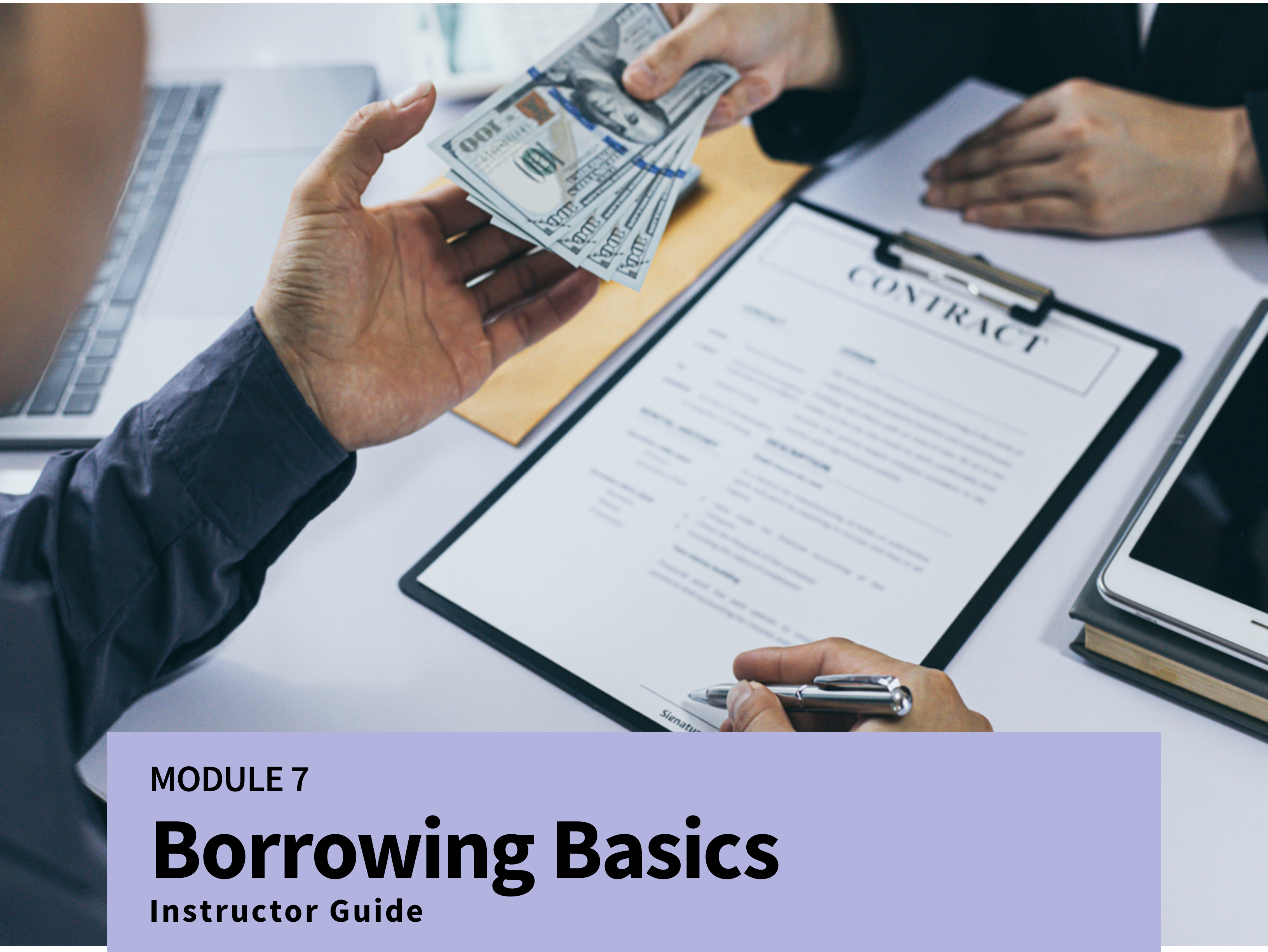
MONEY SMART FOR YOUNG ADULTS



MODULE 7

Borrowing Basics

Instructor Guide

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC-022-2022

The Federal Deposit Insurance Corporation is an independent agency created by 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 **fdic.gov/moneysmart**.

Contents

Welcome

Welcome to the FDIC's Money Smart for Young Adults!

This is the instructor guide for **Module 7: Borrowing Basics**.

Module Purpose

This module helps participants understand options for borrowing money and what they cost. By the end of this module, 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
- List factors lenders may use to evaluate loan applications
- Identify ways to improve how lenders might evaluate their loan applications
- Distinguish between co-borrowing and co-signing and know important facts and risks related to each
- List responsibilities of people helping them manage their money
- Know what to discuss with the person helping them

Module at a Glance

We estimate you need an hour and a half to cover the entire module, not including breaks. You can cover all the sections or select sections based on the time you have available and the needs of participants.

SECTION	SUBSECTIONS AND ACTIVITIES	ESTIMATED TIME (MINUTES)
Module Opening	▪ Welcome Participants as They Arrive ▪ Pre-Training Survey (Optional) ▪ Parking Lot and Participant Guide	**10**
Section 1: Ways to Borrow Money and What It Costs	▪ What Borrowing Means ▪ Types of Loans ▪ Secured and Unsecured Loans ▪ The Cost of Borrowing ▪ Try It: Exploring Borrowing Options ▪ Truth in Lending/Comparing Offers	**35**
Section 2: Preparing to Apply for a Loan	▪ Factors Lenders May Use in Their Decisions ▪ Try It: Getting Ready to Borrow ▪ Apply It: Getting Myself Ready to Borrow ▪ Co-Borrowing and Co-Signing ▪ Apply It: My Tip Sheet for Considering Co-Signing Someone Else's Loan	**30**
Section 3: Borrowing When Someone Helps You Manage Your Money	▪ Responsibilities of the Person Helping You ▪ What to Discuss ▪ If You Decide to Borrow Money	**10**
Module Closing	▪ Remember the Key Takeaways ▪ Take Action ▪ Post-Training Survey (Optional)	**10**

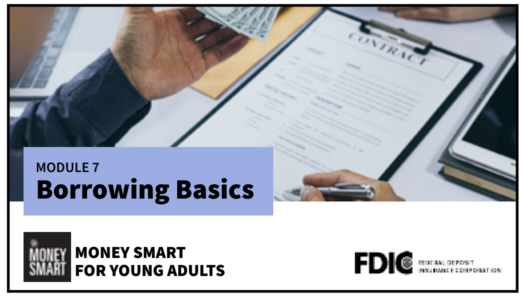
The FDIC created Real-Life Money Situations for Young Adults to strengthen the financial knowledge, skills, and self-efficacy of young adults ages 16 to 24. The five scenarios can be used with the Money Smart for Young Adults financial education curriculum, with other financial education curricula, or as stand-alone activities. Each scenario features a young adult facing realistic financial decisions. Young adults reflect on the scenarios and consider how they might respond in similar situations. The scenario titled Jordan Buys a Car features financial decisions that relate to the content of this module. Search fdic.gov for Real-Life Money Situations for Young Adults.

