

## MODULE 7:

# Borrowing Basics 

## INSTRUCTOR GUIDE

## MONEY SMART for Adults <br> SEPTEMBER 2018 <br> FDIC

The Federal Deposit Insurance Corporation is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, non-biased financial education materials, including this Instructor Guide. For more information about our family of Money Smart products, visit www.fdic.gov/moneysmart.

## Contents

Background Information for Instructors ..... 2
Training Preparation Checklist .....  2
Materials You May Need ..... 4
Understanding the Icons ..... 5
Module Purpose ..... 6
Module at a Glance Table ..... 6
Module Opening ..... 8
Welcome Participants as They Arrive ..... 8
Pre-Training Survey ..... 8
Parking Lot and Participant Guide ..... 9
Optional Introductory Activity ..... 9
Section 1: Ways to Borrow Money and What It Costs ..... 10
Introduction to Section and Key Takeaway ..... 11
What Borrowing Means ..... 11
Types of Loans ..... 12
Secured and Unsecured Loans ..... 14
The Cost of Borrowing ..... 14
Try It: Exploring Borrowing Options ..... 16
Truth in Lending / Comparing Offers ..... 18
Section Closing ..... 21
Section 2: Preparing to Apply for a Loan ..... 22
Introduction to Section and Key Takeaway ..... 23
Factors Lenders May Use in Their Decisions ..... 23
Try It: Getting Ready to Borrow ..... 26
Apply It: Getting Myself Ready to Borrow ..... 28
Co-Borrowing and Cosigning ..... 29
Apply It: My Tip Sheet for Considering Cosigning Someone Else's Loan. ..... 30
Section Closing ..... 32
Section 3: Borrowing When Someone Helps You Manage Your Money ..... 33
Introduction to Section and Key Takeaway ..... 34
Responsibilities of the Person Helping You ..... 34
What to Discuss ..... 35
If You Decide to Borrow Money ..... 36
Section Closing ..... 37
Module Closing ..... 38
Remember the Key Takeaways ..... 38
Take Action ..... 38
Post-Training Survey ..... 39
Answer Key for Both the Pre- and Post-Training Surveys ..... 41
Money Smart for Adults Modules ..... 42

## Background Information for Instructors <br> Welcome to the FDIC's Money Smart for Adults!

This is the Instructor Guide for Module 7: Borrowing Basics. This module consists of three tools:

- This Instructor Guide
- The Participant Guide-for participants to use during training and refer to after training
- The PowerPoint slides-for you to use during the training

The curriculum also includes a Guide to Presenting Money Smart for Adults. This resource offers practical tips for marketing your training, setting up your training space, supporting participants with disabilities, and delivering the training. It also offers learning pathways to help you choose modules and perhaps sections within modules to include in the training. If you don't already have the Guide to Presenting Money Smart for Adults, download it at www.fdic.gov/moneysmart.

## Training Preparation Checklist

Use this checklist to prepare for training.

Review the Instructor Guide, Participant Guide, and PowerPoint slides to learn how they work together.Familiarize yourself with the topics. The Instructor Guide includes scripting to help you explain core content. You can read the scripting as-is to participants. Or, you can present the information in your own style.

Review the Try It and Apply It activities in the Participant Guide. Every module includes both types of activities. Many are designed to be included during the training session. Others are flagged with a Note to Instructor that gives you the option of reviewing, starting, or completing them during the training, or encouraging participants to complete them after training.
$\square$ Review the Guide to Presenting Money Smart for Adults for tools and information that can help you plan and deliver training. This resource includes information on making your training accessible and welcoming to all participants, including participants with disabilities.

Select the materials that you plan to use. Ideally, do so by considering the needs or goals of the participants. The Module at a Glance Table near the front of each Instructor Guide can help you decide whether to cover modules in their entirety or only certain sections of the modules.
$\square$ Plan to make your training culturally appropriate. This means communicating respectfully, and also presenting the material in a way that is relevant to the lives of participants.

- For example, when you discuss ways to cut expenses, participants may not relate to cutting out a daily coffee purchase if they don't normally buy coffee every day. Use examples participants can relate to, which may be different from examples from your own experience.


## Consider having each of your training sessions include:

- An overview: Welcome participants and explain the training purpose and objectives. Provide a quick orientation to materials.
- An introductory activity: Energize participants with a fun activity to introduce them to one another and get them ready to learn. This can be an effective way to start training, especially if it is the first time the group has been together. See the Guide to Presenting Money Smart for Adults for optional introductory activity ideas.
- Pre- and post-training surveys: Administer the pre-training survey before training starts and the post-training survey at the end of training. Using the surveys can help you evaluate training effectiveness and tailor your training approach for future sessions.
$\square$ Give each participant a Participant Guide. Consider making it available electronically if you cannot provide paper copies. Also, some participants may need it electronically as a reasonable accommodation. If you deliver only part of a module, you might want to provide only those sections of the Participant Guide. Hide the slides you won't be using. The Guide to Presenting Money Smart for Adults has more information on hiding slides.


## Materials You May Need

$\square$ This Instructor Guide
$\square$ Copies of the Participant Guide
$\square$ The PowerPoint slides, and either:

- Computer, projector, and screen for projecting the slides, or
- Printed or electronic copies of the slides for participants
$\square$ Flip chart(s) and/or whiteboard(s)
$\square$ Markers for writing on flip chart(s) and/or whiteboard(s)
$\square$ Large self-adhesive notes ( $5^{\prime \prime} \times 8$ "), card stock, or paper for making signs

Tape that can be easily removed from the wall, such as painter's tape

Pens or pencils for participants


Instructor Guide


Participant Guide


PowerPoint slides

## Optional Materials:

Parking Lot for questions-Create one by writing "Parking Lot" on the top of a flip chart or whiteboard

Supplies for the Optional Introductory Activity-Choose an activity from the Guide to Presenting Money Smart for Adults or use your own


[^0]
## Understanding the Icons

This Instructor Guide uses several icons to help you quickly navigate the training.

| $\nabla$ | Do | Actions you take as the instructor |
| :---: | :---: | :---: |
| $\%$ | Say | Information you share verbally with participants |
| ? | Ask | Questions you pose to participants |
|  | Share Key <br> Takeaway | When you convey the primary message of a section |
|  | Lead Discussion | When you facilitate discussions |
|  | Lead Activity | When you facilitate activities |
|  | Present Information | When you present information |
|  | Take Action and Closing | When you help participants plan action steps to apply what they learned |
|  | Scenario | When you use a short story to start a discussion or activity about a financial topic |

## Module Purpose

This module helps participants understand options for borrowing money and what they cost.

