Building Your Financial House

Set the Foundation of Your Future

Module 7

Borrow to Grow

Facilitator Guide (EOR)

PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

Table of Contents

Objectives and Checklist

According to the Framework, only borrow to buy things (assets) that will grow and feed your financial future, like seeds of a fruit tree. Borrowing in excess, similar to overwatering a seedling, can slow your financial growth, weigh it down, and drown it out. As a result of Module 7, participants will know how to:

- Identifying the types and appropriate uses of 'other people's money' (OPM)
- Identify the four main factors that affect the total cost of using credit
- Be familiar with credit reports and scores, how to get them, and how lenders use them
- Recognize the credit risk to cost relationship and ways to improve credit worthiness
- Be familiar with information lenders must provide to you when borrowing money

What we encourage the participants to do with this information is:

- Plan and meet obligations
- Limit borrowing to reasonable and manageable levels
- Limit borrowing to pay for items that will improve your financial picture
- Avoid high cost borrowing; plan, understand, and shop around for the best terms
- Order free credit reports every 12 months from each bureau and review for errors and potential problems

To prepare for the session, refer to the following checklist.

Handouts	☐ Module 7 - Participant Guide ☐ Module 7 - Presentation Slides ☐ Participant Certificates of Participation
Supplies	☐ Computer/laptop, projector, and slide advancer (test prior to start) ☐ Extension cord ☐ Non-adhesive flip chart paper or white board ☐ Colored markers ☐ Visuals
Room Set-up	☐ Adequate tables and chairs, ideally arranged in a U-shape ☐ Hang the AGREE and DISAGREE 'Opinion Activity' visuals on walls across from each; hang UNSURE visual on wall in between

Visuals

Below are the visual aids that will be used during the presentation of Module 7: Protect Your Potential.

Anna Shops for a Monthly Payment

1. Use non-adhesive flip-chart paper or white board
2. Make the following chart to be completed during the activity
   (Note: Slide BTG.20 has the completed chart which may be used as an alternative.)

	Loan Amount	% Rate	Term (mo's)	Monthly Payment	Total	Cost of Credit
Sticker	**$10,000**	**7%**	**48**	**$239**	**$11,472**	**$1,472**
Factor Change:						
Down Payment ($2,000)						
Term						
% Rate						
Loan Fees $340						

Opinion Activity

1. Use plain 8 ½ x 11" paper
2. Make one of each sign

AGREE	**DISAGREE**	**UNSURE**

Session Outline and Activities

Slides	Section	Time Allotted
BTG.1-8	Welcome and Recap - Collect and copy page PYP-3 for data tracking	15 minutes
BTG.9-12	Objectives and Self-Assessment - Pre-Session Assessment, page BTG-3	5 minutes
BTG.13-17	Introduction - Credit Myths and Facts, page BTG-5 - Other People's Money	10 minutes
BTG.18-23	Case Study: Anna Shops for a Monthly Payment, page 28 - Four Factors of Finance - Disclosures for Good Decisions - Amortize This!	15 minutes
BTG.24-31	Credit: How to Get It - Credit Reports - What's Your Number (Credit Scores) - Grades Do Matter	15 minutes
BTG.32-36	Credit: How to Use It - Opinion Activity - How to Keep It - Warning Signs	15 minutes
BTG.37-45	Credit: How to Fix It! - Case Study: Dissecting Barry's Debt, page 29 - Rebuilding Credit With Help	20 minutes
BTG.46-48	Predatory Lending - Guess the Credit - Too Good to Be True	10 minutes
BTG.49-54	Recap and Take Action	10 minutes
BTG.55-56	Session Evaluation and Closing, page BTG-33	5 minutes

Certificate of Participation

Participant Name

in recognition of your participation on this day, Month Date, 20XX

in the Borrow to Grow *module of the*

Building Your Financial House

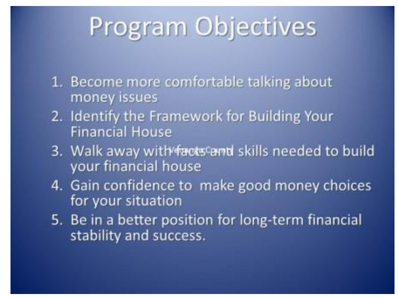
Financial Education Program

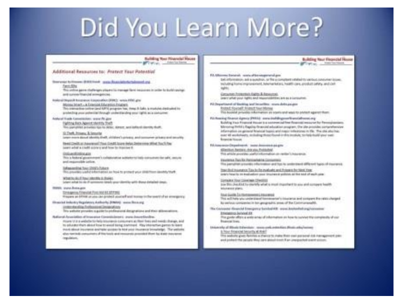
Building Your Financial House
Set the Foundation of Your Future
www.phfa.org
www.buildingyourfinancialhouse.org

Your Name
Instructor

Agency Name
Location

Presentation Instruction Guide and Script *(italics)*

Welcome and Recap	**Time: 15 minutes**
As participants arrive, **hand out** the **Module 7 Participant Guide and Participant Slides** if they don't already have them in a binder. **Discuss** any housekeeping issues that might be relevant. **Next**	 *slide BTG.1*
Explain: *Remember the objectives of Building Your Financial House:* **Read** the objectives **Next**	 *slide BTG.2*
Explain: *We've come to the final topic in the program; this session, we'll be talking about borrowing to grow.* **Next**	 *slide BTG.3*
Explain: *Let's recap what we talked about last session.* **Read** the points. **Next**	 *slide BTG.4*

Ask participants to turn to **page PYP-3, Self-Assessment and Track Your** Progress, in the **Module 6** participant guide and **complete** the page (goals, worksheets completed, actions taken) if they haven't done so already. **Explain:** *Did you set a goal?* **Next**	 *slide BTG.5*
Explain: *Did you practice?* **Ask** for any feedback on the homework. **Next**	 *slide BTG.6*
Explain: *Did you learn more?* **Ask** for any feedback on the additional resources. **Next**	 *slide BTG.7*
Explain: *Did you make progress?* **Ask** for any feedback on the actions taken. Make sure participants write their anonymous identifier (participant #) in the lower right hand box. **Collect**, **copy**, and **return** the worksheets before the session is finished. **Next**	 *slide BTG.8*

Module 7: Objectives and Self-Assessment — Time: 5 minutes

Refer participants to the **Module 7 - Participant Guide** and **Presentation Slides** handouts. Again, participants may prefer to follow the slides, but pages in the guide will be referenced during the presentation so both (and the **Case Study**) should be handy.

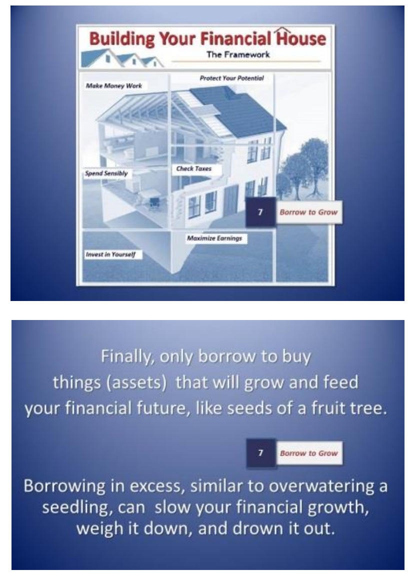
Next

slide BTG.9

Remind audience where the module fits in the framework.

Read the slide.

Next

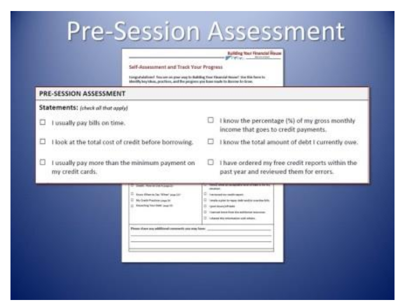


slide BTG.10

Refer to **page BTG-3**, **Self-Assessment and Track Your Progress**.

