

Participant Guide

FDIC

Money Smart



PAYING FOR COLLEGE AND CARS



FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

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MONEY SMART FOR YOUNG ADULTS MODULES

BANK ON IT

An introduction to bank services

CHECK IT OUT

How to choose and keep a checking account

SETTING FINANCIAL GOALS

How to keep track of your money

PAY YOURSELF FIRST

Why you should save, save, save

BORROWING BASICS

An introduction to credit

CHARGE IT RIGHT

How to make a credit card work for you

PAYING FOR COLLEGE AND CARS

Know what you are borrowing before you buy

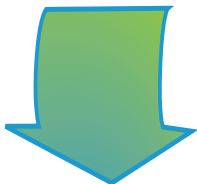
A ROOF OVER YOUR HEAD

What home ownership and renting are all about



YOUR GUIDES

Some students from Lakeview High are going to be your guides in this lesson. Join them throughout the module in working through some financial situations of their own!



RAMÓN

Hobbies: Movies or mini golf with his girlfriend

School life: Plays on the soccer team

Family: Born in the U.S. but his parents are from Peru; a little sister, and an older brother who is a pilot in the Air Force

Job: Repairing computers; wants to work for NASA someday

Future plans: College on a soccer scholarship to study engineering



GRACE

Hobbies: Art, drawing fashion sketches

School life: Prefers not to get into the high school “scene”

Family: Two parents, no siblings

Job: Clothing store at the mall

Future plans: Wants to go to Fashion Design School; her parents want her to go to college; careful with her money so she can buy art supplies



TODD

Personality: Shy, good sense of humor, intelligent

School life: Likes school but doesn't work very hard at it

Job: Two part-time jobs (fast food and a grocery store)

Family: Mom and sister

Future plans: Plans to attend college but not sure where to go or how to pay for it, but is saving all he can



JASMINE

Hobbies: Hanging out with friends, shopping, collecting teddy bears

School life: Likes English class, swims on the swim team

Job: Weekends and holidays at her aunt's gift shop

Family: Younger brother named Dominique, large extended family

Future plans: In-state college, plans to be an exercise physiologist

PRE-ASSESSMENT

1. **WHAT IS A SECURED LOAN?**
 - a. A loan where the borrower offers collateral for the loan.
 - b. A loan where no collateral is needed.
 - c. A low interest-rate loan.
 - d. A loan that can be approved quickly.

2. **WHEN YOU FINANCE A CAR, THE CAR THEN BECOMES _____ FOR THE LOAN.**
 - a. payment
 - b. credit
 - c. collateral
 - d. the title

3. **WHY WOULD YOU WANT TO AVOID A RENT-TO-OWN SITUATION?**
 - a. Because you would pay a large interest rate.
 - b. Because it may cost more in the end.
 - c. Because you are the legal owner of the property.
 - d. Because you do not have to purchase the item.

4. **WHICH OF THE FOLLOWING DO YOU NOT NEED TO CONSIDER WHEN DECIDING ON WHETHER TO FINANCE OR LEASE A CAR?**
 - a. Wear and tear
 - b. Monthly payments
 - c. Mileage limitations
 - d. Cost of fuel

5. **WHAT IS THE FIRST STEP IN APPLYING FOR FINANCIAL AID?**
 - a. Talk with you financial advisor.
 - b. Complete the FAFSA.
 - c. Apply to a college.
 - d. Calculate the cost of college.

CHECKING IN

Welcome to *Paying for College and Cars*! Understanding installment loans and student loans is important when using loans to make purchases and pay for college. This training will help you understand what installment loans and student loans are all about.



PURPOSE The *Paying for College and Cars* module provides general information about installment loans, including car loans and student loans. When you have completed this module, you will be able to describe the characteristics of consumer installment loans and be able to choose what student loans are best for you to use.

OBJECTIVES After completing this module, you will be able to:



- Differentiate between secured and unsecured 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 various types of college loans and loan programs.



**AGENDA AND
GROUND RULES**

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 will make the learning experience that much better.

**STUDENT
MATERIALS**

Each of you has a copy of the *Paying for College and Cars 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

*Do you have any questions
about the module
overview?*





INCREASING YOUR WEALTH

INSTALLMENT LOAN BASICS WHAT IS AN INSTALLMENT LOAN?

An installment loan is a loan that is repaid in equal monthly payments or installments for a specific period of time, usually several years.

What items can be purchased with an installment loan?



TYPES OF INSTALLMENT LOANS

There are two types of installment loans:



- Secured loans
- Unsecured loans

SECURED INSTALLMENT LOANS

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.

What is collateral?



COLLATERAL

Collateral is security you provide a lender. Giving the lender collateral means that you promise an asset you own, such as your car, to the lender 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.

UNSECURED INSTALLMENT LOANS

Unsecured installment loans can be used for a variety of personal expenses such as education or medical expenses. Unsecured loans are sometimes called personal or signature loans. An unsecured loan is a loan that is not secured by collateral.