This module also:

- Discusses how to borrow money
- Covers borrowing when someone helps manage someone else's money


## Module at a Glance Table

You can cover all or only part of this module.
We estimate you need 2 hours to cover the entire module, not including breaks or an optional introductory activity. You can use this table to select sections based on the time you have available and the needs of participants.
The Guide to Presenting Money Smart for Adults includes additional information on selecting sections for specific audiences.

Note to Instructor: Participants may have several questions about credit histories, reports, and scores during this module. Consider presenting Module 6: Credit Reports and Scores before presenting this this module. Module 8: Managing Debt provides information and resources related to managing debt. Module 9: Using Credit Cards provides information and resources related to credit cards. Consider including content from those modules in your training based on the needs and interests of participants.

| Section | Key Takeaway | Purpose / Objectives | Time |
| :--- | :--- | :--- | :--- |
| Module | N/A | ■ Welcome participants | 10 <br> Opening |
|  | ■ Administer the pre-training <br> survey | minutes |  |
| ■ Lead an Optional Introductory |  |  |  |
| Activity (extra 5 to 20 minutes) |  |  |  |

## Module at a Glance Table continued

| Section | Key Takeaway | Purpose / Objectives | Time |
| :---: | :---: | :---: | :---: |
| Section 1: <br> Ways to Borrow Money and What It Costs | Be sure you can afford the payments before getting a loan. Also, know how much it will cost and what will happen if you can't pay it back. | Participants will be able to: <br> - Define types of loans <br> - Distinguish between secured and unsecured loans <br> - List costs associated with borrowing money <br> - Compare loan offers, including using Truth in Lending Act (TILA) disclosures | $35$ <br> minutes |
| Section 2: <br> Preparing to Apply for a Loan | Considering what lenders look for when deciding to loan money helps prepare you to apply for a loan. | Participants will be able to: <br> - List factors lenders may use to evaluate loan applications <br> - Identify ways to improve how lenders might evaluate them as loan applicants <br> - Distinguish between co-borrowing and cosigning and know important facts and risks related to each | 55 minutes |
| Section 3: <br> Borrowing <br> Money When <br> Someone <br> Helps You <br> Manage Your <br> Money | Even if someone helps you manage your money, understand the terms of a loan before you commit to it. | Participants will be able to: <br> - List the responsibilities of people who are helping them manage their money <br> - Know what to discuss with the person providing the help | $10$ <br> minutes |
| Module Closing | N/A | - Review the key takeaways <br> - Help participants think about how they will apply what they learned <br> - Administer the post-training survey | $10$ <br> minutes |

# Module Opening <br> Welcome Participants as They Arrive 

Time Estimate for This Section: 10 minutes

## SHOW SLIDE 1

DO
As participants arrive for the training, use this time to:

- Welcome them and introduce yourself
- Ask them to sign in for the training if you are using a sign-in sheet
- Ensure any requested reasonable
 accommodations are in place and make any necessary adjustments


## Pre-Training Survey

See page 21 in the Participant Guide.
Note to Instructor: Before training starts, you can ask participants to complete the pre-training survey in the back of their Participant Guide. You may want to give them "loose" copies so they don't have to tear them out. The knowledge questions are the same as those in the posttraining survey.
The answer key is at the end of this Instructor Guide, but don't share the answers now.

You may decide to compare pre-training surveys to post-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.

## SHOW SLIDE 2

$\xlongequal{=}$

## SAY

- Thank you for coming to this Money Smart Training called "Borrowing Basics."
- Please complete the pre-training survey on page 21 of your Participant Guide to give me an idea of what you may already know about this topic.

- It should take less than five minutes to complete.
- DO
- Collect the completed surveys if you plan to review them or compare them to post-training surveys.

PRESENT INFORMATION
Parking Lot and Participant Guide
SAY

- live created a Parking Lot to capture questions, concerns, ideas, and resources. You and I can add items anytime during the training, and Ill address them during breaks or at the end of training.
- You have a Participant Guide to use during and after this session. It's yours to keep, so you can take notes and write in it.


## Optional Introductory Activity

Adds an additional 5 to $\mathbf{2 0}$ minutes, depending on the activity you select and the number of participants

DO

- Lead participants through an introductory activity.
- Time permitting, you may also want to show a short video related to the subject of this module or start with an "energizer" of your choice.

Note to Instructor:
If time permits, start the training with a fun activity from the Guide to Presenting Money Smart for Adults or use your own.

This is a great way to get participants energized and ready to learn!


## Section 1: Ways to Borrow Money and What It Costs

Training Time Estimate for This Section: 35 minutes

## Objectives

Participants will be able to:

- Define types of loans
- Distinguish between secured and unsecured loans
- List costs associated with borrowing money
- Compare loan offers, including using Truth in Lending Act (TILA) disclosures


## Introduction to Section and Key Takeaway

See page 3 in the Participant Guide.

## SHOW SLIDE 3

$\xlongequal{=}$
SAY

- We will discuss different types of loans and the costs of borrowing.



## SHOW SLIDE 4

SAY

- The key takeaway from this section is: Be sure you can afford the payments before getting a loan. Also, know how much it will cost and what will happen if you can't pay it back.

Section 1: Key Takeaway
Be sure you can afford the payments before getting a loan. Also, know how much it will cost and what will happen if you can't pay it back.


PRESENT INFORMATION (4 MINUTES)

## What Borrowing Means

See page 3 in the Participant Guide.

## SHOW SLIDE 5

SAY

- When you borrow, a lender provides you money, and you have an obligation to pay it back - usually with interest.
- The more you know about borrowing, the easier it will be to make borrowing choices that are right for you.

- Here are a few key concepts to get started.
- Credit is the ability to borrow money.
- Debt is money you owe a person or business.
- When you use credit to borrow money, you incur debt. For example, you incur debt when you:
- Borrow money to buy a house, car, or truck by taking out a loan instead of paying cash
- Use a credit card
- When you use a debit card to pay for something, you are generally not borrowing money and not incurring debt. Rather, you are spending money in your account at a financial institution.


## PRESENT INFORMATION (4 MINUTES)

## Types of Loans

See page 3 in the Participant Guide.