Read the points of the pre-session self-assessment. **Ask** participants to complete.

Next



slide BTG.11

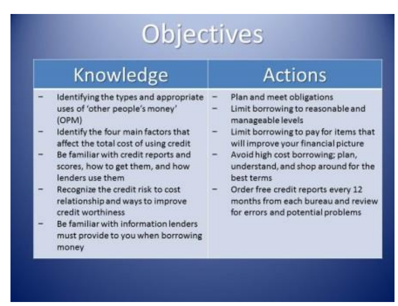
Explain:

> *Remember that each of the modules in Building Your Financial House will have things that we should know about the topic, but also what we should do with this information, or the actions.*

Read the knowledge objectives.

Click and **read** the action objectives.

Next



slide BTG.12

Introduction — Time: 10 minutes

Allow pictures to be revealed. **Ask** participants what the items have in common and **allow** for answers.

Click and **explain:**

> *Each one of these items can be purchased on credit! The question is which credit purchase will help you grow finally?*

Click and **describe** the items that remain and will help participants borrow to grow:

> Tools – for a business
>
> Automobile – to get to work and earn an income
>
> Education – the more you learn the more you earn
>
> House – an asset that will not only provide shelter but may be a source of profit in the future

Next

slide BTG.13

Refer to the **page BTG-5**, **Credit Myths and Facts**. **Ask** for volunteers to read the questions aloud and open the answers to the group. **Discuss** correct answers according to the answers on **page BTG-6**.

Next

slide BTG.14

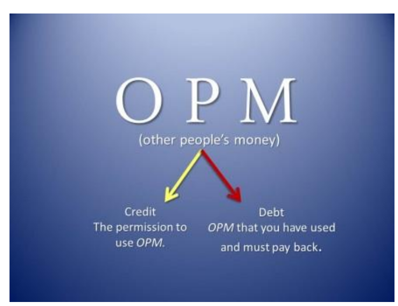
Refer to the **page BTG-7**, **Other People's Money** and **explain:**

> *We often refer to OPM or "Other People's Money" in two different ways, credit and debt. Although we commonly interchange them, they are different.*

Click

- *Credit is…. The permission to use OPM*
- *Debt is…. OPM that you have used and must pay back.*

Next



slide BTG.15

Explain:

Let's review some credit basics with which you may or may not be familiar.

Click

Secured debt *is when something of value is pledged as collateral for repayment of a loan. A mortgage loan is secured by your home and means if you don't pay back the loan, the lender can foreclose on the property and sell it to cover the loan.*

Click

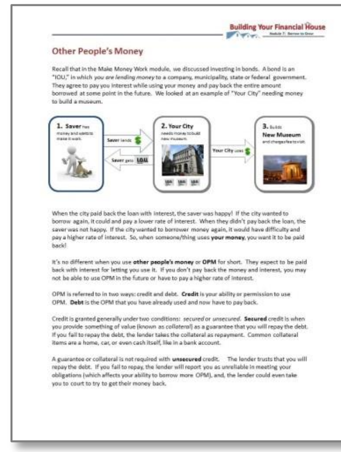
Unsecured debt *is when there isn't anything pledged for payment of a loan. The lender trusts that you will repay the loan; if you don't, the lender may take you to court to obtain the funds to pay back the loan.*

Click

We've added a third category, ***garnishments****. These are unsecured debts in which cannot be forgiven in bankruptcy and the government may garnish your wages, withhold your tax return, or levy your bank account to repay them. Examples of this are income tax debts and child support arrearages.*

Next

slide BTG.16



page BTG-7

Refer to **page BTG-8**, **Types of Credit**, and **explain**:

Revolving credit*, like credit cards, provides a borrower with a set amount of money that can be used; the borrower has the option to use some, all, or none of it. As the money is used, the borrower has the choice to repay in full or a part. When the money is paid back, it may be used again. So the process is: use it, pay it back, use it, and pay it back. Fees with revolving accounts include interest, annual, late payment, and transaction fees, etc.*

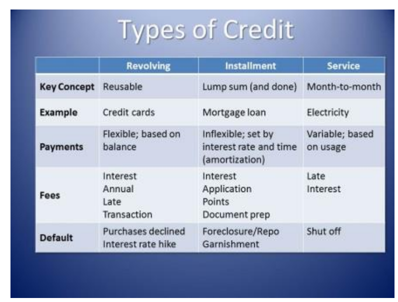
Click

Installment credit*, like an auto loan, provides a borrower with a fixed amount of money and a set repayment schedule over a fixed amount of time. The repayments are usually made in monthly installments, hence the name "installment." When the loan is paid back, the money cannot be used again. It's a once and done scenario. Fees with installment loans include interest, application fees, collateral appraisals, closing costs, late payment fees, etc.*

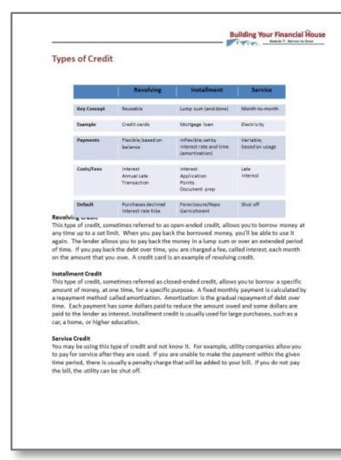
Click

Service credit *is an extension of credit for a very short period of time for services used. Utilities, for example, are used first and then billed for use, which can be considered a type of credit. This is the first way that many people establish credit and may be relevant for you upon release. Fees with service credit include application fee, security deposit, late fees, interest, etc.*

Next



slide BTG.17

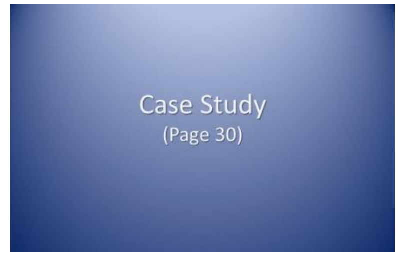


page BTG-8

Case Study: Anna Shops for a Monthly Payment — Time: 15 minutes

Refer to the **Case Study, page 30**.

Next



slide BTG.18

Ask for volunteers to **read** the first two paragraphs. **Click** to reveal the car that Anna wants to purchase and the monthly payment that is posted in the car's window.

Explain:

> *Shopping for a monthly payment might sound like a good idea, because Anna wants to stay within her money map. However, doing that it can cost more . . . a lot more. Let's look at the four factors of finance and see how the salesman manipulated them to meet her target monthly payment.*

Next

slide BTG.19

Refer to 'Anna Shops for a Monthly Payment' visual or **use** slide if you prefer. Completing the chart vs. revealing lines on the slide adds movement to kinesthetic learners.

Explain:

> *Here are the details of the offer as written on the sticker. Cost of car: $10,000; monthly payment: $239; terms: 7% rate for 4 years.*
>
> *If you multiply the monthly payment times the number of months of the loan, Anna will payback a total of $11,472. That means the cost of the loan is $1,472….total payments less the amount borrowed.*
>
> *As the payment is more than what Anna feels is affordable, she hesitates. The salesman offers to discuss other financing with his manager, leaves, and returns five minutes later.*

-continued-

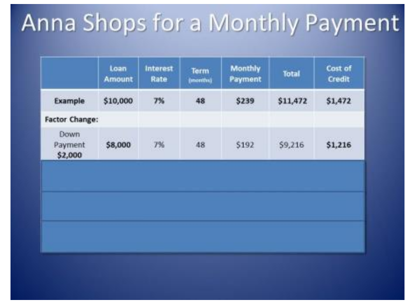
slide BTG.20

-continued-

Click or **fill-in** the **Down Payment** line of the chart as you **explain**:

He suggests Anna puts $2000 down which would put the monthly payment at $192. The amount borrowed is $8000, total repayment of $9,219, and the cost of credit is $1,216.