Module Opening

Time estimate for this section: 10 minutes

Welcome Participants as They Arrive

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 that any requested reasonable accommodations are in place and make necessary adjustments

Pre-Training Survey (Optional)

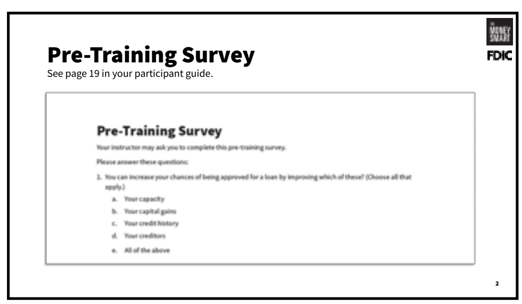
See page 19 in the participant guide.

Note to Instructor: Before training starts, you can ask participants to complete the pre-training survey in the back of the participant guide. Give participants copies of the survey so they do not have to tear pages out of their guides. The questions are repeated in the post-training survey.

The answer key is at the end of this instructor guide, but do not share the answers now.

Using the pre- and post-training surveys allows you to estimate knowledge gains and get other feedback on the training. You may decide to compare pre-training surveys to post-training surveys to estimate knowledge gains of the entire group or for individual participants. If you want to estimate by participant, ask them to write their name or some other unique identifier on both their pre- and post-training surveys.

SHOW SLIDE 2



SAY

- Thank you for coming to this Money Smart training on "Borrowing Basics."
- Please complete the pre-training survey on page 19 of your participant guide.
- It should take less than five minutes to complete.

DO

- Collect the completed surveys.

Parking Lot and Participant Guide

SAY

- I will use a parking lot to capture questions, ideas, and other thoughts. We can add items anytime during the training. Time permitting, I will address them during breaks or at the end of training.
- You have a participant guide. You can write in it. It is yours to keep.

Section 1: Ways to Borrow Money and What It Costs

Time estimate for this section: 35 minutes

See page 2 in the participant guide.

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

SHOW SLIDE 3

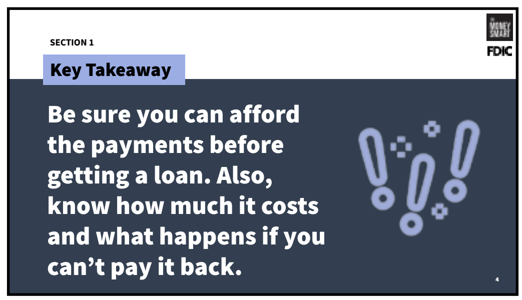
SAY

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

SHOW SLIDE 4

SAY

- The key takeaway for this section is: Be sure you can afford the payments before getting a loan. Also, know how much it costs and what happens if you can’t pay it back.



What Borrowing Means

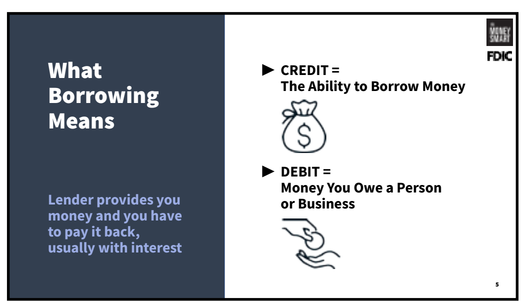
Present information (4 minutes)

See page 2 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 and sometimes certain fees.
- The more you know about borrowing, the easier it is to make the borrowing choices right for you.



SAY

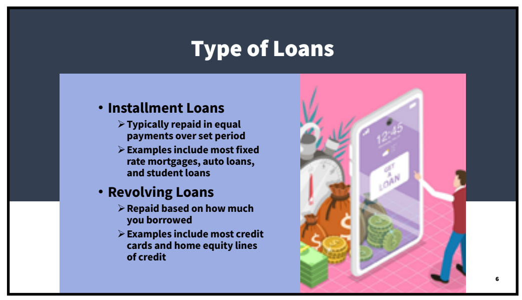
- Here are a few key concepts to get started.
  - **Credit** is the ability to borrow money.
  - **Debt** is money you owe a person or business.
- When you use credit to borrow money, you incur debt. For example, you incur debt when you:
  - Borrow money to buy a house or vehicle by taking out a loan.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

Types of Loans

Present information (4 minutes)

See page 2 in the participant guide.

SHOW SLIDE 6

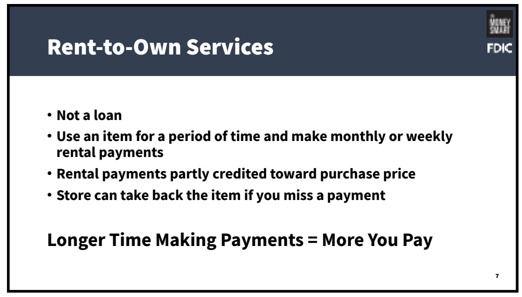


SAY

- There are two main loan categories: installment and revolving loans.
  - An **installment loan** is typically repaid in equal payments, or installments, for a specific period, usually several years. Examples include most:
    - Mortgages (also called home loans).
    - Auto loans.
    - Student loans.
    - Buy now, pay later loans.