## SHOW SLIDE 6

## SAY

- There are two main categories of loans: installment loans and revolving loans.
- An installment loan is usually repaid in equal payments, or installments, for a specific period of time, usually several years. Examples include most:

Types of Loans

- Installment Loans
- Usually repaid in equal payments over set period of time
- Examples include most fixed rate mortgages, auto loans, and student loans.
- Revolving Loans
- Repaid based on how much you have borrowed
- Examples include most credit cards and home equity lines of credit
$\qquad$ Sepenember 2018 6
- Fixed rate mortgages (home loans)
- Auto loans
- Student loans
- A revolving loan (or revolving line of credit) allows you to make unlimited purchases up to a pre-approved dollar limit. Your payments will vary based on how much you have borrowed. Examples include most:
- Credit cards
- Home equity lines of credit (also called a HELOC)


## SHOW SLIDE 7

$\xlongequal{=}$
SAY

- Rent-to-own services may be an alternative to loans.
- Rent-to-own services let you use an item for a period of time by making monthly or weekly rental payments.

- If you want to purchase the item, your rental payments will be partly credited toward the purchase price. The store will set up a plan for you to rent the item until you pay enough money to own it. If you choose not to purchase the item, you would return it at the end of the rental period and generally will not receive money back.
- The store is the legal owner of the item until you make the final payment. If you miss a payment, the store can take the item back. If this happens, you will not own the item, and you will not get your money back.
- Rent-to-own agreements are technically not loans, so no interest is charged. However, the total of the rental payments is greater than the cash price to buy the item from the start. That difference can be considered like interest you pay on a loan.
- Renting to own can cost two to three times what you would pay if you bought with cash, on layaway, or on an installment plan. That's what the Federal Trade Commission says. Generally, the longer you make payments, the more you pay for the item.
- If you decide to enter into a rent-to-own agreement, make sure you understand the contract, including the total amount you will pay for the item and when you will own the item.


## SHOW SLIDE 8

## SAY

- Buying on layaway may be another option, although layaway is not a loan.
- When you use layaway, you typically put down a deposit - usually a percentage of the purchase price - and pay the balance over time.

- The store holds the merchandise for you. You take the merchandise only when you have paid in full.
- Make sure that you read and understand the layaway plan, including the fees and consequences of late or missed payments.
- Also make sure you understand the refund policy. If you decide you don't want the merchandise after you've made some or all the payments, can you get a refund? Are there fees associated with returning the item for a refund?


## 

PRESENT INFORMATION (2 MINUTES)

## Secured and Unsecured Loans

See page 4 in the Participant Guide.

## SHOW SLIDE 9

$\approx$

## SAY

- Installment and revolving loans can be secured or unsecured.
- With a secured loan, you pledge collateral to secure repayment of the loan. Collateral is an asset you own, such as your house, vehicle or cash.


## Secured and Unsecured Loans

- Secured Loans
- Require collateral, such as your house, vehicle, or cash
- You lose the collateral if you don't pay as agreed
- Unsecured Loans
- No collateral
- Often higher interest rates than secured loans

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» If you cannot repay the loan as agreed, the lender can take your collateral and use it to get some or all of their money back.
" You may be responsible for paying the remaining balance on the loan if the collateral does not sell for enough money to repay the debt.
» Mortgages and auto loans are usually secured loans.

- Unsecured loans are made based only on your promise to repay the money you borrow. They are not secured by collateral.
" Lenders consider these loans more risky than secured loans, so they may charge a higher interest rate than for a secured loan.
» Credit cards and student loans are often unsecured loans.


## The Cost of Borrowing

See page 4 in the Participant Guide.

## SHOW SLIDE 10

## SAY

- It is important to know about the costs associated with borrowing money.
- You will generally repay more money than you borrowed.
- Credit cards are generally an exception. If you do not carry a

| The Cost of Borrowing |  |  |  |
| :---: | :---: | :---: | :---: |
| - You generally repay more money than you borrowed |  |  |  |
| $\begin{aligned} & \text { Amount you } \\ & \text { repay on loan } \end{aligned}>\begin{gathered} \text { Amount you } \\ \text { borrowed } \end{gathered}$ |  |  |  |
| - Principal: | The money you |  |  |
| - Interest: | Amount of mo charges for al | ncial institu to use its |  |
| - Fees: | May be charge reviewing loan | tain activit ion |  |
| monesmantron out |  | sepmeme 2018 | 10 | balance and pay the current charges in full by the due date, you will not be repaying more money than you borrowed.

- In addition to repaying the money you borrowed (called the Principal), you generally have to pay two costs: interest and fees.
- Interest is the amount of money a financial institution charges for allowing you to use its money. It is expressed as a percentage and can be either fixed or variable.
» Fixed rates stay the same during the term of the loan, except with most credit cards, where the rate can change if the bank gives you required notice.
" Variable or adjustable rates might change during the term of the loan. The loan agreement explains how the rate can change.
- Fees may be charged by lenders for certain activities, such as reviewing your loan application and servicing the account.
» Common examples of fees include origination fees for home mortgages or late fees if you do not make credit card or other loan payments on time.
» Lenders often subtract fees from the loan proceeds before you receive the loan money. For example, if you borrow \$1,000 and there is a $\$ 100$ fee, you may only receive $\$ 900$.


## SHOW SLIDE 11

## SAY

- Prepayment is the early repayment of all or part of a loan.
- When you prepay, you pay the lender more than the amount of your regular monthly payment. You have them apply the "extra" amount to your outstanding

Prepayment

- Early repayment of ALL of a loan - Reduces interest costs
- Pays off the loan
- Or, early repayment of PART of a loan - Generally reduces interest costs
- Potentially earlier payoff date
- Some loans have prepayment penalties; others do not balance.
- If you prepay your loan in full, you will stop paying interest because you no longer owe any money.
- If you prepay part of your loan:
" You could reduce interest costs
" You may finish paying off your loan earlier
- Prepayment is one strategy for reducing the costs of borrowing money.
- Some loans have prepayment penalties, and others do not.
- A prepayment penalty charges a fee for early repayment of all or part of a loan. The specifics vary from loan to loan.
- When you shop around for a loan, find out whether loan offers have prepayment penalties.

LEAD ACTIVITY (15 MINUTES) - SCENARIO

## Try It: Exploring Borrowing Options

See page 5 in the Participant Guide.

## SHOW SLIDE 12

- Ask participants to turn to Try It: Exploring Borrowing Options on page 5 in their Participant Guide.
- Read this scenario to participants or ask for a volunteer to do so.
- Alternatively, give participants a few
 minutes to read it to themselves, if that would work for your group. It contains several numbers and dollar amounts that may be confusing if read out loud.


