting a car loan is also referred to as financing a car.

A car loan can be used to purchase a new or used car. Your car becomes your collateral for the loan, which means the lender will hold the car title until the loan is paid off.

The title indicates who owns the car. If you do not pay off the loan, the bank can repossess the car and then sell it to get the remaining loan amount back.

New car loans typically last 3 to 7 years, while used car loans last 2 to 5 years.

A car loan might be one of the biggest expenses you have. Therefore, if you decide to purchase a car, you should know exactly how much you are paying for the car and exactly how much you need to borrow.

When considering a car loan, be sure to shop around for the best deal before you make a commitment.

Ask students …

What should you use to compare loans for the best buy?

Answer: APR.

Where to Obtain a Car Loan

15: Where to Obtain a Car Loan

Describe the places where car loans can be obtained.

You can obtain a car loan from:

- Banks.
- Credit unions.
- Thrifts.
- Finance companies.
- Car dealerships.

Loan Pre-approval

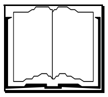
16: Loan Pre-approval

Define what it means to pre-approve a loan.

Most lenders can pre-approve your car loan. This means the financial institution calculates how much money you can borrow to buy your car.

This is typically a free service and does not obligate you to accept a loan offer from the institution.

Instructor Notes	Presentation
	CAR LOANS (Continued)
	When Dealers Offer Low Interest Rates
17: When Dealers Offer Low Interest Rates *Explain what you sometimes have to do to get a low interest rate.*	Dealers sometimes offer low loan rates for specific cars. 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.
18: Participation Fees *Explain what a participation fee is.*	A participation fee is money that some dealer finance companies might charge to get a low interest rate. For example, although a 2 percent APR might be advertised, the company might charge you a participation fee of $200 up front to get the low rate.
Ask students …	Do you have any questions so far?
	Beware of Dealer-Lender Relationships
Introduce the topic.	You can see why it is important to shop around for the best financing for your car.
19: Beware of Dealer-Lender Relationships	Sometimes, dealers try to make extra profit through the loan process. A dealer might have business relationships with many different lenders, so when you ask for dealer financing, the dealer might call several lenders. Instead of picking the lender with the best rate for you, some dealers might pick the lender that makes the most profit for the dealership. For referring you and other customers, the lender might pay money to the dealership.

Instructor Notes	Presentation
	CAR LOANS (Continued)
 *Beware of Dealer-Lender Relationships*	Let’s take a look at an example. Read the scenario and then tell me what Sam should have done differently. *Refer students to Beware of Dealer-Lender Relationships on page 7 of their Participant Guide.* *Review instructions with students, using Instructor Aid #4 on the next page to guide you.* *Give them 10 minutes to complete the exercise.*
 *Auto Financing Tips*	*Hand out Auto Financing Tips to students.* *Review the tips with students, using Instructor Aid #5 on page 21 to guide you.* *Relate students’ suggestions with the tips in the handout.* *Answer questions.*
 *When you have finished reviewing the tips, ask students …*	Do you have any questions about car financing?
 *Transition to the next topic.*	Once you own your car, you also need to be careful of title loans.

BEWARE OF DEALER/LENDER RELATIONSHIPS

Instructions

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

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 had 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.
- 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?

AUTO FINANCING TIPS

- Shop around for auto financing before going to the dealer. Get pre-approved for the loan by a bank or credit union.
- Compare APRs from local banks, thrifts, credit unions, 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 down payment you can. Beware of a low down payment or long repayment plans. The more you borrow and the longer you take to pay the loan, the more interest you will 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, 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 to pay every month. These dealers might be trying to make you stretch out the term of the loan to make the loan sound more affordable. However, extending the length of the loan will increase your total cost.
- 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 down payment or have a very high APR.

Instructor Notes	Presentation
	CAR LOANS (Continued)
	Beware of Car Title Loans
20: Car Title Loans *Define 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.
Beware of Car Title Loans	Let's look at an example of how costly a title loan can be. *Refer students to Beware of Car Title Loans on page 8 of their Participant Guide.* *Review the example, using Instructor Aid #6 on the next page to guide you.* *Answer questions.*
When you have finished reviewing the tips, ask students …	Do you have any questions about car title loans?
Transition to the next topic.	Now that you know about car title loans, it is time to talk about another kind of secured installment loan: home equity loans.

BEWARE OF CAR TITLE LOANS

Michael had $500 in unexpected medical expenses and needed a loan. He saw a television commercial that declared, “If you have a car, you can get a loan.” Michael had a car worth about $2,500, so he decided to apply for the loan.

The finance company Michael saw in the commercial loaned him $500 at 20 percent interest per month. Note that the finance company did not advertise the APR. The finance company took his car title as collateral and Michael kept the car.

With a 20 percent monthly interest rate on the $500 loan, Michael owed $600 at the end of the month -- the $500 loan plus $100 in interest.

Michael could not repay the $600 at the end of the month. The lender could have repossessed the car. However, the lender gave Michael the option of just paying the $100 interest and gave him until the next month to pay the loan. At the end of the next month, Michael still owed $600 ($500 loan + another $100 in interest).