- 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.

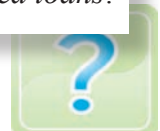
BENEFITS OF UNSECURED LOANS

Some benefits of unsecured installment loans include:



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

Can you think of any drawbacks to unsecured loans?





ACTIVITY 1: UNSECURED INSTALLMENT LOAN TIPS

There is a lot to learn about unsecured installment loans before you consider applying for one.

Look at Activity 1: Unsecured Installment Loan Tips at the back of this Guide for some things you should keep in mind when getting an unsecured installment loan.



ACTIVITY 2: COST OF INSTALLMENT LOANS

There are four terms to keep in mind when looking at installment loans:

- Annual percentage rate (APR)
- Fixed-rate loan
- Variable-rate loan
- Finance charge

Look at Activity 2: Cost of Installment Loans at the back of this Guide to review the terms related to installment loans.



IT'S YOUR TURN...



1. 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?

2. 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?

3. 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?

CHEAPER THAN ALTERNATIVES

A loan can be expensive, but it is usually cheaper than some alternatives.



ACTIVITY 3: CONSUMER INSTALLMENT LOAN VS. RENT-TO-OWN

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

Look at Activity 3: Consumer Installment Loans vs. Rent-to-Own at the back of this Guide. Divide into two groups and each group should come up with five reasons why their service is better to use. Present the reasons to the other side of the class. After you learn about each of the services, read about Grace wanting to buy a new television for her apartment. Did Grace make the right decision?



Do you have any questions about why consumer installment loans cost less than rent-to-own services?



LOAN APPROVAL THE FOUR Cs OF LOAN DECISION MAKING

Lenders generally review the Four Cs to decide whether to make a loan to you. The Four Cs are capacity, capital, character, and collateral.

- **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.



ACTIVITY 4: LOAN APPROVAL

Do you know what it takes to get a loan? Watch the scenario to see who qualifies for a loan or not!

Look at Activity 4: Loan Approval at the back of this Guide. One student will play the role of loan officer and students will be selected to apply for a loan. You will need to come up with a reason for the loan, loan amount, and reasons why you should receive the loan.



Do you have any questions about the Four Cs?



CAR LOANS WHERE TO GET INFORMATION

There are many decisions you must make before purchasing or leasing a car. You should know some points to consider when looking for a car.

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



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



- *Buying a New Car*
- *Buying a Used Car*
- *Financing a Car*
- *Fueling Up*
- *Leasing a Car*
- *Renting a Car*

CAR LOANS VS. CAR LEASES

There are several factors that you need to consider when deciding between getting a car loan or a car lease. These include:



- Ownership potential
- Wear and tear
- Monthly payments
- Mileage limitations
- Auto insurance
- Cost

The minimum requirements for obtaining a car loan or lease vary. In general, you and/or the co-qualifier must be at least 18 years of age. The lender will ensure you have sufficient income to pay the loan, and will pull your credit report based on your Social Security number. The lender will also need to know how long you have held your present and past jobs, as well as how long you have been at your current and possibly past residences.



ACTIVITY 5: CAR LOANS VS. CAR LEASES

It is important to understand the differences and carefully consider all the costs and benefits before deciding whether to buy or lease.

Look at Activity 5: Car Loans vs. Car Leases at the back of this Guide. Which would you rather do? After reviewing the material, you decide which would be the best option for your group and present a skit to the opposing side of the class.



FINANCING 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 take back the car and then sell it to get the remaining loan amount back. New car loans typically are for 3 to 7 years and used car loans 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 shopping for a car, don't negotiate or make a decision based just on the monthly payment, even if the car dealer suggests that you do. The total amount you will pay depends on the price of the car you negotiate, the APR, and the length of the loan.



You decide to buy a used car and have saved \$2,500 from your summer job for a down payment. You find a car you like and the monthly payment is \$225 for 60 months with your \$2,500 down payment. The tax and registration fee is \$575 and the APR is 12.10 percent. With this information you figure the total cost of the car to be:

\$225 x 60	Monthly payment Number of payments
\$13,500	Total of payments
\$13,500 \$2,500 + \$575	Total of payments Down payment Tax and registration fee
\$16,575	Total cost of car

Now, we can figure out how much the loan actually costs by comparing \$16,575 to the cost of the car if you were to pay cash. If you pay cash for the car and do not take out a loan, the car dealer tells you he will give you a deal so that the car costs \$12,595 plus tax and registration:

$$\mathbf{\$12,595 + \$575 = \$13,170}$$

Now that you know the cost of the car if you paid cash and the cost of a 60-month loan, you can figure out the difference which would be the cost of your loan.

$$\mathbf{\$16,575 - \$13,170 = \$3,405 \text{ (the interest for the loan)}}$$



*Think about the lending terms we've reviewed.
What should you use to compare loans for the
best buy?*



WHERE TO OBTAIN A CAR LOAN

You can obtain a car loan from:



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

FINANCING THROUGH BANKS AND CREDIT UNIONS

The financial institution where you already have an account is a good place to start when you need to finance a car. But, still be sure to shop around to make sure you are getting the best deal.