## SCENARIO: Binh Explores Her Options for Buying New Furniture

Raising children has been tough on Binh's living room furniture. And, because of challenges finding and keeping steady employment, she hasn't had enough income to replace it. But now that she has more income from a steady job, she can finally start buying some nicer things for her home.

Earlier this week, she saw a living room set for sale that she really liked. It cost \$2,500 which is more than the $\$ 1,500$ she has saved for new furniture at this point.


Yesterday Binh explored some options for buying the furniture and learned:

[^1]- She could purchase the furniture on layaway. The store tells her that purchasing the furniture this way would mean paying $\$ 2,750$ for the furniture. But she won't get to bring home the furniture until she's paid $\$ 229.00$ each month for 12 months.
- She could use a rent-to-own option. The same living room set is available for delivery tomorrow from a local store. When she adds up the payments and fees for their rent-to-own option, she learns that she will pay $\$ 3,500$ for the furniture. She estimates that she'll be paying $\$ 292.00$ each month for 12 months if she chooses this option.


## SAY

- Take six minutes to work in small groups to answer each of the questions about Binh's options for buying new furniture.

DO

- After six minutes, review the questions one at a time, giving participants an opportunity to provide answers.


## ASK

- Which options allow Binh to get the furniture today (or as soon as it can be delivered)?
- The installment loan
- The rent-to-own contract
- The credit card
- Which option does not allow Binh to get the furniture today?
- The layaway plan
- Which option results in Binh paying the most money for the furniture?
- The rent-to-own contract
- Which option results in Binh paying the least money for the furniture?
- The installment loan, although she would pay even less if she were able to pay the full amount in cash
- Some months, Binh finds that money is tight. She has just enough income to cover her expenses. Which options would help Binh manage in months when her cash flow is a challenge?
- The installment loan has the lowest monthly cost of Binh's options. It would add about $\$ 32$ to her monthly expenses for three years.
- It's not always about the total cost of credit. You also need to think about whether you can afford to make the monthly payments.


## - What else could Binh consider?

- Whether putting the full $\$ 2,500$ on her credit card will affect her credit scores.
- Whether she will be able to make the payments on each of the options on time and how her credit might be affected if she could not.
- Whether getting the installment loan might be a good idea anyway, even if it means paying more than she would have to pay in cash. Until now, she's only had credit cards and having a variety of debt can help increase her credit scores. If she makes all the payments on time, that will help her credit history. However, if she is late with even one payment, her credit history may be damaged and her credit scores may go down.
- Buying a less expensive living room set.
- Waiting until she has saved enough cash to buy the furniture outright.
- Thinking more about whether it's worth going into debt for furniture.


## PRESENT INFORMATION (5 MINUTES) <br> Truth in Lending / Comparing Offers

See page 7 in the Participant Guide.

## SHOW SLIDE 13

$\approx$
SAY

- The federal Truth in Lending Act or TILA requires lenders to give prospective borrowers a written disclosure (called a TILA disclosure) that states the loan terms in a clear and uniform manner.
- You receive the TILA before you sign for

Truth in Lending / Comparing Offers

- Truth in Lending Act (TILA) written disclosure
- Shows loan terms in clear and uniform manner
- Receive the TILA disclosure before you sign for loan
- Can help you compare loan offers

13 the loan.
- These disclosures can help you compare loan offers from different lenders.
- They can also help you decide if you can afford the loan payments comfortably each month and pay off the loan according to the agreement.
- The law also requires lenders to provide the written disclosures before someone agrees to borrow money and signs loan documents.


## SHOW SLIDE 14

## $\xlongequal{=-}$ <br> SAY

- You can find part of a sample TILA disclosure for an installment loan, such as a car loan, on page 7 in your Participant Guide under Truth in Lending / Comparing Offers.
- Disclosures for mortgages (home loans)

*Disclosures for mortgages (home loans) and some student loans will look different than this
 and some student loans will look different.


## Part of a Sample TILA Disclosure for an Installment Loan

| ANNUAL <br> PERCENTAGE <br> RATE | FINANCE <br> CHARGE | Amount <br> Financed | Total of <br> Payments |
| :--- | :--- | :--- | :--- |
| The cost of your <br> credit as a <br> yearly rate. | The dollar <br> amount the <br> credit will <br> cost you. | The amount of <br> credit provided to <br> you or on your <br> behalf. | The amount you <br> will have paid after <br> you have made all <br> payments as <br> scheduled. |
| $\mathbf{1 2 . 0 0}$ | $\%$ | $\mathbf{\$ ~}$ | $\mathbf{6 0 0 . 0 0}$ |

## SAY

- For an installment loan, TILA requires lenders to disclose several items.
- Annual percentage rate (APR). This is the cost of your loan expressed as a yearly percentage rate. The APR reflects certain fees in addition to interest. The APR on the $\$ 5,000$ loan in the example is $12 \%$.


## SHOW SLIDE 15

SAY

- Finance Charge. This is the cost of credit expressed in dollars. The finance charge includes interest and certain other costs such as loan fees. For this example, the APR is $12 \%$ and there are no other loan fees.

- Therefore the finance charge is $\$ 600$ because $0.12 \times \$ 5,000=\$ 600$.
- Amount Financed. This is the amount of money you are borrowing. It is also called the principal. For this example, the amount financed is \$5,000.


## SHOW SLIDE 16

$\xlongequal{=}$

## SAY

- Total of Payments. This is the amount you will have paid after making all scheduled payments. This includes the repayment of the principal plus all finance charges.
- Using this example, the total of payments is \$5,600 (the \$5,000 principal plus the $\$ 600$ finance charge).

- It can also be important to review the payment schedules for installment loan offers to understand how differences in the terms of each offer affect the amounts you will pay.
- For example, an installment loan might include a balloon payment. A balloon payment is a larger-than-usual onetime payment at the end of the loan term.
- If you have a mortgage with a balloon payment, your payments may be lower in the years before the balloon payment comes due, but you could owe a big amount at the end of the loan.
- The TILA also applies to credit cards. As with other types of loans, lenders must provide you with key facts, including the APR, so that you can better shop around.
- For revolving loans like borrowing on a credit card, it can be helpful to compare offers based on what would happen if you paid only the minimum payment each month. Online calculators can help you see how long it would take to pay off the balance and how much you would pay in interest based on the terms of each offer. You can also look on your credit card statement for useful information on how long it will take to pay off the balance.