Anna explained that she doesn't have $2,000 for a down payment. Although she has savings, it is already allocated for car insurance and other expenses. The salesman comments on 'how good she looks in that car' and says, "let's see what I can do for you." He leaves and returns five minutes later.



slide BTG.20

Click or **fill-in** the **Term** line of the chart as you **explain**:

The salesman tells Anna that if one year is added to the term, her monthly payment would only be $198. That works out to a total repayment of $11,880 and cost of credit of $1,880.

Anna thought about it for a minute and told the salesman that she didn't want a five year loan. However, she believed that with some sacrifices, the original sticker price offer of $239 would be doable. The salesman left to start the paperwork. He returned five minutes later and told Anna that she didn't qualify for the 7% rate.

Click or **fill-in** the **Interest Rate** line of the chart as you **explain**:

The salesman said Anna's rate would be 8.5%, which would be $246 per month, total repayment of $11,808, and cost of credit $1,808. Anna cringed and the salesman asked her, "Are you going to let the cost of a latte ($246 - $239 = $7) come between you and the car that is so perfect for you?"

Anna thought since she paid off all of her debt with her tax refund, that she would qualify for a better rate. She told the salesman that she was going to shop around some more. The salesman quickly responded, "Anna, I know you're disappointed, but because you are so nice and look soooo good in that car, let me see what I can do for you." He leaves, talks to the manager, and comes back in five minutes.

Click or **fill-in** the **Loan Fees** line of the chart as you **explain**:

The salesman tells Anna that, because he really wants her to have this car, the manager will 'push through' the 7% loan if she pays a one-processing fee of $340. Her payment would stay at $239, but by adding the 'processing fee,' the total repayment and cost of credit is actually ***more*** *than the 8.5% loan!*

After all of the back and forth, Anna was wise and walked away from dealer. She will use $600 of her savings for the necessary repairs, will commit to saving more for a down payment, and continue to make all of her bill payments on time in order to qualify for the best rate possible when she is ready to buy another car.

Next

Refer to **page BTG-9**, **Four Factors of Finance**, and **explain**:

So when you look a financing a major purchase, remember the four factors of finance and how they can be manipulated to meet a monthly payment targets. Here is the recap.

Click

Down payment = Cost down (less borrowed, lower payment)

Click

Pay longer, pay more

Click

Higher interest = higher cost

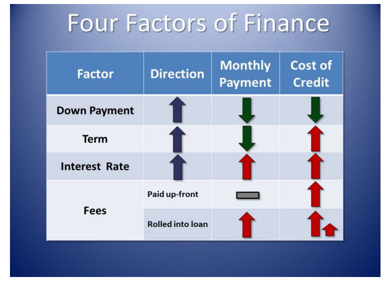
Click

Fees up (front) = cost up

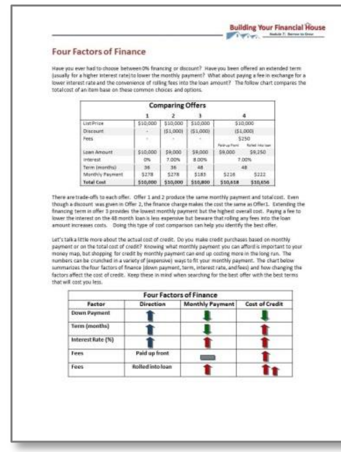
Click

Roll fees in loan = payment and cost even more

Next



slide BTG.21



page BTG-9

Refer to **pages BTG-9 thru 14**, **Disclosures for Good Decisions**, and **explain**:

When you are applying for (and using) credit, lenders are required to disclose information about the product so you can make good choices. There are different truth-in-lending disclosures for credit cards, installment loans, and mortgages. Here is a summary, but take time to review the format and description of each on your own.

Read the disclosure in the column and **click** to reveal next type.

Next

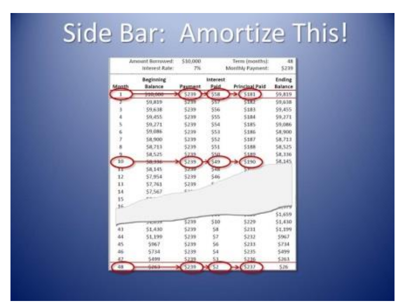
slide BTG.22

Refer to **page BTG-15**, **Amortize This!** and **ask** the participants if they have heard the term ‘amortization,’ and what it means? **Allow** for a few answers, if any, and **explain**:

‘Amortization’ is (another) fancy financial term which simply means ‘how your installment loan is paid back.’ With each payment, some dollars go towards principal and some go towards interest. Little by little more goes to paying down principal and less to interest.

Read the principal, interest, and ending balances for the example on slide. **Click** and **compare** it to the payments made at ten months and at the end of the term.

Next



slide BTG.23

Credit: How to Get It | Time: 15 minutes

Refer to **page BTG-17**, **Credit: How to Get It!** and **explain:**

Now Let's look at the factors involved in qualifying for credit. These are commonly known as the 5c's of credit. The first is capacity or simply your income. Lenders want to know if you have the 'capacity' to pay them back.

Click

Capital or simply cash. Do you have enough cash for the down payment, closing costs, or a cash reserve?

Click

Collateral is the asset used as a guarantee of payment on the loan. If you don't make the payments, the lender can take the asset and sell it to satisfy the debt.

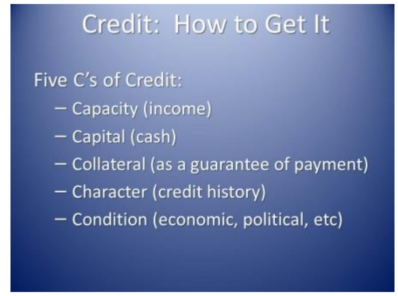
Click

Character … no not a cartoon character, but your credit history. Lender's look at how you have met your obligations in the past.

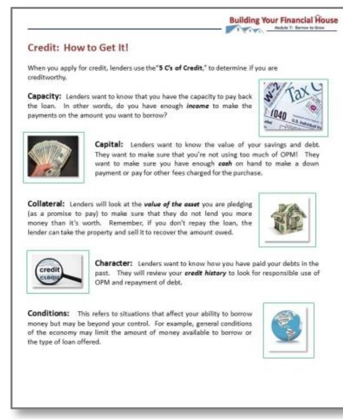
Click

And lastly, condition. This is something you may not have control over such as the economy, political instability, housing market values, etc.

Next



slide BTG.24


Credit: How to Get It!

page BTG-17

Explain:

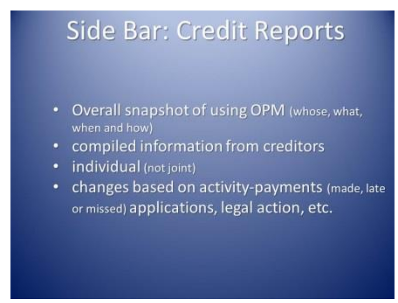
Let's look a little closer at 'character.' Credit reports and scores are a summary of your credit character and are popular topics when it comes to getting credit. To review, a credit report:

- *Overall snapshot of using OPM (whose, what, when, how)*
- *Compiled information from creditors*
- *Individual (not joint)*
- *Changes based on activity-payments (made, late or missed) applications, legal action, etc.*

The main parts of a credit report include public records of a financial nature, credit accounts (and reporting if payments have been made as agreed, delinquent, in collections, charge offs, and open/closed status), inquiries that you have made for new credit accounts, and a comment section for you to make reference to any issues that may be of interest to creditors.