By the end of 1 year, Michael had paid $1,200 in interest for his $500 loan – $100 every month = $1,200! This equates to a loan with a 240 percent APR. Finally, Michael received a bonus from work and was able to pay off the $600.

This is an expensive way to borrow money!

Instructor Notes	Presentation

HOME EQUITY LOANS

What Is a Home Equity Loan?

Introduce the topic.

We have talked about car loans that are secured by the purchased item, namely a car. The car is the collateral that secures the loan.

There are also loans secured by an asset that is not being purchased, such as home equity loans or loans secured by savings accounts.

Let’s take a closer look at home equity loans.

21: Home Equity Loans

Define home equity loan and equity.

Give an example of equity.

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.

Write the example of equity below on chart paper …

Value of Home	=	$250,000
minus Debt	=	- 200,000
Equity	=	$ 50,000

Explain how home equity loans are used.

Home equity loans can be used for almost any purpose. Many home owners use home equity loans to consolidate higher interest loans or to make home improvements.

In addition to installment loans, many lenders offer home equity loans in the form of lines of credit. Lines of credit are open-end loans, like credit cards, that allow you to make multiple withdrawals up to a certain limit.

We will focus on closed-end home equity loans.

Instructor Notes	Presentation

HOME EQUITY LOANS (Continued)

Advantages of Home Equity Loans

Ask students …

Acknowledge students' responses.

Can anyone tell me an advantage of taking out a home equity loan?

Answer:

- Lower interest rates.
- The interest rate may be tax deductible.

Check with a tax advisor to clarify if the interest will be deductible.

Dangers of Borrowing Against Your Home

Ask students …

Acknowledge students' responses.

What is the danger of borrowing against your home?

Answer: If you cannot make your monthly payments, you could lose your home.

Because of this danger, there is a law that gives borrowers 3 days to reconsider a signed home equity loan agreement and cancel the loan without a penalty. This is called the "right to rescind" or "right to cancel," and it applies when you use your primary home as collateral.

Home Improvement Loans

Introduce the topic.

Many home equity loans are used to make home improvements. If you decide to use a home equity loan to make improvements or repairs, be careful.

The Shady Contractor

Let me give you an example of why you need to be careful.

Refer students to The Shady Contractor on page 9 of their Participant Guide.

Review instructions with students, using Instructor Aid #7 on page 27 to guide you.

Give them 10 minutes to complete the exercise.

Instructor Notes	Presentation
	HOME EQUITY LOANS (Continued)
Home Equity Loan Tips	*Hand out Home Equity Loan Tips to students.* *Review the tips with students, using Instructor Aid #8 on page28 to guide you.* *Relate students' suggestions with the tips in the handout.* *Answer questions.*
When you have finished reviewing the tips, ask students …	Do you have any questions about home equity loans?
Transition to the next topic.	Let's take a look at the second type of loan that we briefly encountered at the beginning of the course: unsecured loans.

Instructor Aid #7

THE SHADY CONTRACTOR

Instructions

- Read the scenario carefully.
- Answer the questions.
- Be prepared to explain your answers.

Scenario

Shady Contractor came by Jim's house and offered to install a new roof. Shady Contractor's price sounded fair. Jim said he was interested but could not afford Shady Contractor's services at that time.

Shady Contractor said Jim should not worry. Shady Contractor could arrange for financing through a lender he knew. Shady Contractor sounded honest and sincere, and Jim really wanted his roof fixed, so he agreed.

Shady Contractor started work on the roof. A few days later, the lender asked Jim to sign some documents. Jim was alarmed that the lender rushed him through, without letting him read the documents. Shady Contractor threatened to walk off the job if Jim did not sign the loan papers.

Later, Jim realized he had signed a home equity loan. The interest rate, points, and fees were very high. Jim felt cheated, but took comfort in the thought that at least his roof would be fixed. However, soon after the loan closed, Shady Contractor stopped coming to fix the roof. The roof work was not completed.

Jim found out the lender had paid Shady Contractor directly – it was part of the contract agreement that Jim did not read. Now that Shady Contractor had his money, he did not care whether he completed the job. Jim had a difficult time paying his loan and had to find someone else to finish fixing his roof.

Where did Jim go wrong?

What should he do now?

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 FDIC's Website at www.fdic.gov.
- Do not let anyone pressure you into signing any documents. Read the closing papers carefully and be sure you understand them. Do not be afraid to ask questions.
- Remember to shop around for the best rates.
- Remember, all home equity loans that are secured by your primary home have a 3-day cancellation period. This means you have 3 days to change your mind.
- If you think you are a victim of a predatory loan, contact an attorney. Most communities have legal offices that provide free legal services, called "pro bono" programs, to individuals with limited 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 staffed by lawyers who have agreed to provide free legal services. The following link can help you find a program in your area:

  www.abanet.org/legalservices/probono/
- To get 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,* 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.

Instructor Notes	Presentation

UNSECURED INSTALLMENT LOANS

22: Unsecured Installment Loans

Define unsecured installment loans.