Most lenders can even pre-approve you for a car loan before you go car shopping. 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 require you to accept a loan offer from the institution.

FINANCING THROUGH THE CAR DEALER

Car dealers may also offer to finance your car loan. Dealers sometimes even 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 additional fees or purchase additional products that are not necessarily reflected in the APR

Remember that a dealer offering a low interest rate is likely to be less willing to negotiate on the price of the car. Therefore, you may find that it's more affordable to negotiate a lower price on the car and finance through your own financial institution than it is to accept the dealer's offer of a low-interest rate loan.



ACTIVITY 6: 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 the dealer for financing, they might call several lenders.

Look at Activity 6: Beware of Dealer-Lender Relationships at the back of this Guide. Review the instructions and scenario then answer the question. Be ready to share your answer with the class.



ACTIVITY 7: AUTO FINANCING TIPS

Make sure you understand what financing a car means before you decide to take out a loan.

Look at Activity 7: Auto Financing Tips at the back of this Guide before financing a car. If you do not understand something or would like more information, ask your financial institution or research on the mymoney.gov website.



Do you have any questions about car financing?



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.



ACTIVITY 8: BEWARE OF CAR TITLE LOANS

Car Title Loans can be very costly. Use Car Title Loans only when absolutely necessary and make sure the terms are reasonable.

Look at Activity 8: Beware of Dealer-Lender Relationships at the back of this Guide. Review the instructions and scenario then answer the question. Be ready to share your answer with the class.



Do you have any questions about car title loans?



HOW TO PAY FOR COLLEGE

College is a large expense that will need a lot of planning and research. Some of you may not be attending college; you may be going on to vocational or trade school or be entering the workforce.

How many of you plan on attending college?



CALCULATE COLLEGE COSTS

When deciding on how to pay for college, tuition is not the only thing you will need to consider. There are many other costs such as books, fees, and housing that add up to a significant amount of money.

The cost of the college should be considered along with the academic programs of a school. College comparison shopping should include options such as two-year community colleges and schools close to home, which can help save on room and board.

What else will you have to pay for while you are at college?





ACTIVITY 9: THE COST OF COLLEGE CALCULATOR

The Cost of College Calculator will help you determine your expenses and estimate your total available income for college. You will need to consider all of your resources and the total cost of your education.

To complete the worksheet, enter numbers in the blanks. Some of the categories are broken down so that you can estimate the total cost. When you've finished entering your estimates, add together all of the numbers in the Expense column and all of the numbers in the Income column. Then subtract the Expenses from the Income to find the leftover cost for which you will be responsible.



Do you have any questions about how to calculate college costs?



FINANCIAL AID OVERVIEW

The FAFSA (Free Application for Federal Student Aid) is the first step in the financial aid process. Use it to apply for federal student financial aid, such as the Pell grant, student loans, and college work-study. Most states and schools use FAFSA information to award their financial aid.



TIPS TO GETTING AID

Financial aid administrators and guidance counselors agree that the following tips speed up the application process:



Read the Instructions

Common words like “household,” “investments,” and even “parent” may have special meaning so make sure to read all instructions carefully. Many questions are asked specifically for purposes of student financial aid.

Apply Early

State and school deadlines will vary and tend to be early. Check to find out exact deadline dates. Your FAFSA will **ONLY** be processed if it is received on or before the deadline.

Complete Your Tax Return

It is recommended that you and your parents (if you are a dependent student) complete your tax return before filling out your FAFSA. This will make completing the FAFSA easier because tax information is required.

File Electronically

Completing and submitting your FAFSA online is the fastest and most accurate way to apply for student aid.

Additional Forms

Many schools and states rely on the FAFSA as the single application for student aid. However, your school or state may require additional forms. Check with your state agency and the financial aid office at the school you plan to attend to find out if they require additional forms.



HOW IS THE FAFSA USED?

Your FAFSA responses are entered into a formula known as the Federal Methodology, which is required by the Higher Education Act of 1965. The result is your Expected Family Contribution, or EFC. The EFC is a number that measures your family's financial strength. It is subtracted from the cost of attendance at the school(s) you plan to attend which determines your eligibility for federal student aid.

*Do you have any questions
about applying for or obtaining
financial aid?*



SCHOLARSHIPS AND GRANTS

A scholarship is money for college that you will not be expected to repay. Scholarships are definitely worth seeking!

Scholarships sponsored by colleges are often designated for students who fit a particular profile. For example, students who are from the college's home state, hold a specified grade point average, enroll in a particular major, or bring special talent, such as in athletics or in music. Other outside scholarships may be available to students whose parents work for a particular company or to students who are eligible for scholarships sponsored by religious or civic organizations. You will need to check with each college to see what scholarships are available.