## SHOW SLIDE 17

## SAY

- When you are ready to borrow money, shop around to get the loan that works best for you.
- Evaluate the payments required by the loan to be sure you can pay as agreed. This will limit the risk of damaging your
 credit history or, for secured loans, losing your collateral.
- Use the TILA disclosures, in particular the APR, to compare loan options.
- Visit consumerfinance.gov and search for "compare loans" to find tools to help you compare loans.
- You can also seek help from a housing counseling agency approved by the U.S. Department of Housing and Urban Development (HUD) or a credit counseling organization.

Note to Instructor: If your participants are interested in more information about home loans, consider including portions of Module 13: Buying a Home into your training.

PRESENT INFORMATION (1 MINUTE)

## Section Closing

See page 7 in the Participant Guide.

## SHOW SLIDE 18

=
SAY

- Remember the key takeaway from this section: Be sure you can afford the payments before getting a loan. Also, know how much it will cost and what will happen if you cant pay it back.

Section 1: Remember the Key Takeaway
Be sure you can afford the
payments before getting a loan. Also, know how much it will cost and what will happen if you can't pay it back.



## Section 2: Preparing to Apply for a Loan

Training Time Estimate for This Section: 55 minutes

## Objectives

Participants will be able to:

- List factors lenders may use to evaluate loan applications
- Identify ways to improve how lenders might evaluate them as loan applicants
- Distinguish between co-borrowing and cosigning and know important facts and risks related to each


# Introduction to Section and Key Takeaway 

See page 8 in the Participant Guide.

## SHOW SLIDE 19

$\approx$
SAY

- We will discuss how to borrow money and how lenders decide whether to loan money.



## SHOW SLIDE 20

$\xlongequal{=-1}$
SAY

- The key takeaway from this section is: Considering what lenders look for when deciding to loan money helps prepare you to apply for a loan.



## PRESENT INFORMATION (6 MINUTES)

## Factors Lenders May Use in Their Decisions

See page 8 in the Participant Guide.

## SHOW SLIDE 21

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SAY

- When you apply for a loan, the lender will decide whether you are a good credit risk. In other words, are you likely to pay back the loan as agreed? This can also be referred to as evaluating your creditworthiness.

Factors Lenders May Use in Their Decisions

- Methods vary by lender
- Key factors lenders may use:
- Your credit (also known as character)
- Your capacity
- Your capital
- Your collateral (for secured loans only)
- Conditions

- Methods vary by lender.
- Lenders may refer to "the Four Cs" or "the Five Cs" or perhaps something else. Some lenders develop their own loan decision "scorecards" using aspects of the factors we will talk about.
- Let's look at some key factors lenders may use.
- Your credit (sometimes called character): how you have paid your bills or debts as shown on your credit reports
- Your capacity: your present and future ability to meet your payments
- Your capital: the value of your assets and your net worth
- Your collateral: for secured loans only, the assets you offer to secure the loan

■ Some lenders also use another " C " known as conditions. This refers to how you plan to use the money or may refer to overall economic conditions. For example, the lender may approve your loan application only if you will use the money to pay off another debt.

## SHOW SLIDE 22

## SAY

- We will look at these key factors in more detail. You can take notes on pages 8 and 9 in your Participant Guide.
- Credit, sometimes labeled as Character, refers to how you have paid your bills or debts.


## Credit / Character

How you have paid your bills or debts

Your credit reports and scores are used to evaluate:
-How you have used credit in the past

- How many credit accounts you have
"Whether you have ever filed for bankruptcy, had property repossessed or foreclosed upon, made late payments
- Your credit reports give lenders the history of how you have paid your debts. Lenders use your credit reports, and the credit scores derived from them, to evaluate items such as:
- How you have used credit in the past
- How many credit accounts you have
- Whether you have ever:
» Filed for bankruptcy
» Had property repossessed or foreclosed upon
» Made late payments
- Before you borrow money, consider checking your credit reports.

Annualcreditreport.com is the official website to fill orders for the free annual credit reports you are entitled to every 12 months under the law from each of the three nationwide credit reporting agencies.

- Your credit scores are based on the information in your credit reports so it is important to request and review your credit reports and dispute any inaccurate information before you apply for a loan.

Note to Instructor: Consider including content from Module 6: Credit Reports and Scores in your training based on the needs and interests of participants.

## SHOW SLIDE 23

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## SAY

- Capacity refers to your present and future ability to meet your payments. Lenders evaluate:
- How much of your monthly income currently goes to payments on debt
- How much of your monthly income will


## Capacity

Your present and future ability to meet your payments

- How much of your income goes to pay debt
- Your debt-to-income ratio
- How long you have been employed
- How much money you make each month - What your monthly expenses are
 be going to debt payments if the lender lends you money, called your debt-toincome ratio. It helps the lender determine how much money they think you can afford to borrow. Remember, that is not the same as how much money you think you can afford to repay.
- How long you have been employed, including how long at your current job and your recent employment history
- How much money you make each month
- What your monthly expenses are


## SHOW SLIDE 24

## SAY

- Capital refers to the value of your assets and your net worth. Lenders evaluate:
- How much money is in your checking and savings accounts
- Your investments and other assets, such as a house or car


## Capital

The value of your assets and net worth

- How much money is in your checking and savings accounts
- Your investments and other assets
- Your net worth

Net Worth = Assets - Liabilities


- The value of your net worth, which is your assets minus your liabilities
" You can also think of net worth as the value of your assets after all of your liabilities have been paid.


## SHOW SLIDE 25

## SAY

- Collateral only applies to secured loans. It refers to the assets that secure the loan. For example, for a home loan or mortgage, the house is the collateral. If you do not pay back the loan as agreed, the lender can claim the asset. Money in a bank account can also be the collateral for


## Collateral

For secured loans only

- Assets that will secure the loan
- For example, your house or money in a bank account

Conditions

- Depends on type of loan a loan, such as for a secured credit card.
- Conditions depend on the type of loan, and can include how you plan to use the money and overall economic conditions.

LEAD ACTIVITY (15 MINUTES)

## Try It: Getting Ready to Borrow

See page 10 in the Participant Guide.

## SHOW SLIDE 26

DO

- Ask participants to turn to Try It: Getting Ready to Borrow on page 10 in their Participant Guide.
- Read this scenario to participants or ask for a volunteer to do so.
- Alternatively, give participants a few
 minutes to read it to themselves, if that would work for your group. It's a relatively long scenario.