Unsecured installment loans – sometimes called personal or signature loans – can be used for a variety of personal expenses such as bill consolidation, education expenses, or medical expenses.

- There is no collateral requirement for an unsecured loan. The terms of the loan might range from 1 to 5 years.
- Since credit cards have become popular, the use of unsecured consumer installment loans has declined. However, some financial institutions still offer unsecured installment loans.

Benefits of Unsecured Installment Loans

23: Benefits of Unsecured Installment Loans

Some benefits of unsecured installment loans include:

- Fast approval time.
- Interest rates might be lower than credit card rates.

Drawbacks of Unsecured Loans

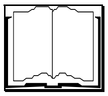
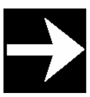
Ask students …

Acknowledge students' responses.

Can you think of any drawback to unsecured loans?

Answer:

- Interest rates are generally higher than on secured loans.
- Lenders might have stricter credit requirements since there is no collateral to collect if the borrower does not pay.

Instructor Notes	**Presentation**
	UNSECURED INSTALLMENT LOANS (Continued) **Unsecured Loan Tips**
 *Unsecured Installment Loan Tips*	Let's take a look at some things you should keep in mind when getting an unsecured installment loan. *Refer students to Unsecured Installment Loan Tips on page 10 of their Participant Guide.* *Review the tips with students, using Instructor Aid #9 on the next page to guide you.* *Answer questions.*
 *When you have finished reviewing the tips, ask students …*	Do you have any questions about unsecured installment loans?
 *Transition to the next topic.*	Finally, let's take a look at the criteria lenders use to decide whether to give you a loan.

UNSECURED INSTALLMENT LOAN TIPS

- If you plan to use an unsecured installment loan to consolidate your other loans, make sure the new APR is lower than your current APR.

- As with any other loans, you could become overwhelmed and unable to make the payments. If you have trouble paying your bills, you might consider getting credit counseling.

- Beware of debt consolidation traps. These are loans that you get in order to help pay off what you owe on several credit cards. They can be either secured loans, such as home equity loans, or unsecured loans.

- Beware of companies and Websites that charge high rates and application fees. Look for hidden charges. Ask for references before signing an agreement.

- Choosing the wrong debt consolidation loan can make matters worse and put you further into debt. Shop around so that you have the information to decide on the debt consolidation loan that best meets your needs and budget. Research different lenders and collect quotes before deciding.

- Good credit counseling agencies can help you budget and negotiate with your lenders to make loan payments more manageable.

- To learn more about how to choose a credit counselor, attend the Money Smart module Charge It Right. The Money Matters module has helpful budgeting tips.

Instructor Notes	Presentation
	THE FOUR Cs OF LOAN DECISION-MAKINGS
24: The Four Cs of Loan Decision-making. *Describe the Four Cs.*	Lenders generally review the Four Cs to decide whether to make a loan to you. The Four Cs are capacity, capital, character, and collateral. Let's take a brief look at each one. • 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.
Refer students to other Money Smart modules for more information.	The Money Smart module Borrowing Basics has more information about the Four Cs. The To Your Credit module discusses credit reports in detail.
When you have finished reviewing the tips, ask students …	Do you have any questions about the Four Cs?
Transition to the next topic.	Let's take a look at what we have learned today.

Instructor Notes	Presentation

SUMMARY AND CONCLUSION

Summary

Congratulations! You have completed the Loan to Own module. We have covered a lot of information today about loans and credit. You learned about:

Review what was covered in the course.

Review the chart papers with student expectations to make sure they have all been covered.

- Secured and unsecured loans.
- The cost of loans.
- Car loans and auto financing.
- Home equity loans.
- The Four Cs of loan decisions.

You now know what to consider when shopping for these loans.

Ask students …

Do you have any final questions?

Evaluation Form

Refer students to pages 11 through 13 of their Participant Guide.

Allow time for students to complete it.

Make sure you collect all the forms.

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 course better.

Please complete the After-the-Training column and the Evaluation Form now.

Great job on completing the Loan To Own module! Thank you for participating.

WHAT DO YOU KNOW? – LOAN TO OWN

Instructor: ___________________________________ Date:________________________

This form will allow you and the instructors to see what you know about 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 know:	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. How to identify various types of installment loans.	1	2	3	4	1	2	3	4
2. Why installment loans cost less than rent-to-own services.	1	2	3	4	1	2	3	4
3. The factors lenders use to make loan decisions.	1	2	3	4	1	2	3	4
4. The questions to ask when purchasing a car.								
5. The advantages and disadvantages of borrowing against a home.								

EVALUATION FORM

This evaluation will allow 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 workshop was: [ ] Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Poor					
2. I achieved the following training objectives:					
a. Identify various types of installment loans.	1	2	3	4	5
b. Explain why installment loans cost less than rent-to-own services.	1	2	3	4	5
c. Identify the factors lenders use to make loan decisions.	1	2	3	4	5
d. Identify the questions to ask when purchasing a car.	1	2	3	4	5
e. Describe the advantages and disadvantages of borrowing against a home.	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: **5 Excellent** **4 Very Good** **3 Good** **2 Fair** **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?

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What was the least useful part of the training?

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