Refer to **page BTG-18**, **Your Credit Report Card** and explain that there is more detailed information about the contents of a credit report that participants can review on their own.

Next



slide BTG.25


Your Credit Report Card

page BTG-18

Explain:

There are three main reporting bureaus, Equifax, Experian, and TransUnion. Here is their contact information.

Next

slide BTG.26

Refer to **page BTG-19**, **Your Free Credit Report: Get It and Check It!**, and **explain**:

Everyone is entitled to one free credit report from EACH of the credit bureaus every 12 months. You are also entitled to a free report if:

- *You have been denied credit*
- *Are unemployed*
- *Are receiving public benefits*
- *Have dispute an item and it was resolved*

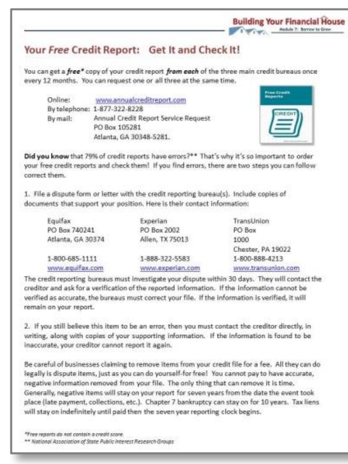
There is only one place to get your free credit report, and you can request it by phone, mail, or internet. The website: www.annual creditreport.com is often confused with similar sounding sites that advertise "free" credit reports, but may only provide free access when you sign up for monitoring services.

Again, the most important thing to remember about the credit bureaus is that they are not responsible for the quality of the information reported. Creditors supply the information and then the bureaus consolidate and report.

It is important to check your reports on a regular basis for errors. You can dispute information you believe to be incorrect with the bureaus. They will then contact the creditor for verification of the information. If the info can't be verified, it will be removed from your report. If it is verified and you still believe it's incorrect, it's your responsibility to take up the issue directly with the creditor.

Next

slide BTG.27



Building Your Financial House
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Your *Free* Credit Report: Get It and Check It!

You can get a ***free**** copy of your credit report ***from each*** of the three main credit bureaus once every 12 months. You can request one or all three at the same time.

Online: www.annualcreditreport.com
By telephone: 1-877-322-8228
By mail: Annual Credit Report Service Request
PO Box 105281
Atlanta, GA 30348-5281.

Did you know that 79% of credit reports have errors?** That's why it's so important to order your free credit reports and check them! If you find errors, there are two steps you can follow correct them.

1. File a dispute form or letter with the credit reporting bureau(s). Include copies of documents that support your position. Here is their contact information:

Equifax	Experian	TransUnion
PO Box 740241	PO Box 2002	PO Box
Atlanta, GA 30374	Allen, TX 75013	1000
		Chester, PA 19022
1-800-685-1111	1-888-322-5583	1-800-888-4213
www.equifax.com	www.experian.com	www.transunion.com

The credit reporting bureaus must investigate your dispute within 30 days. They will contact the creditor and ask for a verification of the reported information. If the information cannot be verified as accurate, the bureaus must correct your file. If the information is verified, it will remain on your report.

2. If you still believe this item to be an error, then you must contact the creditor directly, in writing, along with copies of your supporting information. If the information is found to be inaccurate, your creditor cannot report it again.

Be careful of businesses claiming to remove items from your credit file for a fee. All they can do legally is dispute items, just as you can do yourself-for free! You cannot pay to have accurate, negative information removed from your file. The only thing that can remove it is time. Generally, negative items will stay on your report for seven years from the date the event took place (late payment, collections, etc.). Chapter 7 bankruptcy can stay on for 10 years. Tax liens will stay on indefinitely until paid then the seven year reporting clock begins.

**Free reports do not contain a credit score.*
*** National Association of State Public Interest Research Groups*

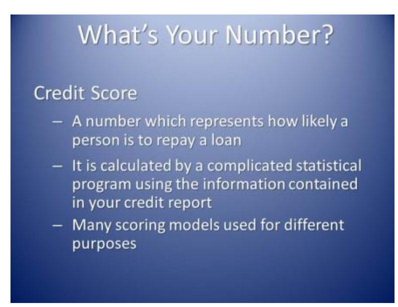
page BTG-19

Explain:

Credit scoring probably gets more press that reports. Your credit score is like your credit grade. We love grades….like in school, quality of diamonds, plans, and even personality types. Credit is no different.

Read the points.

Next



slide BTG.28

Explain:

So what affects a credit score? Let's look at a popular scoring model, the FICO score, developed by the Fair Isaac Corp.

- *35% has to do with payment history: **"not late = lower rate"***

Click

- *30% is affected by the total debt amount you have: **"less is more for your score"***

Click

- *15% is towards the length of your credit history: **"the longer, the better"***

Click

- *10% takes into account the types of credit you have: **"secured debt = secure credit"***

Click

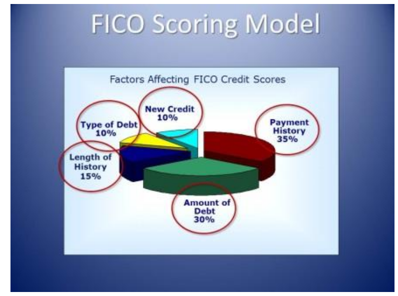
- *10% is affected by inquiries: **"words to heed-use only what you need"***

Keep in mind that scoring programs are highly secretive and, because it's dependent on each individual reports, it's highly speculative to say how much one specific action will affect a particular score.

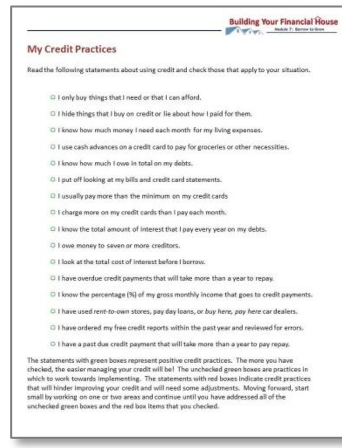
But we shouldn't really be chasing a number; we should look at good, sustainable credit habits, not taking steps to raise your score for a particular reason, i.e., home purchase, refi's, etc. When you have good credit practices, the score will follow.

Refer to **page BTG-25**, **My Credit Practice** and explain that he worksheet gives participants the opportunity to assess their own credit practices prior to incarceration.

Next



slide BTG.29



Building Your Financial House
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My Credit Practices

Read the following statements about using credit and check those that apply to your situation.

- I only buy things that I need or that I can afford.
- I hide things that I buy on credit or lie about how I paid for them.
- I know how much money I need each month for my living expenses.
- I use cash advances on a credit card to pay for groceries or other necessities.
- I know how much I owe in total on my debts.
- I put off looking at my bills and credit card statements.
- I usually pay more than the minimum on my credit cards
- I charge more on my credit cards than I pay each month.
- I know the total amount of interest that I pay every year on my debts.
- I owe money to seven or more creditors.
- I look at the total cost of interest before I borrow.
- I have overdue credit payments that will take more than a year to repay.
- I know the percentage (%) of my gross monthly income that goes to credit payments.
- I have used *rent-to-own* stores, pay day loans, or *buy here, pay here* car dealers.
- I have ordered my free credit reports within the past year and reviewed for errors.
- I have a past due credit payment that will take more than a year to pay repay.

The statements with green boxes represent positive credit practices. The more you have checked, the easier managing your credit will be! The unchecked green boxes are practices in which to work towards implementing. The statements with red boxes indicate credit practices that will hinder improving your credit and will need some adjustments. Moving forward, start small by working on one or two areas and continue until you have addressed all of the unchecked green boxes and the red box items that you checked.