At the same time, though, be very wary of companies that guarantee or promise you scholarships, grants or fantastic financial aid packages in exchange for a fee. Many of these are scams and you will simply lose your money and risk giving your personal information to a potentially unscrupulous business or individual.





ACTIVITY 10: GRANT PROGRAMS

Not everyone qualifies for a grant, so make sure you look into all the details before applying.

Look at Activity 10: Grant Programs at the back of this Guide to find out which is best for you. Divide into four groups. Each group should come up with a list of points to describe their assigned grant program. Be prepared to share your points with the rest of the class.



FEDERAL LOAN PROGRAMS

You must complete the FAFSA before finding out what loan programs for which you are eligible. If you think you need a loan, do your homework and ask lots of questions before settling on one. Among the many options are federal government loan programs, including PLUS loans for parents and Perkins and Stafford loans for students.

There are also private loans. There are often big differences between private loans and federal student loans. A private lender likely will offer both types of loans, so be sure to ask questions to fully understand the pros and cons of any loan product.

Your state's department of education and the college's financial aid department are good resources when deciding on which type of loan is best for you. Don't completely depend on your school to pick the right loan or lender, though. Some colleges and private lenders have been scrutinized for conflicts of interest in steering students toward "preferred lenders." So, be sure to always do your own research and ask questions.





ACTIVITY 11: FEDERAL LOAN PROGRAMS AND WORK-STUDY

Not everyone qualifies for a loan, so make sure you look into all the details and have completed the FAFSA before applying.

Look at Activity 11: Federal Loan Programs at the back of this Guide. Your instructor will ask for volunteers to take part in the activity.



REPAY YOUR LOAN

After you graduate, leave school, or drop below half-time enrollment, you have a period of time before you must begin repayment. While you need to look carefully at correspondence from your lender for the exact repayment start date, the “grace period” will generally be:



- Six months for a Federal (FFEL) or Direct Stafford Loan.
- Nine months for Federal Perkins Loans.

EXIT COUNSELING

You’ll receive information about repayment. Your loan provider will notify you when you have to start making loan payments. It is very important to make your full loan payment according to your repayment schedule. If you don’t, you could end up in default, which has serious consequences. Student loans are real loans—just as real as car loans or mortgages. You have to pay back your student loans.

Depending on the type of loan you have, some graduates who get jobs in certain fields may even be eligible for special perks such as forgiveness of part of their student loan balance.

You can also explore options to manage your student loan payments after graduation, such as loan consolidation. But be sure to fully research the pros and cons of consolidation before signing any paperwork. Student loan consolidation can be used to:



- Reduce your monthly student loan payment.
- Simplify your finances by making one payment per month.

Do you have any questions about scholarships, grants, or loans?





ACTIVITY 12: ALTERNATIVE WAYS TO PAY FOR COLLEGE

College costs are increasing every year and if student loans aren't enough, here are seven other ways you may be able to pay for school.

Look at Activity 12: Alternative Ways to Pay for College at the back of this Guide. Review the tips and see if you can think of any other creative ways to pay for college.



CHECKING YOUR BALANCE

MODULE SUMMARY



You have completed the Paying for College and Cars module. We have covered a lot of information today about financing two big goals. You learned about:

- Secured and unsecured loans
- Car loans and auto financing
- Some of the ways to finance a college education
- The Four Cs of loan decisions

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

Do you have any final questions?



KNOWLEDGE CHECK

1. **WHAT IS A SECURED LOAN?**
 - a. A loan where the borrower offers collateral for the loan.
 - b. A loan where no collateral is needed.
 - c. A low interest-rate loan.
 - d. A loan that can be approved quickly.

2. **WHEN YOU FINANCE A CAR, THE CAR THEN BECOMES _____ FOR THE LOAN.**
 - a. payment
 - b. credit
 - c. collateral
 - d. the title

3. **WHY WOULD YOU WANT TO AVOID A RENT-TO-OWN SITUATION?**
 - a. Because you would pay a large interest rate.
 - b. Because it may cost more in the end.
 - c. Because you are the legal owner of the property.
 - d. Because you do not have to purchase the item.

4. **WHICH OF THE FOLLOWING DO YOU NOT NEED TO CONSIDER WHEN DECIDING ON WHETHER TO FINANCE OR LEASE A CAR?**
 - a. Wear and tear
 - b. Monthly payments
 - c. Mileage limitations
 - d. Cost of fuel

5. **WHAT IS THE FIRST STEP IN APPLYING FOR FINANCIAL AID?**
 - a. Talk with you financial advisor.
 - b. Complete the FAFSA.
 - c. Apply to a college.
 - d. Calculate the cost of college.