## SCENARIO: Shandra Gets Ready to Borrow

Shandra is thinking about modifying her van so her father can more easily ride in it. Currently, she hires wheelchair-accessible taxis to meet his transportation needs.
She borrowed money eight years ago to buy a car. At the same time, she applied for and began using a credit card. Unfortunately, she had money trouble a year later. The car was repossessed and she missed payments on her credit card several times.

Shandra worked hard to stabilize her finances. She finally
 finished paying off the credit card debt and canceled the card. For four years, she has not had debt of any kind while she saved money. She purchased her used van in cash.

Shandra has been in the same job now for two years and plans to stay there. Income from that job covers living expenses for Shandra.
She would like to modify her van soon, but she could wait if she needed to. She can pay for part of the costs to modify the van using cash she has saved for that purpose. If her preliminary research into financing options is accurate, she thinks she can afford to make the payments on a loan to finance the rest of the van modifications.

Shandra promised herself she would save some money every time she received income. And she's been doing that. Her emergency fund in a savings account can now cover her current living expenses for about one week. She's proud of how much she's saved so far.

SAY
O

- If you were the lender, how would you evaluate Shandra on Capacity, Capital, and Credit/Character?
- Take eight minutes to work in small groups to answer the questions listed below the scenario in your Participant Guide. Answer them first for Capacity, then for Capital and then for Credit/Character. There is a column for each of those topics.
- What will reflect positively on Shandra?
- What will reflect negatively on Shandra?
- What can Shandra do to improve her chances of being approved for the loan?
- We will talk about Collateral together as a group.
- We will not be discussing Conditions in this activity.


## V DO

- After eight minutes, ask some groups to share their answers.
- Write participant responses on a flip chart or whiteboard.
- Add the information from the Answer Key if not contributed. Talk briefly about Collateral (the van could be the collateral for the loan).


## Try It: Getting Ready to Borrow - Answer Key



## Try It: Getting Ready to Borrow - Answer Key continued

| Question | Capacity | Capital | Credit/Character |
| :---: | :---: | :---: | :---: |
| What can Shandra do to improve her chances of being approved for the loan? | - Continue working to demonstrate the stability of her employment situation <br> - Try to increase her income and reduce her expenses | - Continue to save money | - Get a small creditbuilding loan and make timely payments to establish a track record of prompt repayment of debts <br> - Apply for a credit card, and use it for small purchases and pay them off in full and on time to build her credit. <br> - Delay the van modifications until she saves more money <br> - Work with a reputable credit counselor on other strategies to improve her credit |

PRESENT INFORMATION (1 MINUTE)

## Apply It: Getting Myself Ready to Borrow

See page 12 in the Participant Guide.

## SHOW SLIDE 27

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SAY

- Turn to Apply It: Getting Myself Ready to Borrow on page 12 in your Participant Guide.
- You can complete this worksheet after today's training to see how a lender might evaluate your creditworthiness now. It
 can help you think about what you can do to improve your credit, and how you will manage a loan if you are approved.

Note to Instructor: Time permitting, you can review this Apply It with participants, using a copy from a Participant Guide.

## Co-Borrowing and Cosigning

See page 14 in the Participant Guide.

## SHOW SLIDE 28

SAY

- Co-borrowing is taking out a loan jointly with one or more other people.
- Times when you might want to co-borrow include:
» Buying a house or car jointly or opening a joint credit card account

Co-Borrowing and Cosigning

- Co-Borrowing
- Taking out a loan jointly with others
- You must repay debt even if co-borrower(s) do not
- Cosigning
- Loan proceeds go to the borrower, not cosigner - Cosigner promises to pay debt if borrower does not
» Jointly buying property with children, parents or others
- As a co-borrower, you must repay the debt even if your co-borrower(s) does not make payments.
- The payment history for the loan will appear on the credit reports for you and for the other co-borrower(s).
- Lenders will consider the creditworthiness (including income, assets, liabilities, and credit history) of all co-borrowers when they evaluate whether to lend and on what terms.
- Before you co-borrow, have a clear agreement with the other person or people about how much of the loan payment you will each pay and other responsibilities. Think carefully about what would happen if someone does not pay what they promised you they would pay.
- Cosigning is different from co-borrowing.
- The loan proceeds go to the borrower and not to the cosigner.
- When you cosign, you promise to pay the debt if the borrower does not. You will likely also have to pay late fees or collection costs if the borrower defaults on the loan.
- Cosigning is common with rental agreements, although we are not discussing renting in this training. First-time borrowers and private student loan borrowers often also need cosigners.
- The lender considers the cosigner's creditworthiness (including income, assets, liabilities, and credit history). That may make it easier for the borrower to be approved for the loan. This is usually why people get cosigners.
- If you cosign, the debt will likely appear on your credit report as one of your debts. If this debt is ever in default, that fact may become part of your credit history and affect your credit scores.
" The lender can use the same methods to collect from you as a cosigner that it uses to collect from the borrower, including suing or garnishing wages. Garnishing wages means taking money directly out of your pay to repay the loan.
- Before you cosign someone's loan, consider how it might affect you. Be sure you can afford to pay the loan if you have to, and that you want to accept this responsibility. You may also want to consider:
» If the loan is used to buy or refinance property, whether you are (or can be) a co-owner of the property.

PRESENT INFORMATION (1 MINUTE)

## Apply It: My Tip Sheet for Considering Cosigning Someone Else's Loan

See page 14 in the Participant Guide.

## SHOW SLIDE 29



Note to Instructor: Time permitting and based on your participants' level of interest in the topic of cosigning, consider reviewing this Apply It during training. Alternatively, you could give participants time to review the tip sheet and then ask a few participants to share which tips they found especially important.

A copy of this Apply It from the Participant Guide is on the next two pages.

## Apply It: My Tip Sheet for Considering Cosigning Someone Else's Loan

Review this tip sheet if you are considering cosigning someone's loan.

## Questions to Ask Yourself before Cosigning

## - Can I afford to pay the loan?

Consider the worst-case scenario-the borrower does not make the payments and you have to make them and possibly also pay late fees and collection costs.

- Will cosigning affect my ability to get the credit I need?

When you cosign, the debt appears on your credit report. If this debt is ever in default, that fact may become part of your credit history and affect your credit scores.

Also, if you want to get other credit, lenders may consider the cosigned loan as one of your debts when they are determining your capacity to take on new debts.