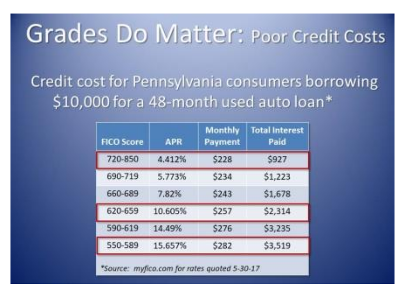
page BTG-25

Explain:

It's not to say that scores don't matter, because they do. Remember, this number represents the likelihood of a borrower going into default on an obligation and is based on their past credit practices. The higher the number, the lower the risk is that the loan won't be paid back. If you have a lower credit score, the lender is going to charge you more for the risk they are taking in lending money to you. So, what does that mean in your pocket?

Read the top credit score range's APR, monthly payment, and total interest paid. **Click** and **compare** it to a mid-range and lowest range's APR, monthly payment, and total interest. **Reinforce** the concept that *poor credit costs.*

Next



slide BTG.30

Explain:

Your credit history affects more than cost. It can affect your employment, insurance and housing.

- *Employers can review your credit report WITH YOUR WRITTEN PERMISSION (so if you're asked to sign something, read the fine print.) More companies are checking credit histories as an indication of being able to meet deadlines and manage resources responsibly.*

Click

- *Insurance companies think you're a lower risk if you have a good score and you'll get better rates. It's been shown that people with lower credit scores are more likely to file insurance claims.*

Click

- *Landlords will review your credit report to see if you've been a responsible consumer. If the choice comes down to two potential tenants, who's going to get the lease? The person with the higher credit score… And, of course, it affects getting a mortgage loan.*

Next

slide BTG.31

Credit: How to Use It — Time: 15 minutes

Point out the pre-hung 'Agree, Disagree and Unsure' visuals, and **explain** to participants that after each statement is read, they should stand by the sign which reflects their opinion. There is no right or wrong answer; this is an opinion activity based on participant's experiences and perspective. Expect a lively discussion as suggestions and alternatives will be freely shared.

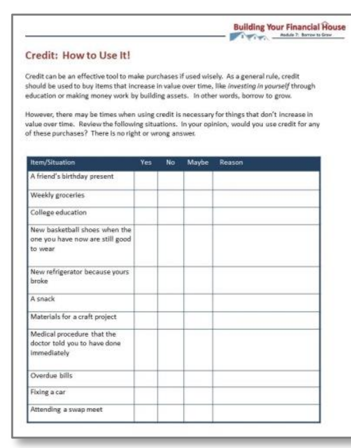
Statements:

1. It's better to pay off debt than save for emergencies.
2. I would co-sign a loan for my best friend.
3. It's wise to use a credit card to pay off overdue bills.

Refer to **page BTG 22**, **Credit: How to Use It!** and explain that the worksheet gives participants the opportunity to review other situations where they believe using credit is appropriate.

Next

slide BTG.32



Building Your Financial House
Module 7: Borrow to Grow

Credit: How to Use It!

Credit can be an effective tool to make purchases if used wisely. As a general rule, credit should be used to buy items that increase in value over time, like *investing in yourself* through education or making money work by building assets. In other words, borrow to grow.

However, there may be times when using credit is necessary for things that don't increase in value over time. Review the following situations. In your opinion, would you use credit for any of these purchases? There is no right or wrong answer.

Item/Situation	Yes	No	Maybe	Reason
A friend's birthday present				
Weekly groceries				
College education				
New basketball shoes when the one you have now are still good to wear				
New refrigerator because yours broke				
A snack				
Materials for a craft project				
Medical procedure that the doctor told you to have done immediately				
Overdue bills				
Fixing a car				
Attending a swap meet				

page BTG-22

Explain:

There is a general guideline to using credit. It's pretty simple:

- *Use only what you need*
- *Invest in yourself*
- *Buy assets*

In other words, borrow to grow.

Next

slide BTG.33

Explain:

Even when we borrow to grow, there is a point to know 'when to say when.' Even if you borrow to grow, say to purchase a house, if the loan is above what is realistically affordable, you're not really borrowing to grow. Here are figures you can use as a guide for keeping your borrowing to reasonable levels.

Click

Debt-to-Income Ratio: *This is also called your monthly 'debt service.' It says how much of your monthly income is used to pay debts. It is calculated by dividing your minimum monthly debt payments by your gross monthly income. A general rule is to keep your debt-to-income ratio* ***less than 10%. If you include your housing related expenses*** *such as* ***rent*** *or* ***mortgage,*** *your ratio should be* ***less than 40%.***

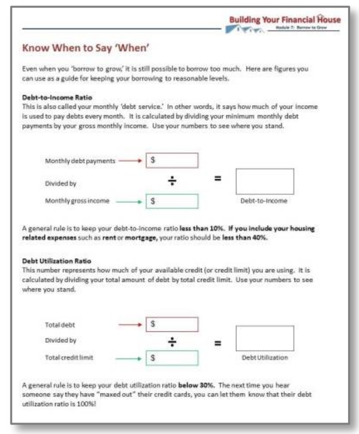
Click

Debt Utilization Ratio: *This is how much of your available credit (or credit limit) you are using. It is calculated by dividing your total amount of debt by total credit limit. A general rule is to keep your debt utilization ratio* ***below 30%.*** *The next time you hear someone say they have "maxed out" their credit cards, you can let them know that their debt utilization ratio is 100%. That's not a good score!*

Refer to **page BTG-23**, **Know When to Say 'When'** and explain that the worksheet gives the participants the opportunity to calculate ratios using relevant information from the **Case Study**.

Next

slide BTG.34



Building Your Financial House
Module 7: Borrow to Grow

Know When to Say 'When'

Even when you 'borrow to grow,' it is still possible to borrow too much. Here are figures you can use as a guide for keeping your borrowing to reasonable levels.

Debt-to-Income Ratio
This is also called your monthly 'debt service.' In other words, it says how much of your income is used to pay debts every month. It is calculated by dividing your minimum monthly debt payments by your gross monthly income. Use your numbers to see where you stand.

Monthly debt payments → $
Divided by ÷ =
Monthly gross income → $
Debt-to-Income

A general rule is to keep your debt-to-income ratio **less than 10%. If you include your housing related expenses** such as **rent** or **mortgage,** your ratio should be **less than 40%.**

Debt Utilization Ratio
This number represents how much of your available credit (or credit limit) you are using. It is calculated by dividing your total amount of debt by total credit limit. Use your numbers to see where you stand.

Total debt → $
Divided by ÷ =
Total credit limit → $
Debt Utilization

A general rule is to keep your debt utilization ratio **below 30%.** The next time you hear someone say they have "maxed out" their credit cards, you can let them know that their debt utilization ratio is 100%!

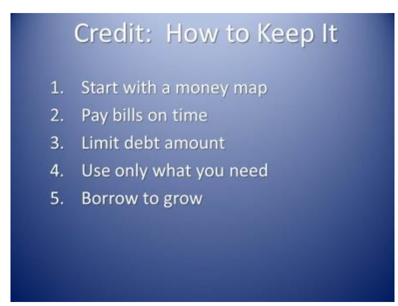
page BTG-23

Explain:

So we know how to get it, how can we make sure to keep it?