    Note: if the interest rate can change during the life of a loan, then the payment amount may change for an installment loan.
  - A **revolving loan** (or revolving line of credit) allows unlimited purchases up to a preapproved dollar limit. Payments vary based on how much you borrowed. Examples include most:
    - Credit cards.
    - Home equity lines of credit (also called a HELOC).

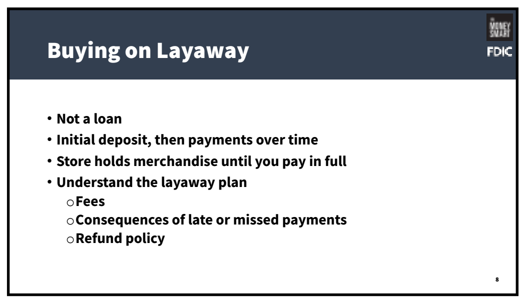
SHOW SLIDE 7



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.
- To purchase the item, your rental payments are partly credited toward the purchase price. The store sets 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 return it at the end of the rental period and rarely 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 not technically 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 is similar to interest on a loan.
- Renting to own can cost two to three times more than if you bought with cash, on layaway, or on an installment plan, according to the Federal Trade Commission. Generally, the longer you make payments, the more you pay for the item.
- If you sign a rent-to-own agreement, understand the contract, including the total amount you will pay for the item and when you will own it.

SHOW SLIDE 8



SAY

- Buying on layaway may be another option. Layaway is not a loan.
- With layaway, you typically pay a deposit—usually a percentage of the purchase price—and pay the balance over time.
- The store holds the merchandise. You take the merchandise only when you have paid in full.
- Read and understand the layaway plan, including fees and consequences of late or missed payments.
- Also 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 for returning the item for a refund?

SHOW SLIDE 9

SAY

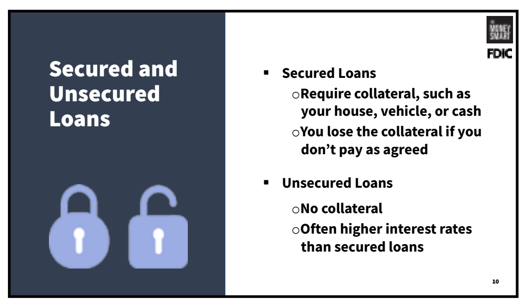
- When shopping online, you might see a “buy now, pay later” option.
- This option is a loan. You borrow money at the time of purchase. The amount of the loan often not only includes the cost of the item, but also shipping and handling charges and taxes.
- You receive the item now and repay the loan in biweekly or monthly installments.
- Some companies offer low or no interest “buy now, pay later” loans, but some have high annual percentage rates, or APRs.
- Most “buy now, pay later” contracts include fees for late or missed payments. In addition, late or missed payments can negatively affect your credit.
- If you choose to make payments using your credit card, your credit card company may charge additional interest and fees.
- Before using this option, understand the terms, including the interest rate, fees, and consequences of late or missed payments.

Secured and Unsecured Loans

Present information (2 minutes)

See page 3 in the participant guide.

SHOW SLIDE 10



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.
    - 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 common examples of secured loans.
  - **Unsecured loans** are based only on your promise to repay the money you borrow. They are not secured by collateral.
    - Lenders consider these loans riskier 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

Present information (3 minutes)

See page 3 in the participant guide.

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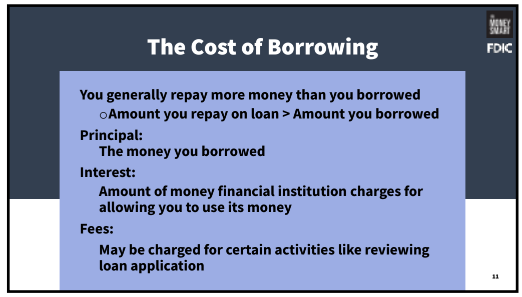

SAY

- Know the costs associated with borrowing money.
- You usually repay more money than you borrowed.
  - Credit cards are generally an exception. If you do not carry a balance on the credit card and pay the charges in full by the due date, you are not repaying more than you borrowed.
- Besides repaying the money you borrowed (called the **principal**), you typically pay two costs: interest and fees.
  - **Interest** is the money a financial institution charges for allowing you to use its money. It is expressed as a percentage and can be 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 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 or 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.
    - » Different types of loans may have different types of fees. For example, mortgage lenders will charge appraisal fees to have a professional estimate the market value of the home.
    - » 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.

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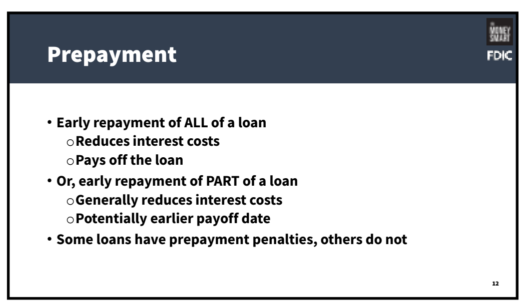

SAY

- **Prepayment** is the early repayment of all or part of a loan.
- When you prepay, you pay the lender more than your regular monthly payment. The lender applies the "extra" amount to your outstanding balance. You may need to tell your lender to do so.
  - If you prepay your loan in full, you 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 and state to state.
  - These fees can be significant. When you shop for a loan, find out whether loan offers have prepayment penalties. Once you have a loan, consider any fees you will incur before prepaying.

Try It: Exploring Borrowing Options

Lead activity (15 minutes) – Scenario

See page 4 in the participant guide.

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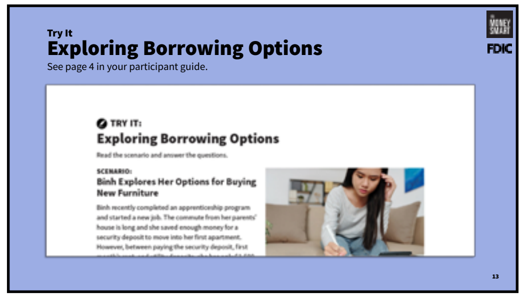

DO

- Ask participants to turn to “Try It: Exploring Borrowing Options” on page 4 in their participant guide.
- Read the scenario to participants or ask for a volunteer to do so.
- Alternatively, give participants a few minutes to read it to themselves, if that works for your group. The scenario contains numbers and dollar amounts that may be confusing if read aloud.