- Do I understand exactly how much money I might be obligated to repay? Ask the lender to calculate the amount you might owe. You also may be able to negotiate specific terms of your obligation.

For example, you may want to limit your liability to the principal on the loan. If you do-before you cosign-ask the lender to include a statement in the contract. The statement could say: "The cosigner will be responsible only for the principal balance on this loan at the time of default." While that is better for you, it could mean the lender will not approve the borrower for the loan.

## - Do I understand what I might lose?

If-in addition to cosigning-you offer items you own as collateral for the loan, understand that you may lose those items. Before you pledge property to secure the loan, like your car, furniture or jewelry, consider the risk. If the borrower defaults and you cannot pay the debt, you could lose that property.

## Apply lt: My Tip Sheet for Considering Cosigning Someone Else's Loan continued

## Ways to Protect Yourself as a Cosigner

## - Get notified.

Ask the lender to notify you if the borrower misses a payment or the terms on the loan change. Get the lender's agreement to do that in writing, before you cosign. That will give you time to deal with the problem or make payments without having to repay the entire amount immediately. The lender is not required to notify you of these events, so you need to ask.

## - Get copies.

Make sure you get copies of all important
 papers, like the loan contract and the Truth in Lending Disclosure. These documents may be useful if there's a dispute. The lender may not be required to give you these papers so you may have to get copies from the borrower.

Check with your state attorney general's office for rights that cosigners may have in your state. You can also search on "loan cosigner" at www.usa.gov.

PRESENT INFORMATION (1 MINUTE)

## Section Closing

See page 15 in the Participant Guide.

## SHOW SLIDE 30



SAY

- Remember the key takeaway from this section: Considering what lenders look for when deciding to loan money helps prepare you to apply for a loan.



## Section 3: Borrowing When Someone Helps You Manage Your Money

Training Time Estimate for This Section: 10 minutes

## Objectives

Participants will be able to:

- List responsibilities of people who are helping them manage their money
- Know what to discuss with the person providing the help


## PRESENT INFORMATION (1 MINUTE)

## Introduction to Section and Key Takeaway

See page 16 in the Participant Guide.

## SHOW SLIDE 31

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## SAY

- We will discuss borrowing money when someone helps you manage your money.



## SHOW SLIDE 32

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SAY

- The key takeaway from this section is: Even if someone helps you manage your money, understand the terms of a loan before you commit to it.


## Section 3: Key Takeaway

Even if someone helps you manage your money, understand the terms of a loan before you commit to it.


PRESENT INFORMATION (4 MINUTES)

## Responsibilities of the Person Helping You

See page 16 in the Participant Guide.

## SHOW SLIDE 33

SAY

- You can borrow money with help from the person who helps you manage your finances.
- This includes situations where a person is helping you under a power of attorney, which is a legal document that names that person as your agent.

Responsibilities of Person Helping You

- Act in your best interest
- Manage your money and property carefully
- Keep your money and property separate from theirs
- Keep good records
- Include you in decision-making to the extent possible
- Another common situation is when the Social Security Administration or Department of Veterans Affairs has appointed someone to be your representative payee.
- There are also less formal situations where someone helps you with your finances.
- When someone helps you with your finances, they must:
- Act in your best interest
- Manage your money and property carefully
- Keep your money and property separate from theirs
- Keep good records
- Include you in decision-making to the extent possible
- The Bureau of Consumer Financial Protection has guides specifically for people who help other people with their money.
- These guides for managing someone else's money can help financial caregivers understand their duties, watch out for scams, and more.
- You can look at the guides or ask the person or people helping you to review them.
- You may find these guides by searching consumerfinance.gov for "someone else's money."

Note to Instructor: Consider reviewing these guides for managing someone else's money in advance of your training. Based on the needs and interests of participants, you may want to order copies in advance from consumerfinance.gov and distribute them at the training.

## 

## PRESENT INFORMATION (3 MINUTES)

## What to Discuss

See page 16 in the Participant Guide.

## SHOW SLIDE 34

## SAY

- If you want or need to borrow money with someone's help, you should understand the answers to several key questions before you borrow money.
- You may want to talk about these with the person who helps you with your finances

What to Discuss

- Why do you need to borrow money?
- Do you have enough money to repay the Ioan?
- How will you make payments on the loan?
- Will it affect any of your sources of income?
- What is the best borrowing option for your needs? as well as another trusted advisor. It's okay if the people helping you with your money also help you answer these questions. You don't need to know all of the answers already yourself.
-Why do you need to borrow money?
- Do you have enough money to repay the loan?
- How will you make payments on the loan?
" For example, will you have payments automatically taken out of your account or will you write a check and mail it in each month?
" How will you monitor the loan?
" If you will not receive monthly statements, find out how you can periodically monitor the loan, and make sure your payments were processed.
- Will borrowing money affect any of your sources of income?
" For example, will the loan be used to obtain assets that would put you over the asset limit for a benefit program you depend on?
- What is the best borrowing option for your needs?
" Options could include a credit card, an installment loan from a financial institution, a loan from a family member, working with an alternative financing program, or some other method of borrowing money.

PRESENT INFORMATION (1 MINUTE)

## If You Decide to Borrow Money

See page 17 in the Participant Guide.

## SHOW SLIDE 35

## SAY

- It is important to understand the terms of the loan before you commit to it. You should know:
- How much money you are borrowing
- How much money you have to pay back in total

If You Decide to Borrow Money

- You can get help considering the terms
- You can get help completing the application
- Lender will decide if you are a good credit risk
- Lender will not consider creditworthiness of the person helping you
- Ask for help if you need it to remember to make timely payments and keep good records
- How much money you have to pay each month
- When the payments are due
- Other important information
- You can get help considering the terms of the loan and completing the application.


## - A lender cannot disqualify you because you need help considering the terms of the loan or completing an application.

- The lender will decide if you are a good credit risk just as they would any other potential borrower.
- The lender will not consider the creditworthiness of the person helping you unless that person is a cosigner or a co-borrower.
- After you borrow money, you need to:
- Repay the loan
- Make payments on time, every time
- Keep good records
- You may want to:
- Set up automatic payments
- Set up reminders for when you need to make payments, if you do not set up automatic payments
- If you need help managing your loan, you can ask the person who helped you get the loan, or someone else you trust.


## PRESENT INFORMATION (1 MINUTE)

## Section Closing

See page 17 in the Participant Guide.