1. Start with a money map. *Not only does a money map help you to control where your money is going, it can help you determine if your debt service is too high. Even if your debt-to-income ratio is below the general guidelines, your money map can show you if your debt is affordable considering your needs, other obligations, and goals.*

-continued-



slide BTG.35

-continued-

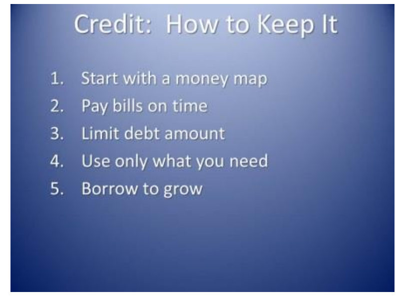
2. Pay bills on time. *Not only does paying bills on time prevent late fees and penalties, it establishes good credit "character." Lenders look favorably upon those that have consistently paid their bills on time. Make payments 5 to 10 days before they are due to avoid the risk of paying late fees. Try automatic bill pay to avoid late payments.*

3. Reduce debt. *Not only does this keep your debt ratios low but it is necessary in order to achieve financial stability. Recall the example of famous people that filed for bankruptcy in the Make Money Work module. Owing more than you own is a recipe for financial disaster. Pay more than the minimum on credit balances lowers your interest cost too.*

4. Use only what you need. *Not only does this show responsible use of credit, it saves you money! Credit is not free, and the less you use, the less you pay in interest. Shop around for the best terms when you need credit. In case you are tempted by pre-approved credit offers, call 1-888-5-OPTOUT to have your name removed from marketing lists.*

5. Borrow to Grow! *Make sure that if you borrow money, it will be beneficial to your financial situation.*

Next



slide BTG.35

Explain:

So, how do we know if there is a problem with our credit usage and ability to manage it effectively? Here are some warning signs:

Read the points.

Next

slide BTG.36

Credit: How to Fix It — Time: 15 minutes

Explain:

If we have some of the warning signs, are worried about what's on our credit report, and have low credit score, what are the things we can do to fix or rebuild credit? There are several options out there.

Read the points.

Next

slide BTG.37

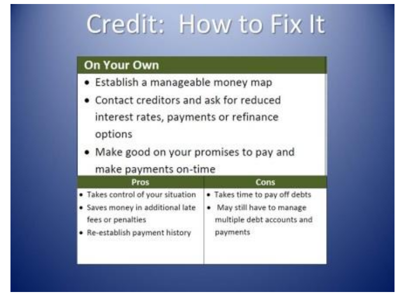
Explain:

The idea of Do-It-Yourself is very popular….look at all of the reality TV shows on home repair, design, cooking, etc. When it comes to rebuilding credit, you can do it on your own, too.

Read the points in the On Your Own section, **click**, and **read** the Pros and Cons.

But this doesn't help us determine which debts we should pay first. Let's revisit Anna to work through this process.

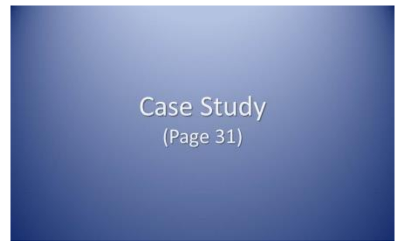
Next



slide BTG.38

Refer to the **Case Study, page 31**.

Next



slide BTG.39

Ask for volunteers to **read** Barry's debt situation and **explain**:

Let's look at several factors that can be used in prioritizing debt repayment. The first is the type of account. Ask what are the consequences of not paying? In Barry's case, if he doesn't make the court costs and restitution payments, he puts his parole at jeopardy.

Click

Look at interest rates. Paying off the higher interest rate accounts will save more money in the long run.

Click

Sometimes, paying off the lower balance accounts is the key to making progress. The small victories can be motivating. When accounts are paid off, use that payment amount towards the next debt.

Click

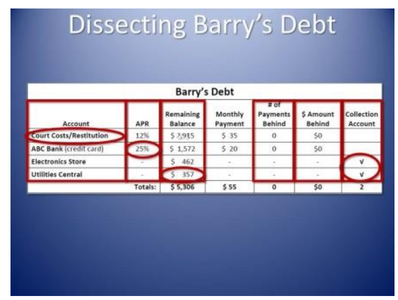
It's also important to get caught up on late or delinquent payments in order to jumpstart the repair process.

Click

Finally, and for similar reasons, collection accounts may be priority.

Refer to **page BTG-26**, **Dissecting Your Debt**, and explain that the worksheet gives the participants the opportunity to evaluate and prioritize their own debt repayment upon release.

Next



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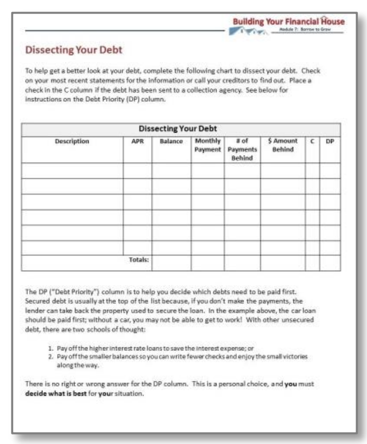


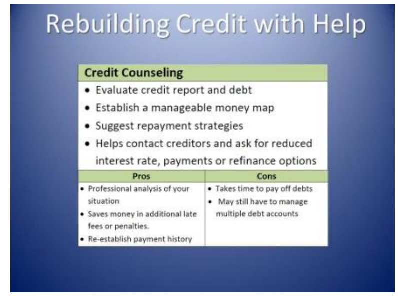
page BTG-26

Refer to **page BTG-27**, **Credit: How to Fix It**, and explain:

When it comes to rebuilding credit, sometimes the best intentions of DIY yield to professional help.

Read the points in the Credit Counseling section, **click**, and **read** the Pros and Cons.

Next



slide BTG.41

page BTG-27

Read points in the Debt Management Program section, **click**, and **read** the Pros and Cons.

Next

slide BTG.42

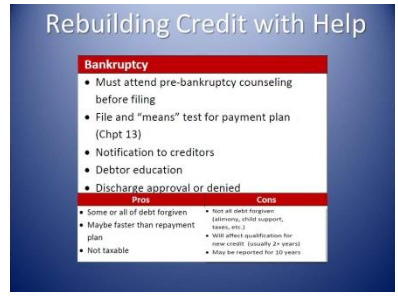
Read points in the Debt Settlement section, **click**, and **read** the Pros and Cons.

Next

slide BTG.43

Read points in the Debt Settlement section, **click**, and **read** the Pros and Cons.

Next



slide BTG.44

Explain:

> *In summary, we should all invest in good credit. The return is more money in our pockets, having choice in housing, and being marketable. Most importantly, good credit gives us access to the opportunity to grow.*

Next

slide BTG.45

Predatory Lending — Time: 10 minutes

Refer to **page BTG 28**, **Other Types of "Credit" … Forget It!** In order as appears on the page, **read** the description of an alternative credit. **Ask** group for answer. **Click** to reveal answer.

Next

slide BTG.46

page BTG-28

Explain:

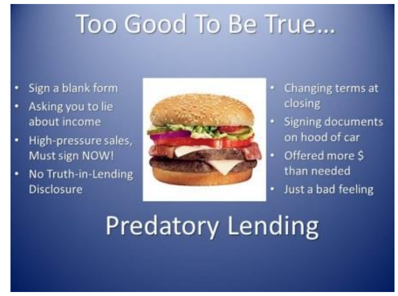
Remember when we talked about the burger not being what we thought it was? The same is for applying for and getting credit. Some offers, lenders, and processes don't follow the rules. Be aware of some questionable scenarios.

Click and **read** the points in left column and then the right column.

These points should make us question the transaction, as they could indicate Predatory Lending. Predatory lenders take advantage of people and result in situations that rarely benefit the borrower.

Refer to **page BTG-29**, **Predatory Lending: Too Good to Be True**, and explain that there is more information that the participants can review on their own.