Scenario: Binh Explores Her Options for Buying New Furniture

Binh recently completed an apprenticeship program and started a new job. The commute from her parents’ house is long, and she saved enough money for a security deposit to move into her first apartment. However, between paying the security deposit, first month’s rent, and utility deposits, she has only $1,500 left over to buy furniture.

Earlier this week, she saw a full living room set for sale she likes and thinks will fit perfectly. It costs $2,500.

Yesterday Binh explored options for buying the furniture and learned:

- **She could get a 36-month unsecured installment loan for $1,000 from her local bank.** The furniture would be delivered the day after she makes the purchase. When she adds up the loan amount with interest, plus the $1,500 she pays from her savings, she realizes she will pay $2,636 for the furniture. And, she would be in debt for three years, making monthly payments of about $32.
- **She could keep her savings for an emergency and instead buy the furniture using her credit card.** The furniture would be delivered the day after she makes the purchase. Her credit limit is high enough. With this option, she estimates she will pay at least $3,000 for the furniture. That includes the interest she’ll pay the credit card company since she won’t pay off the balance right away. Her credit card payments would be about $83 each month for three years.
- **She could purchase the furniture on layaway.** The store says purchasing the furniture this way would cost $2,750. But she won’t get to bring home the furniture until she’s paid $229 each month for 12 months.

- **She could use a rent-to-own option.** The same living room set is available for next-day delivery from a local store. When she adds up the payments and fees for its rent-to-own option, she learns she will pay $3,500 for the furniture. She estimates that she'll pay $292 each month for 12 months with this option.

SAY

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

DO

- After six minutes, review the questions, allowing participants an opportunity to provide answers for each.

ASK

- Which options allow Binh to get the furniture soon?
  - 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 paid the amount in cash.
- Some months, Binh has just enough income to cover her expenses. Which options would help her manage cash flow?
  - The installment loan has the lowest monthly cost option. 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 the monthly payments.
- What else could Binh consider?
  - Whether putting the full $2,500 on her credit card may affect her credit scores.
  - Whether it is a good idea to use all of her savings for the purchase, as in the installment loan option. She may face emergencies before she is able to rebuild her savings.
  - Whether she can make the payments on each option 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 in cash. Until now, she's only had credit cards, and having a variety of debt can increase her credit scores. Making all payments on time 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.

- Whether there is a less expensive living room set that would meet her needs.
- Whether she could increase her income in the near term to save more cash toward the furniture purchase. For example, she may be able to earn extra money by working more hours or have a yard sale.
- Whether she wants to wait until she has saved enough cash to buy the furniture outright.

Truth in Lending/Comparing Offers

Present information (5 minutes)

See page 6 in the participant guide.

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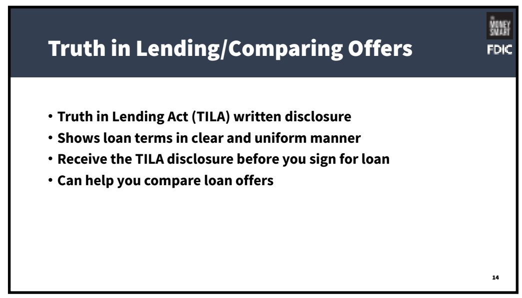

SAY

- 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.
- As required by law, lenders provide you with TILA disclosures before you sign for 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.

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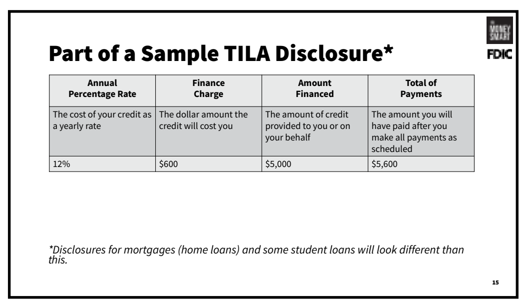

SAY

- You can find part of a sample TILA disclosure for an installment loan, such as a car loan, on page 6 in your participant guide under "Truth in Lending/ Comparing Offers."
- Disclosures for mortgages (home loans) and some student loans will look different.

Part of a Sample TILA Disclosure for an Installment Loan

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost (interest and fees) over the life of the loan if you make every payment when due.	The dollar amount of credit provided to you.	The amount you will have paid at the end of the loan (including the principal amount and all finance charges) if you make all payments when due.
12%	$600	$5,000	$5,600

SAY

- For an installment loan, TILA requires lenders to disclose several items.
- The **annual percentage rate** (APR) is the cost of your loan expressed as a yearly percentage rate. The APR reflects interest and certain fees that are in the finance charge. In this example, there are no fees in the $600 finance charge, only interest, and the APR on the $5,000 loan is 12%.

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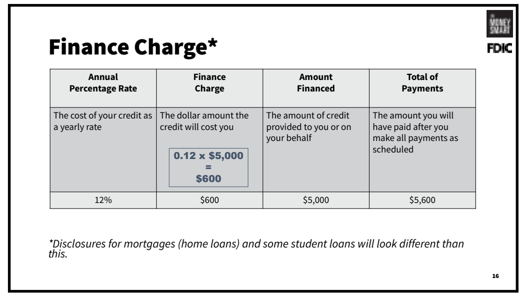

SAY

- The **finance charge** is the cost of credit expressed in dollars. The finance charge includes interest and certain other costs such as loan fees. But for this example, as mentioned, there are no fees in the finance charge, only interest.
- The **amount financed** is the money you are borrowing. It is also called the principal. For this example, the amount financed is $5,000.

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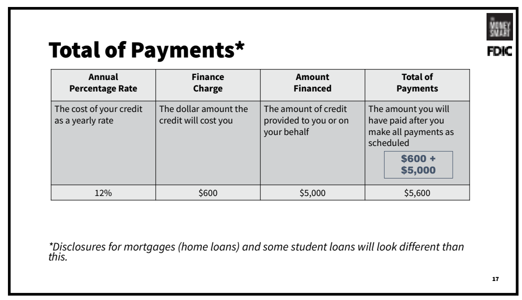

SAY

- **Total of payments** is the amount paid after making all scheduled payments. This includes the repayment of the principal plus all finance charges. Finance charges are interest and fees.
  - Using this example, the total of payments is $5,600 (the $5,000 principal plus the $600 finance charge).
- Review the payment schedules for installment loan offers. This is important to understanding how different terms in 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 one-time 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.
- TILA also applies to credit cards. As with other types of loans, lenders must provide you with key facts, including the APR, so you can comparison shop.
  - For revolving loans, like borrowing on a credit card, it helps to compare offers based on making only the minimum payment each month. Online calculators show 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. Check your credit card statement for useful information on how long it will take to pay off the balance.