COURSE ACTIVITIES

ACTIVITY 1: UNSECURED INSTALLMENT LOAN TIPS

- You may find it beneficial to consolidate your loans. 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 loan, you could become overwhelmed and unable to make the payments if you take on too much debt. 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 Web sites 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, review the *Money Smart for Young Adults* module *Charge It Right*. The *Pay Yourself First* module also has helpful budgeting tips.

ACTIVITY 2: 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 and 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.

ACTIVITY 3: CONSUMER INSTALLMENT LOAN VS. RENT-TO-OWN

INSTRUCTIONS

Read the information about consumer installment loans and Rent-to-Own services then read about Grace’s decision to buy a television on the next page. Did Grace make the right choice?

LOANS RENT-TO-OWN SERVICES

Consumer Installment Loan	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.

Grace is moving into her own apartment after graduation and wants to buy a television. She is trying to decide between getting an installment loan and using a rent-to-own service for the large purchase. A local electronics store was selling the television for \$1,500. A nearby rent-to-own store advertised the same model for \$55 every other week. After seeing the advertisement, Grace went to the rent-to-own store to get more details. The manager told Grace she would own the television in 52 payments or 2 years. Grace multiplied $\$55 \times 52$ weeks and got \$2,860. Grace also found out that if she misses one payment, the rent-to-own service will take the television back. If she makes 50 payments on time – that is $50 \times \$55 = \$2,750$ – and misses payment 51, she loses the television and is out \$2,750.

The manager told Grace that with rent-to-own, she could return the television with no obligation. Grace did another quick calculation. If she used the rent-to-own company and returned the television after a year, she would pay \$1,430 – that is $26 \text{ weeks} \times \55 .

Help Grace decide which is better for her budget, rent-to-own or an installment loan.

ACTIVITY 4: LOAN APPROVAL

When you are applying for a loan, the loan officer may ask the following questions regarding the Four Cs of Lending.

CAPACITY

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

CAPITAL

- How much money do you have in your checking and savings accounts?
- Do you have investments or other assets (e.g., a car)?

CHARACTER

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

COLLATERAL

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

There are some characteristics that show that a borrower does not have Capacity, Capital, Character and/or Collateral and should not receive a loan:

- Consistently making late payments
- Filing for bankruptcy
- Having property repossessed or foreclosed on
- Having a court order requiring a debtor to pay money to the creditor

Do you have what it takes to get a loan?

ACTIVITY 5: CAR LOANS VS. 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 years. 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.

Factors	Car Loans	Car Leases
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.
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 a 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 need insurance coverage for your car before you can legally drive it away from the dealership.

ACTIVITY 7: 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, Web sites, and newspapers.
- If you have some established credit, 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.
- 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.

ACTIVITY 9: COST OF COLLEGE CALCULATOR

Expenses		Income	
Education	\$	Family Contribution	\$
Tuition		Parents	
Books		You	
Fees		Friends/Relatives	
Supplies			
Transportation	\$	Financial Assistance	\$
Bus/Air/Train		Summer Job Savings	
Car Payment		Other Savings	
Car Repair/Insurance			
Housing	\$	Financial Aid Grants	\$
Mortgage		Pell	
Dormitory/Rent		FSEOG	
Utilities		ACG/ SMART	
Telephone		Institutional	
		State	
Food	\$	Federal Direct Loans	\$
Room & Board Plan		Subsidized Stafford	
Groceries		Unsubsidized Stafford	
Health	\$	Loans	\$
Insurance		Federal Perkins	
Doctor/Prescriptions		FFEL	
		State	
Personal/Miscellaneous	\$	Employment	\$
Laundry/Cleaning		Federal Work-Study	
Drug Store Items		Institutional	
Clothing		Off-Campus	
Entertainment	\$	Scholarships	\$
In-School Interest	\$	Other Income/Resources	\$
Direct Unsubsidized Loan			
Emergencies	\$		
Other Expenses	\$		
Credit Card Payment			
Total Expenses	\$	Total Income	\$

Income – Expenses = \$ _____ Your Balance

ACTIVITY 10: GRANT PROGRAMS

FEDERAL PELL GRANT

A Federal Pell Grant, unlike a loan, does not have to be repaid. Pell Grants are awarded usually only to undergraduate students who have not earned a bachelor's or a professional degree. Pell Grants are considered a foundation of federal financial aid, to which aid from other federal and nonfederal sources might be added.

HOW MUCH CAN I GET?

The maximum Pell Grant award for the 2008-09 award year (July 1, 2008 to June 30, 2009) is \$4,731. The maximum can change each award year and depends on program funding. The amount you get depends not only on your financial need, but also on your costs to attend school, your status as a full-time or part-time student, and your plans to attend school for a full academic year or less.

IF I AM ELIGIBLE, HOW WILL I GET THE PELL GRANT MONEY?