Next



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Building Your Financial House
Module 7: Borrow to Grow

Predatory Lending: Too Good to Be True

Predatory lending is an unfair practice that takes advantage of consumer's vulnerability and fears. It hurts consumers by increasing their debts, impairing their ability to make payments on the loans and damaging their credit. It is bad for families and bad for the neighborhoods where they live. Predatory lending causes untold harm.

Predatory lending initially hides in appealing disguises that attract the very victims who should be most wary. They can appear to be their victims' allies against hostile financial forces. Only later do the unsuspecting marks realize that their former friends have saddled them with debts they can never repay. For many, the awakening comes too late. Some never recover and those who do lose thousands of dollars.

The only way to avoid predatory lending is through knowledge. Although there are statutes designed to protect consumers, there is still no substitute for a little common sense and knowing what to look for when seeking credit. No less than the law of gravity, the laws of economics apply to everyone, ***so if a deal sounds too good to be true, it is too good to be true.*** "Let the buyer beware" was good advice when it was offered thousands of years ago, and it still holds true today.

Here are some common practices of predatory lending to be aware of when using credit:

- Being asked to sign blank forms that will be filled in later.
- Willingness of company representatives to falsify loan applications, particularly information about income.
- Forging important, key loan documents.
- "High-pressure" sales presentations with "one-time" offers.
- Being offered loans for much higher amounts than required.
- Failure to provide the required Truth-in-Lending Disclosure
- Planning loan closings at places other than in lender offices (such as in the home, in a motor vehicle, at a restaurant, etc.).
- Other names ("phantom" signers frequently unknown to borrowers) are added to documents to make loans seem more affordable.
- Changing loan terms at closing.
- Being encouraged to repeatedly refinance the loan.
- Being contacted by companies at home, without having requested a call.

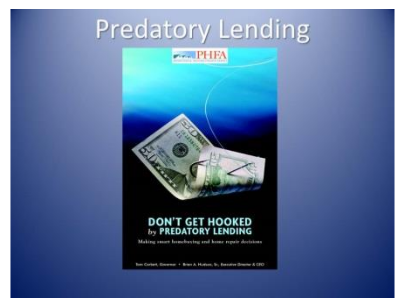
If you feel you've been a victim of predatory lending, contact the Pennsylvania Department of Banking and Securities at 1-800-PA-BANKS or the Attorney General Office at 1-800-441-2555.

page BTG-29

Explain:

For more information on Predatory Lending, especially when it comes to the home-buying process, read PHFA's Don't Get Hooked pamphlet.

Next



slide BTG.48

Recap and Take Action	**Time: 10 minutes**

Explain:

You made it through the final module! Whew!

Next

slide BTG.49

Explain:

Let's recap.

Read points.

Next

slide BTG.50

Refer back to **page BTG-3**; **Self-Assessment and Track Your Progress**.

Click and **read** the goal section. **Clarify** any questions on setting a goal.

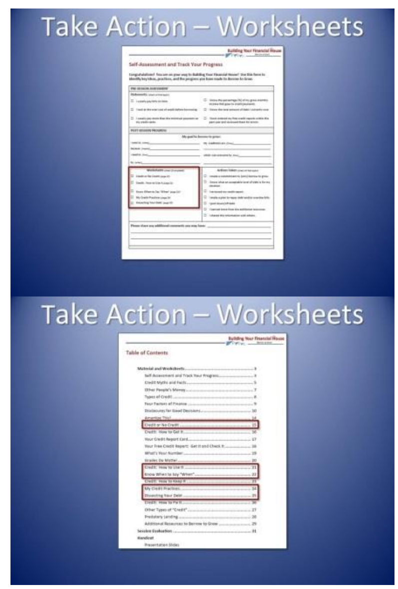
Next

slide BTG.51

Highlight the list of worksheets that are in the module.

Click and **read** the worksheet titles and page numbers on **page BTG-2**, **Table of Contents**. **Remind** the participants that the **Case Study** should be used to complete the worksheet as referred to in the instructions. You may want to show the actual pages to clarify.

Next



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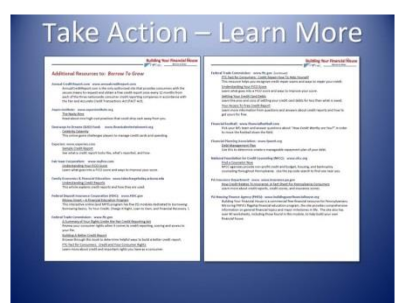
Refer to **pages BTG-30 & 31, Additional Resources to *Borrow to Grow*** that contains additional resources for those participants that would like to learn more on their own and have access to the internet.

Next



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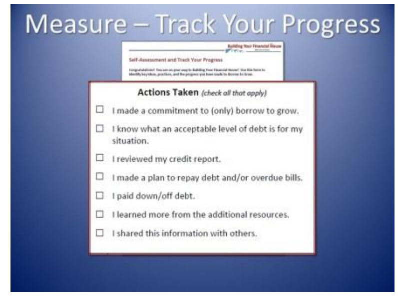
Refer back to **page BTG-3**. **Click** and **point out** the list of target actions to be taken as a result of the module. Stress the importance of keeping a record of the progress the participants are making.

Next



slide BTG.54

Session Evaluation and Closing — Time: 5 minutes

Refer to **page BTG-33** and **ask** participants complete the session evaluation.

Return the **Self-Assessment and Track Your Progress** sheets for **Protect Your Potential** back to participants.

Remind the participants that the final session of Building Your Financial House will be a Summary and Celebration of their accomplishments in completing the program.

Next

slide BTG.55

Collect session evaluation and **remind** participants of the next session's date and time, as well as, any additional housekeeping details before dismissing.

slide BTG.56

Participant Guide

Building Your Financial House
Set the Foundation of Your Future

Module 7
Borrow to Grow
Participant Guide

www.buildingyourfinancialhouse.org
PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

page BTG-1

Table of Contents

page BTG-2

page BTG-3

Self-Assessment and Track Your Progress

Congratulations! You are on your way to Building Your Financial House! Use this form to identify key ideas, practices, and the progress you have made to *Borrow to Grow.*

PRE-SESSION ASSESSMENT

Statements: *(check all that apply)*

- ☐ I usually paid bills on time.
- ☐ I knew the percentage (%) of my gross monthly income that goes to credit payments.
- ☐ I looked at the total cost of credit before borrowing.
- ☐ I know the total amount of debt I currently owe.
- ☐ I usually paid more than the minimum payment on my credit cards.
- ☐ I have ordered my free credit reports within the past year and reviewed them for errors.

POST-SESSION PROGRESS

My goal to *borrow to grow:*

I want to: *(what)* ______________________
because: *(impact)* ______________________
I need to: *(how)* ______________________
by: *(when)* ______________________

My roadblocks are: *(if any)* ______________________
____
which I can overcome by: *(how)* ______________________
____

Worksheets *(check if completed)*	**Actions Taken** *(check all that apply)*
☐ Credit or No Credit *(page 16)*	☐ I know what a reasonable debt level is for me.
☐ Credit: How to Use It *(page 22)*	☐ I requested my free credit report(s).
☐ Know When to Say 'When' *(page 23)**	☐ I reviewed my credit report(s).
☐ My Credit Practices *(page 25)*	☐ I made a plan to repay debt upon my release.
☐ Dissecting Your Debt *(page 26)*	☐ I learned more from the additional resources.
**Use the Case Study section – page 31 to complete.*	☐ I shared this information with others.

Please share any additional comments you may have: ______________________

page BTG-4

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Credit Myths and Facts

Take this true and false quiz to see how much you know about credit. Place a check mark under the true or false answer you feel is correct for each statement.