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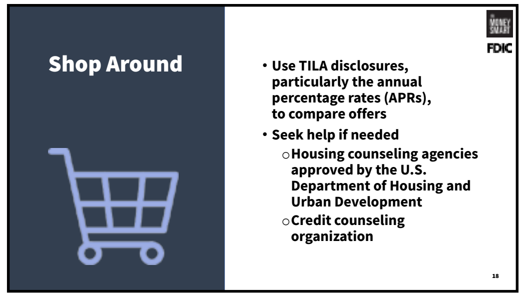

SAY

- When you are ready to borrow money, shop for the loan that works best for you.
- Evaluate the payments required by the loan to be sure you can pay as agreed. This limits the risk of damaging your credit history or, for secured loans, losing your collateral.
- Use the TILA disclosures, in particular the APRs, 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 or a credit counseling organization.

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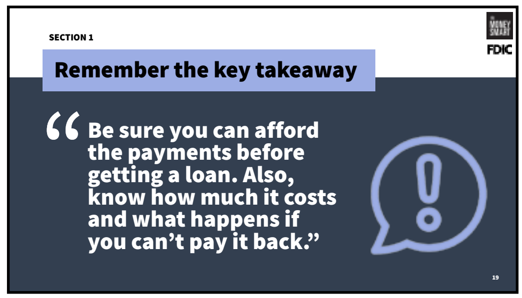

SAY

- Remember the key takeaway: Be sure you can afford the payments before getting a loan. Also, know how much it costs and what happens if you can’t pay it back.

Section 2: Preparing to Apply for a Loan

Time estimate for this section: 30 minutes

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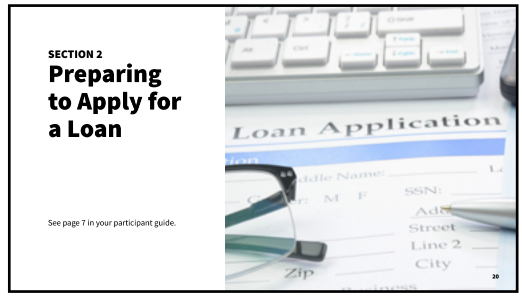
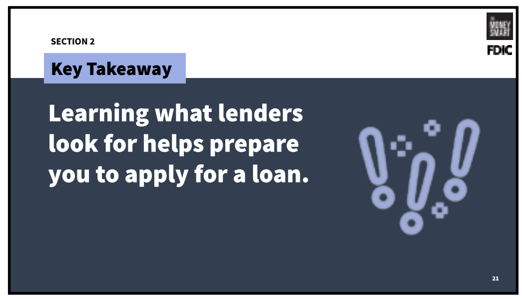


Participants will be able to:

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

SHOW SLIDE 21



SAY

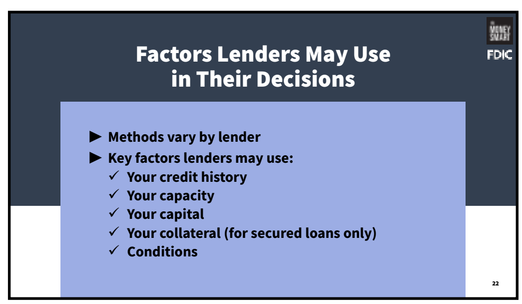
- The key takeaway for this section is: Learning what lenders look for helps prepare you to apply for a loan.

Factors Lenders May Use in Their Decisions

Present information (10 minutes)

See page 7 in the participant guide.

SHOW SLIDE 22



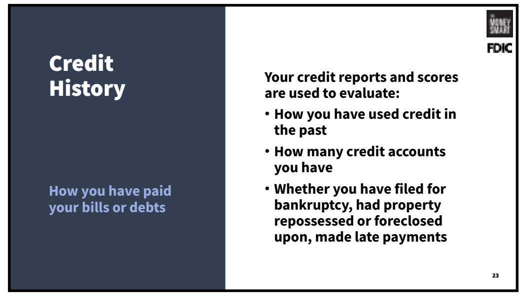
SAY

- When you apply for a loan, the lender decides whether you are a good credit risk. Are you likely to pay back the loan as agreed? This is called **evaluating your creditworthiness**.
- 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 history**: 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 23



SAY

▪ We will look at these key factors in more detail. You can take notes on pages 7 and 13 in your participant guide.

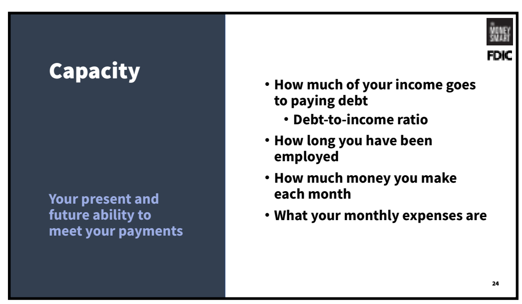
▪ **Credit history** refers to how you have paid your bills or debts in the past.

▪ 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:
    » 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 find the free annual credit reports you are entitled to by law every 12 months from each of the three nationwide credit reporting agencies.

▪ Your credit scores are based on the information on your credit reports, so request and review your credit reports and dispute inaccurate information before you apply for a loan.

SHOW SLIDE 24



SAY

▪ **Capacity** refers to your present and future ability to meet your payments.
  - Lenders evaluate:
    » How much of your monthly income goes to debt payments now, without the loan you requested.
    » How much of your monthly income will go to debt payments, if the lender makes the loan.
  - These calculations are called debt-to-income ratios. They help the lender determine how much money they think you can afford to borrow. Remember, that is different from how much money you think you can afford to repay.