Your school can apply Pell Grant funds to your school costs, pay you directly (usually by check), or combine these methods. The school must tell you in writing how much your award will be and how and when you'll be paid. Schools must disburse funds at least once per term (semester, trimester, or quarter). Schools that do not use semesters, trimesters, or quarters must disburse funds at least twice per academic year.

FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (FSEOG)

The Federal Supplemental Educational Opportunity Grant (FSEOG) program is for undergraduates with exceptional financial need. Pell Grant recipients with the lowest expected family contributions (EFCs) will be considered first for a FSEOG. Just like Pell Grants, the FSEOG does not have to be repaid.

HOW MUCH CAN I GET?

You can receive between \$100 and \$4,000 a year, depending on when you apply, your financial need, the funding at the school you're attending, and the policies of the financial aid office at your school.

IF I AM ELIGIBLE, HOW WILL I GET THE FSEOG MONEY?

If you're eligible, your school will credit your account, pay you directly (usually by check), or combine these methods. Your school must pay you at least once per term (semester, trimester, or quarter). Schools that do not use semesters, trimesters, or quarters must disburse funds at least twice per academic year.

ACADEMIC COMPETITIVENESS GRANT

The Academic Competitiveness Grant was made available for the first time for the 2006-2007 school year for first year college students who graduated from high school after January 1, 2006, and for second year college students who graduated from high school after January 1, 2005. The Academic Competitiveness Grant award is in addition to the student's Pell Grant award.

HOW MUCH CAN A STUDENT RECEIVE?

An Academic Competitiveness Grant will provide up to \$750 for the first year of undergraduate study and up to \$1,300 for the second year of undergraduate study to full-time students who are eligible for a Federal Pell Grant and who had successfully completed a rigorous high school program, as determined by the state or local education agency and recognized by the Secretary of Education. Second year students must maintain a cumulative grade point average (GPA) of at least 3.0.

THE NATIONAL SCIENCE & MATHEMATICS ACCESS TO RETAIN TALENT GRANT (NATIONAL SMART GRANT)

The National Science and Mathematics Access to Retain Talent Grant, also known as the National SMART Grant is available during the third and fourth years of undergraduate study to full-time students who are eligible for the Federal Pell Grant and who are majoring in physical, life, or computer sciences, mathematics, technology, or engineering or in a foreign language determined critical to national security. The student must also have maintained a cumulative grade point average (GPA) of at least 3.0 in coursework required for the major. The National SMART Grant award is in addition to the student's Pell Grant award.

HOW MUCH CAN A STUDENT RECEIVE?

A National SMART Grant will provide up to \$4,000 for each of the third and fourth years of undergraduate study to full-time students who are eligible for a Federal Pell Grant and who are majoring in physical, life, or computer sciences, mathematics, technology, or engineering or in a foreign language determined critical to national security.

INSTITUTIONAL GRANTS

Colleges provide institutional grants to help make up the difference between college costs and what a family can be expected to contribute through income, savings, loans, and student earnings.

Other institutional grants, known as merit awards or merit scholarships, are awarded on the basis of academic achievement. Some merit awards are offered only to students whose families demonstrate financial need; others are awarded without regard to a family's finances.

Some grants come with special privileges or obligations. You'll want to find out about the types of grants awarded by each college you are considering.

ACTIVITY 11: FEDERAL LOAN PROGRAMS AND WORK-STUDY

FEDERAL WORK-STUDY (FWS)

Federal Work-Study (FWS) provides part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. The program encourages community service work and work related to the recipient's course of study.

WILL I BE PAID THE SAME AS I WOULD IN ANY OTHER JOB?

You'll be paid by the hour if you're an undergraduate. No FWS student may be paid by commission or fee. Your school must pay you directly (unless you direct otherwise) and at least monthly. Wages for the program must equal at least the current federal minimum wage but might be higher, depending on the type of work you do and the skills required. The amount you earn can't exceed your total FWS award. When assigning work hours, your employer or financial aid administrator will consider your award amount, your class schedule, and your academic progress.

WHAT KINDS OF JOBS ARE THERE IN FEDERAL WORK-STUDY?

If you work on campus, you'll usually work for your school. If you work off campus, your employer will usually be a private nonprofit organization or a public agency, and the work performed must be in the public interest.

Your school might have agreements with private for-profit employers for Federal Work-Study jobs. This type of job must be relevant to your course of study (to the maximum extent possible). If you attend a career school, there might be further restrictions on the jobs you can be assigned.

FEDERAL PERKINS LOANS

A Federal Perkins Loan is a low-interest (5 percent) loan for both undergraduate and graduate students with exceptional financial need. Federal Perkins Loans are made through a school's financial aid office. Your school is your lender, and the loan is made with government funds. You must repay this loan to your school.

Your school will either pay you directly (usually by check) or apply your loan to your school charges. You'll receive the loan in at least two payments during the academic year.

HOW MUCH CAN I BORROW?