## SHOW SLIDE 36



SAY

- Remember the key takeaway from this section: Even if someone helps you manage your money, understand the terms of a loan before you commit to it.

> Section 3: Remember the Key Takeaway

Even if someone helps you
manage your money,
understand the terms of a
loan before you commit to it.


## Module Closing

Training Time Estimate: 10 minutes

## LEAD ACTIVITY (5 MINUTES)

## Remember the Key Takeaways

See page 18 in the Participant Guide.

Note to Instructor: Only mention key takeaways for sections you included in the training.

SAY

- Remember the key takeaways. These are also listed on page 18 in your Participant Guide. Let me know if you have questions about any of them.
Section
1: Ways to Borrow Money and
What It Costs
2: Preparing to Apply for a
Loan
3: Borrowing When Someone
Helps You Manage Your
Money

Key Takeaway
Be sure you can afford the payments before getting a loan. Also, know how much it will cost and what will happen if you can't pay it back.

Considering what lenders look for when deciding to loan money helps prepare you to apply for a loan.

Even if someone helps you manage your money, understand the terms of a loan before you commit to it.

## Take Action

See page 18 in the Participant Guide.

## SHOW SLIDE 37

## SAY

- You are more likely to take action if you commit to taking action now.
- Consider writing down what you intend to do because of what was covered during this training session.

- Take a few minutes now to answer the questions under Take Action on page 18 in your Participant Guide:
- What will I do?
- How will I do it?
- Will I share my plans with anyone? If so, who?


## DO

- Time permitting, ask participants if they want to share what they are going to do or how they are going to do it.
- Remind participants about the activities in their Participant Guide they can complete after today's training.
- Refer participants to Where to Get More Information or Help on page 19 in their Participant Guide for a list of online resources.
- If this is the end of your training, thank participants for attending and administer the post-training survey.


## LEAD ACTIVITY (5 MINUTES)

## Post-Training Survey

See page 23 in the Participant Guide.

Note to Instructor: After training ends, you can ask participants to complete the post-training survey in the back of their Participant Guide. You may want to give them "loose" copies so they don't have to tear them out. The knowledge questions are the same as those in the pretraining survey.
The answer key is at the end of this Instructor Guide.
You may decide to compare post-training surveys to pre-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.

## SHOW SLIDE 38

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SAY

- Thank you for attending this Money Smart Training called "Borrowing Basics."
- Before you leave, please take a few minutes to complete the Post-Training Survey on page 23 of your Participant Guide.

- I can look at the surveys to tell if I helped you add to your knowledge and to make changes and improvements to future trainings.
- It should take less than five minutes to complete.
- Let me know if you have any questions.
$\nabla$ Do
- Collect the completed surveys if you plan to review them or compare them to pre-training surveys.
- Review the answers to the knowledge questions using the Answer Key on the next page.


## Answer Key for Both the Pre- and Post-Training Surveys

1. You can increase your chances of being approved for a loan by improving which of these (choose all that apply): The answer is a and $\mathbf{c}$.
a. Your capacity
b. Your capital gains
c. Your credit/character
d. Your creditors
e. All of the above
2. Most loans are set up the same, so it is not important to shop around. The answer is false.
3. Federal Truth in Lending Act or TILA disclosures can help you compare loan options from different lenders.
The answer is true.
4. If someone helps you manage your money, you are not eligible to borrow money.
The answer is false.

Note to Instructor: There are no "right" or "wrong" answers to the remaining questions, which appear in the post-training survey and not in the pre-training survey.

## About the Training

Check the box that best describes your agreement or disagreement with each of these statements.

|  | Completely agree | Somewhat agree | Somewhat disagree | Completely disagree |
| :---: | :---: | :---: | :---: | :---: |
| 5. I would recommend this training to others. |  |  |  |  |
| 6. I plan to apply what was discussed in this training to my life. |  |  |  |  |
| 7. The instructor used engaging training activities that kept me interested. |  |  |  |  |
| 8. The instructor was knowledgeable and well prepared. |  |  |  |  |
| 9. The Participant Guide is clear and helpful. |  |  |  |  |

## Money Smart for Adults Modules

Thank you for presenting this module. Consider providing training on other Money Smart for Adults modules, as shown below. Visit www.FDIC.gov/moneysmart.

| Module <br> Number | Module Name | Module <br> Focus |
| :---: | :---: | :---: |
| 1 | Your Money Values and Influences | Internal values and goals, external influences, and their relationships to financial decisions |
| 2 | You Can Bank On lt | Financial products, services, and providers |
| 3 | Your Income and Expenses | How to track income and expenses |
| 4 | Your Spending and Saving Plan | How to develop a spending and saving plan, and how to prioritize spending when money is short |
| 5 | Your Savings | Saving money for expenses, goals, and emergencies |
| 6 | Credit Reports and Scores | Credit reports and scores, building productive credit histories, and repairing and improving credit |
| 7 | Borrowing Basics | Options for borrowing money and the costs |
| 8 | Managing Debt | Different kinds of debt and ways to manage it |
| 9 | Using Credit Cards | How credit cards work and how to manage them |
| 10 | Building Your Financial Future | Ways to build assets, including buying a car and getting training and education |
| 11 | Protecting Your Identity and Other Assets | Ways to recognize, respond to, and reduce the risks of identity theft, along with strategies for protecting other assets |
| 12 | Making Housing Decisions | Different types of safe and affordable housing, including specific information on renting |
| 13 | Buying a Home | The home buying process, including mortgages |
| 14 | Disasters-Financial Preparation and Recovery | How to financially prepare for, and recover from, disasters |

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Visit the FDIC's website at www.fdic.gov/education for more information and resources on banking-related issues. For example, FDIC Consumer News provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

You can also call the FDIC for information and assistance at 877-ASK-FDIC (877-275-3342).


[^0]:    Guide to
    Presenting Money
    Smart for Adults

[^1]:    - She could get a 36-month unsecured installment loan for \$1,000 from her local bank. When she adds up the loan amount with interest, plus the $\$ 1,500$ she pays from her savings, she realizes she will pay a total of $\$ 2,636$ for the furniture. And, she would be in debt for three years, making payments of about $\$ 32.00$ each month.


    ## - She could keep her savings for an emergency and instead buy the

    furniture using her credit card. Her credit limit is high enough. If she takes this option, she estimates that she will pay at least $\$ 3,000$ for the furniture. That includes the interest she'll pay to the credit card company since she won't be paying off the balance right away. Her credit card payments would be about $\$ 83.00$ each month for three years.