- Lenders also evaluate:
  - » How long you have been employed, including the time at your current job and your recent employment history.
  - » How much money you make each month.
  - » What your monthly expenses are.

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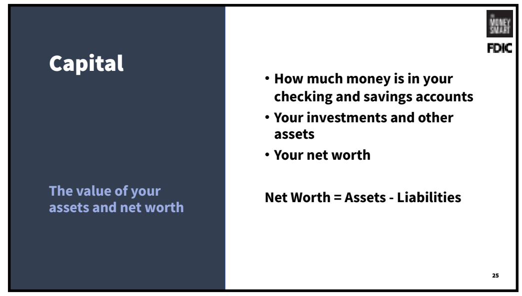
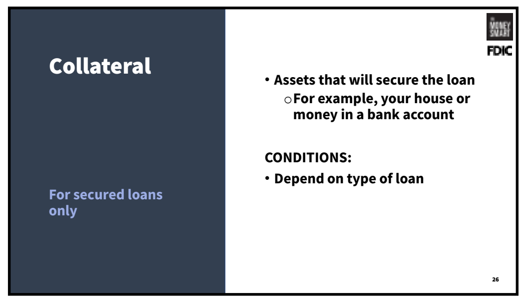


SAY

- ■ **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.
  - Your net worth, which is the value of your assets minus your liabilities.

SHOW SLIDE 26



SAY

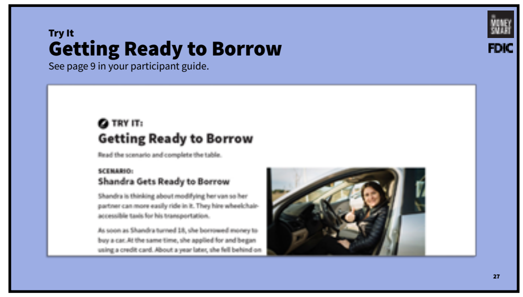
- ■ **Collateral** only applies to secured loans. It refers to the assets that secure the loan. For example, for a home loan or mortgage, the house is the collateral. If you do not pay back the loan as agreed, the lender can take possession of the asset. Money in a bank account can also be the collateral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

Try It: Getting Ready to Borrow

Lead activity (15 minutes)

See page 9 in the participant guide.

SHOW SLIDE 27



DO

- Ask participants to turn to “Try It: Getting Ready to Borrow” on page 9 in their participant guide.
- Read the scenario to participants or ask for a volunteer to do so.
- Alternatively, give participants a few minutes to read it to themselves, if that works for your group. It is a relatively long scenario.

Scenario: Shandra Gets Ready to Borrow

Shandra is thinking about modifying her van so her partner can more easily ride in it. They hire wheelchair-accessible taxis for his transportation.

As soon as Shandra turned 18, she borrowed money to buy a car. At the same time, she applied for and began using a credit card. About a year later, she fell behind on paying bills. The car was repossessed and she missed payments on her credit card several times.

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

Shandra has been in the same job for two years and plans to stay there. She lives with her partner and they share expenses evenly.

She would like to modify her van soon, but can wait if she needs to. She can pay for part of the van modifications using cash she has saved for that purpose. If her preliminary research into financing options is accurate, she thinks she can afford the loan payments for the rest of the modifications.

Shandra promised herself she would save money every time she received income. And she has been doing that. Her emergency fund in a savings account covers her living expenses for about one week. She is proud of how much she has saved.

SAY

- If you were the lender, how would you evaluate Shandra on capacity, capital, and credit history?
- Take eight minutes 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 history. There is a column for each topic. In the space provided, answer these questions for each topic:
  - 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 discuss conditions in this activity.

DO

- After eight minutes, ask 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

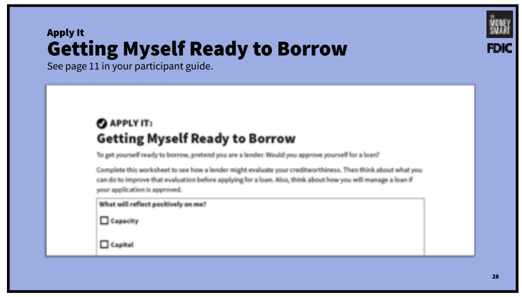
Question	Capacity	Capital	Credit History
What will reflect positively on Shandra?	▪ Stable employment for two years. ▪ None of her income goes to paying debts.	▪ Her van. ▪ Her savings for a loan down payment. ▪ Her emergency savings.	▪ The work she did to pay off her credit card debt.
What will reflect negatively on Shandra?	▪ Nothing in the scenario would be a strong negative, although the lender may want to know more about Shandra's routine expenses.	▪ Nothing in the scenario would be a strong negative, although the more assets the better.	▪ The missed payments on her credit card. ▪ The default on her auto loan. ▪ The lack of recent borrowing means there is nothing to demonstrate that Shandra repays her debts as agreed. It was probably not a good idea to cancel her only credit card.
What can Shandra do to improve her chances of being approved for the loan?	▪ Continue working to demonstrate the stability of her employment situation. ▪ Try to increase her income and reduce her expenses.	▪ Continue to save money.	▪ Get a small credit-building loan and make timely payments to establish a track record of prompt repayment of debts. ▪ Apply for a credit card, use it for small purchases, and pay it off in full and on time to build her credit. ▪ Delay the van modifications until she saves more money. ▪ Work with a reputable credit counselor on other strategies to improve her credit.

Apply It: Getting Myself Ready to Borrow

Present information (1 minute)

See page 11 in the participant guide.

SHOW SLIDE 28



SAY

- Turn to "Apply It: Getting Myself Ready to Borrow" on page 11 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 through ways to improve your credit, and how to manage a loan if you are approved.

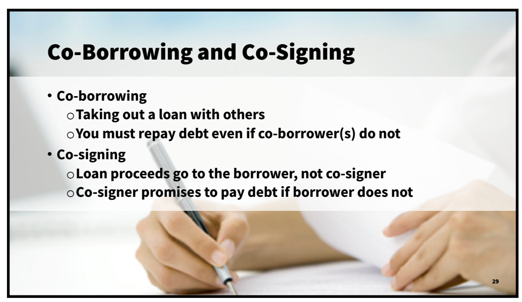
Note to Instructor: Time permitting, review this Apply It with participants, using a copy from a participant guide.