You can borrow up to \$4,000 for each year of undergraduate study (the total you can borrow as an undergraduate is \$20,000). The amount you receive depends on when you apply, your financial need, and the funding level at the school.

OTHER THAN INTEREST, IS THERE A CHARGE FOR THIS LOAN?

No, there are no other charges. However, if you skip a payment, if it's late, or if you make less than a full payment, you might have to pay a late charge plus any collection costs.

WHEN DO I PAY IT BACK?

If you're attending school at least half time, you have nine months after you graduate, leave school, or drop below half-time status before you must begin repayment. This is called a "grace period." If you're attending less than half time, check with your college or career school to find out how long your grace period will be.

STAFFORD LOANS (FFELs AND DIRECT LOANS)

In addition to Perkins Loans, the U.S. Department of Education administers the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan (Direct Loan) Program. Both the FFEL and Direct Loan programs consist of what are generally known as Stafford Loans (for students) and PLUS Loans (for parents).

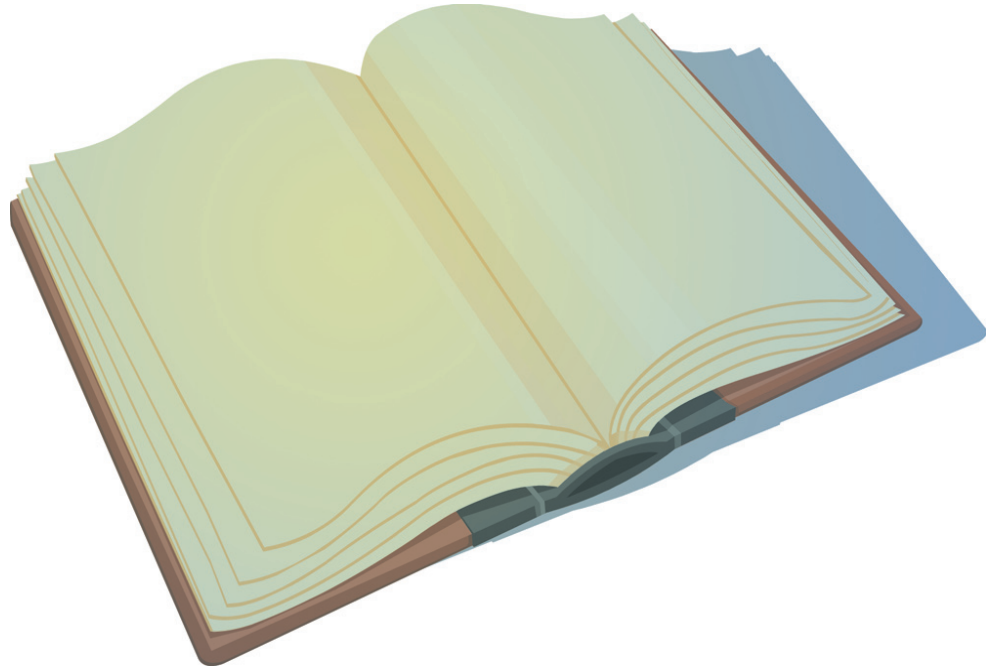
Schools generally participate in either the FFEL or Direct Loan program but sometimes participate in both. Under the Direct Loan Program, the funds for your loan come directly from the federal government. Funds for your FFEL will come from a bank, credit union, or other lender that participates in the program. Eligibility rules and loan amounts are identical under both programs, but repayment plans differ somewhat.

HOW CAN I GET A FFEL OR DIRECT LOAN?

For either type of loan, you must fill out a FAFSA. After your FAFSA is processed, your school will review the results and will inform you about your loan eligibility. You also will have to sign a promissory note, a binding legal document that lists the conditions under which you're borrowing and the terms under which you agree to repay your loan.

PLUS LOANS (PARENT LOANS)

Parents can borrow a PLUS Loan to help pay your education expenses if you are a dependent undergraduate student enrolled at least half time in an eligible program at an eligible school. PLUS Loans are available through the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan (Direct Loan) Program. Your parents can get either loan, but not both, for you during the same enrollment period. They also must have an acceptable credit history.



GLOSSARY

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.

CAPACITY

One of the Four Cs of loan decision-making, capacity is 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

One of the Four Cs of loan decision-making, capital refers to the value of your assets and your net worth.

CAR LEASE

A car lease is an agreement between you and the car dealer, manufacturer, or other company that allows you to essentially rent the car for a period of time. You make monthly payments, but the car does not belong to you. If you are allowed to end the lease early, you will likely pay substantial penalties or other fees. When the lease ends, you have to return the car to the dealership.

CAR TITLE

This is a legal document that indicates who owns the car. The bank that lends you the money to pay for the car keeps the title until you pay off the loan.

CHARACTER

One of the Four Cs of loan decision-making, 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

One of the Four Cs of loan-decision making, collateral is a piece of property or an asset that you promise to give to the bank if you cannot pay back the loan.

EQUITY

Equity is the value of your home (or other asset) minus the debt.

EXPECTED FAMILY CONTRIBUTION (EFC)

EFC is the number that measures your family's financial strength. It is subtracted from the cost of attendance at the school(s) you plan to attend. The EFC determines your eligibility for federal student aid.

FAFSA (FREE APPLICATION FOR FEDERAL STUDENT AID)

The FAFSA is the first step in the financial aid process. Use it to apply for federal student financial aid, such as the Pell grant, student loans, and college work-study. In addition, most states and schools use FAFSA information to award their financial aid.

FEDERAL METHODOLOGY

A formula used to determine your Expected Family Income (EFC) after completing the FAFSA.

FINANCE CHARGE

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

FIXED-RATE LOAN

This is a loan that has an interest rate that stays the same throughout the term of the loan. Most installment loans have fixed rates.

GRANTS

Grants, like scholarships, do not have to be repaid and are offered to a variety of students.

INSTALLMENT LOAN

This is a loan that is repaid in equal monthly payments, or installments, for a specific period of time, usually several years.

LOAN PRE-APPROVAL

Loan pre-approval occurs when a financial institution calculates how much money you can borrow. It is typically a free service and does not obligate you to accept a loan offer from the institution.

PARTICIPATION FEE

A participation fee is money that some dealer finance companies might charge you to get a low interest rate.

SCHOLARSHIP

A scholarship is money for college that you will not be expected to repay. Scholarships sponsored by colleges are often designated for students who satisfy certain criteria or other factors. Other outside scholarships may be available to students whose parents work for a particular company or to students who are eligible for scholarships sponsored by church or civic organizations.

SECURED LOAN

A secured loan is one where the borrower offers collateral for the loan.

TITLE LOAN

A title loan is a short-term (usually one month) loan that allows you to use your car as collateral to obtain money.

UNSECURED LOAN

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

VARIABLE-RATE LOAN

This is a loan that has an interest rate that might change during the period of the loan. The loan agreement or contract will tell you if and how the rate may change.

FOR FURTHER INFORMATION

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

Division of Supervision &
Consumer Protection

2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108

1-877-ASK-FDIC (1-877-275-3342)

Email: consumer@fdic.gov

www.fdic.gov

U.S. FINANCIAL LITERACY AND EDUCATION COMMISSION

www.mymoney.gov

1-888-My-Money (1-888-696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balancing your checkbook, or investing in your 401k, the resources on MyMoney.gov can help you.

Throughout the site, you will find important information from 20 Federal agencies.

FEDERAL CONSUMER INFORMATION CENTER (FCIC)

www.pueblo.gsa.gov

800-688-9889

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

USA.GOV: THE FEDERAL GOVERNMENT'S WEB PORTAL

www.usa.gov

FirstGov.gov is the official gateway to all government information.

CONSUMER.GOV: A RESOURCE FOR CONSUMER INFORMATION FROM THE FEDERAL GOVERNMENT

www.consumer.gov

DEPARTMENT OF EDUCATION

www.ed.gov/students

The Department of Education provides Information relating to college, financing, and student aid.

For other education-related resources:

- Complete the FAFSA online at www.fafsa.ed.gov.
- Find out more about scholarships at www.ftc.gov/bcp/menus/consumer/education/scholarships.shtm.
- For more information on Federal Loan Programs, studentaid.ed.gov.

FEDERAL TRADE COMMISSION

www.ftc.gov

877-FTC-HELP (382-4357)

The Federal Trade Commission website offers practical information on a variety of consumer topics, including credit and identity theft.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

www.hud.gov

800-669-9777

The HUD website offers educational resources on buying and renting homes.

INTERNAL REVENUE SERVICE

www.irs.gov

You can get copies of IRS publications and forms at this website or by calling 800-829-3676. Call 800-829-1040 for questions about your income taxes.

SECURITIES AND EXCHANGE COMMISSION (SEC)

www.sec.gov

800-SEC-0330

The SEC provides information about investing.

SOCIAL SECURITY ADMINISTRATION

www.ssa.gov

800-772-1213

You can find out about Social Security benefits at this site.

GO DIRECT

www.GoDirect.org

(800) 333-1795

To quickly and easily sign up for direct deposit of your Social Security or other federal benefit payments, contact Go Direct, a campaign sponsored by the U.S. Department of the Treasury and the Federal Reserve Banks.

NATIONAL ASSOCIATION OF SECURITIES DEALERS

www.nasd.com

1-800-289-9999

The National Association of Securities Dealers provides information about registered securities brokers to help you decide whether to do business with them.

THE CENTER FOR SOCIAL DEVELOPMENT (CSD), GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK, WASHINGTON UNIVERSITY, ST. LOUIS, MO.

gwbweb.wustl.edu/csd/asset/idas.htm

The CSD Website includes useful information on Individual Development Accounts (IDAs).