Co-Borrowing and Co-Signing

Present information (4 minutes)

See page 13 in the participant guide.

SHOW SLIDE 29



SAY

- **Co-borrowing** is taking out a loan jointly with one or more people.
  - You might want to co-borrow when:
    - » Buying a house or car jointly or opening a joint credit card account.
    - » Buying property jointly with children, parents, or others.
  - As a co-borrower, you must repay the debt even if co-borrowers do not make payments.
  - Loan payment history appears on the credit reports for you and for co-borrowers.
  - Lenders 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 co-borrowers about how much of the loan payment each will pay and other responsibilities. Think carefully about what would happen if someone did not pay what they promised.

- **Co-signing** is taking full responsibility for paying back a loan, along with the primary borrower.
  - The loan proceeds go to the borrower and not to the co-signer.
  - When you co-sign, you promise to pay the debt if the borrower does not. You will likely have to pay late fees or collection costs if the borrower defaults on the loan.
  - The lender considers the co-signer'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 co-signers.
  - If you co-sign, the debt will likely appear on your credit report as one of your debts. If this debt is ever in default, it may become part of your credit history and affect your credit scores.
    - » The lender can use the same methods to collect from a co-signer 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 co-sign 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.
    - » If the loan is used to buy or refinance property, consider whether you are (or can be) a co-owner of the property.

Apply It: My Tip Sheet for Considering Co-Signing Someone Else's Loan

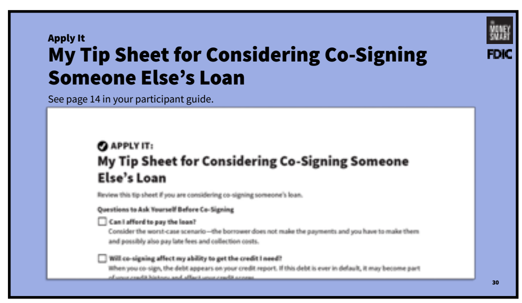
Present information (1 minute)

See page 14 in the participant guide.

SHOW SLIDE 30

SAY

- Turn to "Apply It: My Tip Sheet for Considering Co-Signing Someone Else's Loan" on page 14 in your participant guide.
- You can complete this worksheet after today's training if you are considering co-signing someone's loan.



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

Apply It: My Tip Sheet for Considering Co-Signing Someone Else's Loan, as shown in the participant guide

Review this tip sheet if you are considering co-signing someone's loan.

Questions to Ask Yourself Before Co-Signing

- **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 co-signing affect my ability to get the credit I need?**

  When you co-sign, the debt appears on your credit report. If this debt is ever in default, it may become part of your credit history and affect your credit scores.

  To get other credit, lenders may consider the co-signed loan one of your debts when determining your capacity to take on new debts.

- **Do I understand how much money I might have 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, limit your liability to the loan's principal. If you do—before you co-sign—ask the lender to include a statement in the contract. The statement could say: "The co-signer 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—besides co-signing—you offer items you own as collateral for the loan, understand that you may lose those items. Before you pledge property—like your car—to secure the loan, consider the risk. If the borrower defaults and you cannot pay the debt, you could lose that property.

Ways to Protect Yourself as a Co-Signer

- **Get notified.**

  Ask the lender to notify you if the borrower misses a payment or the loan terms change. Get the lender's agreement to do so in writing before you co-sign. That gives you time to address the problem or make payments without having to repay the entire amount immediately.

- **Get copies.**

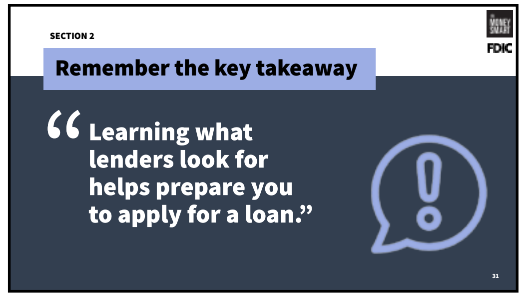
  Get copies of all important papers, like the loan contract and the TILA disclosure. These documents may be useful if there's a dispute. The lender may not be required to give you these papers, so you may have to get copies from the borrower.

Check with your state attorney general's office for rights of co-signers in your state. You can also search "loan co-signer" at **usa.gov**.

SHOW SLIDE 31

SAY

- Remember the key takeaway: Learning what lenders look for helps prepare you to apply for a loan.



Section 3: Borrowing When Someone Helps You Manage Your Money

Time estimate for this section: 10 minutes

SHOW SLIDE 32

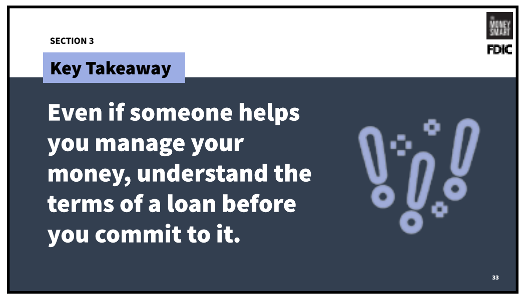
Participants will be able to:

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

SHOW SLIDE 33

SAY

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



Responsibilities of the Person Helping You

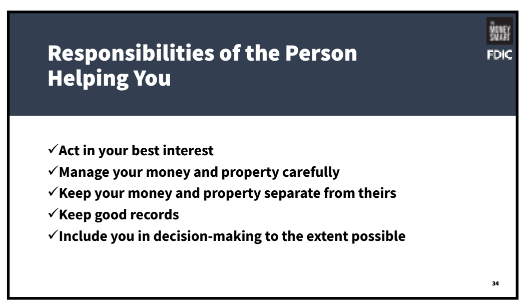
Present information (4 minutes)

See page 15 in the participant guide.

SHOW SLIDE 34

SAY

- You can borrow money with assistance from the person who helps you manage your finances. Common situations include:
  - Someone acting as your agent under a power of attorney, which is a legal document giving them the authority to act on your behalf.
  - Someone acting as your representative payee for Social Security or veteran's benefits.
  - Other 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 Consumer Financial Protection Bureau has guides specifically for people who help others with their money.
  - These guides for managing someone else's money can help financial caregivers understand their duties, watch out for scams, and more.
  - Look at the guides or ask the person or people helping you to review them.
  - Find these guides by searching **consumerfinance.gov** for "someone else's money."

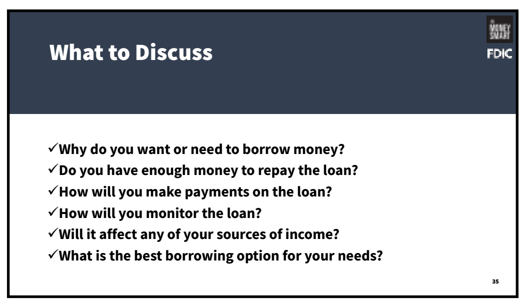
Note to Instructor: Consider reviewing the Consumer Financial Protection Bureau's guides for managing someone else's money before your training. Find these guides by searching **consumerfinance.gov** for "someone else's money." You can download the guides or order free hardcopies.

What to Discuss

Present information (3 minutes)

See page 15 in the participant guide.

SHOW SLIDE 35



SAY

- If you plan to borrow money with someone's help, understand the answers to several key questions first.
- Discuss these with the person who helps you with your finances and 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 the answers yourself.
  - Why do you want or 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 and mail a check each month?
  - How will you monitor the loan?
    - » If you will not receive monthly statements, find out how you can monitor the loan and make sure your payments were processed.

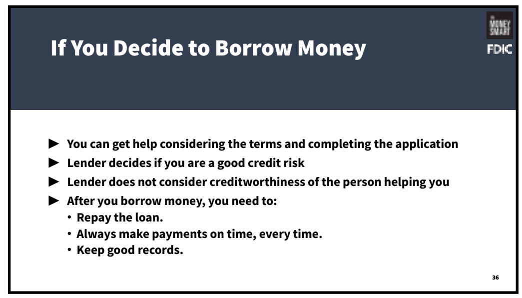
- Will borrowing money affect any of your sources of income?
  - » For example, will the loan be used to obtain assets that would put you over the asset limit for a benefit program you depend on?
- What is the best borrowing option for your needs?
  - » Options could include a credit card, an installment loan from a financial institution, a loan from a family member, working with an alternative financing program, or some other method of borrowing money.

If You Decide to Borrow Money

Present information (1 minute)

See page 16 in the participant guide.

SHOW SLIDE 36



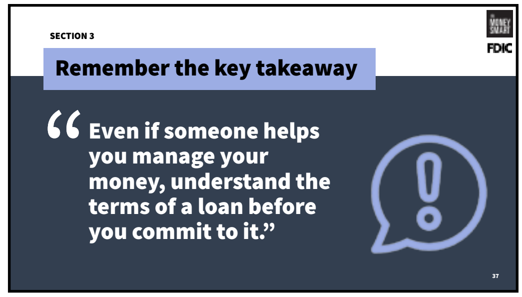
SAY

- Understand the terms of the loan before you commit to it and know:
  - How much money you are borrowing.
  - How much money you have to pay back.
  - How much money you have to pay each month.
  - When payments are due.
- 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 decides if you are a good credit risk, just as they would any other potential borrower.
- The lender does not consider the creditworthiness of the person helping you unless that person is a co-signer or co-borrower.
- After you borrow money, you need to:
  - Repay the loan.
  - Always make payments on 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, ask the person who helped you get the loan or someone else you trust.

SHOW SLIDE 37

SAY

- 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

Time estimate for this section: 10 minutes

Remember the Key Takeaways

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

SAY

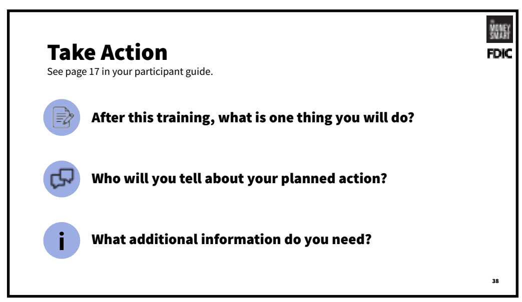
- Remember the key takeaways. These are also listed on page 17 in your participant guide. Let me know if you have questions about any of them.

SECTION	KEY TAKEAWAY
1: Ways to Borrow Money and What It Costs	Be sure you can afford the payments before getting a loan. Also, know how much it costs and what happens if you can't pay it back.
2: Preparing to Apply for a Loan	Learning what lenders look for helps prepare you to apply for a loan.
3: Borrowing When Someone Helps You Manage Your Money	Even if someone helps you manage your money, understand the terms of a loan before you commit to it.

Take Action

See page 17 in the participant guide.

SHOW SLIDE 38



SAY

- You are more likely to act if you commit to taking action now.
- Consider writing down what you intend to do based on today's training.
- Take a few minutes to answer the questions under "Take Action" on page 17 in your participant guide.

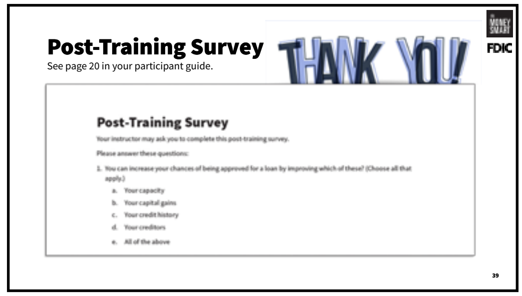
DO

- If time permits, ask a few participants to share what they wrote.
- 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 18 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.

Post-Training Survey (Optional)

See page 20 in the participant guide.

SHOW SLIDE 39



SAY

- Thank you for coming to this Money Smart training.
- Please complete the post-training survey on page 20 of your participant guide.
- It should take less than five minutes to complete.

DO

- Collect the completed surveys.

Answer Key for the Pre- and Post-Training Survey

1. You can increase your chances of being approved for a loan by improving which of these? (Choose all that apply.)
   a. Your capacity
   b. Your capital gains
   c. Your credit history
   d. Your creditors
   e. All of the above

   The answers are **a. Your capacity** and **c. Your credit history.**

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**.