True	False	Statement
		1. Credit reporting agencies approve or reject a person's request for credit.
		2. Information in a credit report only affects a person's finances.
		3. My credit score will be lower if I view my credit reports.
		4. I must keep a balance on my credit cards in order to build a credit history.
		5. All credit repair companies can fix credit problems.
		6. Credit reports are not all the same.
		7. My employer must have my permission to see my credit report.
		8. Credit is something we should all understand.
		9. The safest place to get a loan is at a bank, credit union, or savings bank.
		10. If I qualify for credit, I must be able to afford it.

Source: Adapted from *DollarWork2* (University of Minnesota-Extension)

page BTG-5

Credit Myths and Facts Answer Sheet

Here are the answers to the true and false quiz.

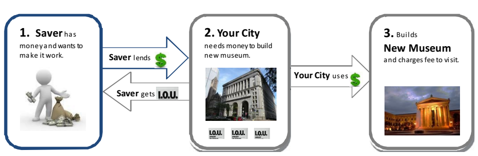
	Statement
False	**1. Credit reporting agencies approve or reject a person's request for credit.** *Credit reporting agencies give your credit information to lenders. The lenders use that information to make the decision to approve or reject your request for credit.*
False	**2. Information in a credit report only affects a person's finances.** *Information in a credit report does affect your finances. However, it can also affect your car insurance rates and whether you get rental housing. Many employers review credit reports before hiring a new employee. Employers know that people with money problems are often less productive at work, miss more work days, have problems at home, and are more likely to steal from the workplace.*
False	**3. My credit score will be lower if I view my credit reports.** *Viewing your own credit report will have no negative impact on your credit score. You should review you credit reports at least once a year.*
False	**4. I must keep a balance on my credit cards in order to build a credit history.** *Credit use and on-time payments are what build a credit history. You can do this and still pay off the balance in full every month.*
False	**5. All credit repair companies can fix credit problems.** *Most credit repair companies are scams. You can fix errors yourself for no cost.*
True	**6. Credit reports are not all the same.** *Not all companies or businesses will report to all three credit bureaus (Experian, Equifax, and Trans Union). The speed at which the credit bureaus receive and update information is not the same.*
True	**7. My employer must have permission to see my credit report.** *Your employer needs your **written** permission to view your credit report. However, other companies that have business with you do not need explicit permission.*
True	**8. Credit is something we should all understand.** *Everyone can and should understand credit. There are many reliable resources available to help you learn more about getting and using credit.*
True	**9. The safest place to get a loan is at a bank, credit union or savings bank.** *Credit is available from other sources, such as payday lenders or pawn shops, but these are much more expensive and often are not safe ways to obtain credit.*
False	**10. If I qualify for credit, I must be able to afford it.** *You may qualify for an amount of credit where the payment is more than you can afford. You must decide if you can afford the new payment by estimating how it will fit on your money map.*

page BTG-6

page BTG-7

Other People's Money

Recall that in the Make Money Work module, we discussed investing in bonds. A bond is an "IOU," in which *you are lending money* to a company, municipality, state or federal government. They agree to pay you interest while using your money and pay back the entire amount borrowed at some point in the future. We looked at an example of "Your City" needing money to build a museum.



When the city paid back the loan with interest, the saver was happy! If the city wanted to borrow again, it could and pay a lower rate of interest. When they didn't pay back the loan, the saver was not happy. If the city wanted to borrower money again, it would have difficulty and pay a higher rate of interest. So, when someone/thing uses **your money**, you want it to be paid back!

It's no different when you use **other people's money** or **OPM** for short. They expect to be paid back with interest for letting you use it. If you don't pay back the money and interest, you may not be able to use OPM in the future or have to pay a higher rate of interest.

OPM is referred to in two ways: credit and debt. **Credit** is your ability or permission to use OPM. **Debt** is the OPM that you have already used and now have to pay back.

Credit is granted generally under two conditions: *secured* or *unsecured*. **Secured** credit is when you provide something of value (known as *collateral*) as a guarantee that you will repay the debt. If you fail to repay the debt, the lender takes the collateral as repayment. Common collateral items are a home, car, or even cash itself, like in a bank account.

A guarantee or collateral is not required with **unsecured** credit. The lender trusts that you will repay the debt. If you fail to repay, the lender will report you as unreliable in meeting your obligations (which affects your ability to borrow more OPM), and, the lender could even take you to court to try to get their money back.

page BTG-8

Types of Credit

	Revolving	Installment	Service
Key Concept	Reusable	Lump sum (and done)	Month-to-month
Example	Credit cards	Mortgage loan	Electricity
Payments	Flexible; based on balance	Inflexible; set by interest rate and time (amortization)	Variable; based on usage
Costs/Fees	Interest Annual Late Transaction	Interest Application Points Document prep	Late Interest
Default	Purchases declined Interest rate hike	Foreclosure/Repo Garnishment	Shut off

Revolving Credit
This type of credit, sometimes referred to as open-ended credit, allows you to borrow money at any time up to a set limit. When you pay back the borrowed money, you'll be able to use it again. The lender allows you to pay back the money in a lump sum or over an extended period of time. If you pay back the debt over time, you are charged a fee, called *interest*, each month on the amount that you owe. A credit card is an example of revolving credit.

Installment Credit
This type of credit, sometimes referred as closed-ended credit, allows you to borrow a specific amount of money, at one time, for a specific purpose. A fixed monthly payment is calculated by a repayment method called amortization. Amortization is the gradual repayment of debt over time. Each payment has some dollars paid to reduce the amount owed and some dollars are paid to the lender as interest. Installment credit is usually used for large purchases, such as a car, a home, or higher education.

Service Credit
You may be using this type of credit and not know it. For example, utility companies allow you to pay for service after they are used. If you are unable to make the payment within the given time period, there is usually a penalty charge that will be added to your bill. If you do not pay the bill, the utility can be shut off.

Four Factors of Finance

Have you ever had to choose between 0% financing or discount? Have you been offered an extended term (usually for a higher interest rate) to lower the monthly payment? What about paying a fee in exchange for a lower interest rate and the convenience of rolling fees into the loan amount? The follow chart compares the total cost of an item base on these common choices and options.

Comparing Offers

	1	2	3	4	
List Price	$10,000	$10,000	$10,000	$10,000	
Discount	-	($1,000)	($1,000)	($1,000)	
Fees	-	-	-	$250	
				Paid-up front	Rolled into loan
Loan Amount	$10,000	$9,000	$9,000	$9,000	$9,250
Interest	0%	7.00%	8.00%	7.00%	
Term (months)	36	36	48	48	
Monthly Payment	$278	$278	$183	$216	$222
Total Cost	**$10,000**	**$10,000**	**$10,800**	**$10,618**	**$10,656**

There are trade-offs to each offer. Offer 1 and 2 produce the same monthly payment and total cost. Even though a discount was given in Offer 2, the finance charge makes the cost the same as Offer1. Extending the financing term in offer 3 provides the lowest monthly payment but the highest overall cost. Paying a fee to lower the interest on the 48 month loan is less expensive but beware that rolling any fees into the loan amount increases costs. Doing this type of cost comparison can help you identify the best offer.

Let's talk a little more about the actual cost of credit. Do you make credit purchases based on monthly payment or on the total cost of credit? Knowing what monthly payment you can afford is important to your money map, but shopping for credit by monthly payment can end up costing more in the long run. The numbers can be crunched in a variety of (expensive) ways to fit your monthly payment. The chart below summarizes the four factors of finance (down payment, term, interest rate, and fees) and how changing the factors affect the cost of credit. Keep these in mind when searching for the best offer with the best terms that will cost you less.

Four Factors of Finance

Factor	Direction	Monthly Payment	Cost of Credit
Down Payment	↑	↓	↓
Term (months)	↑	↓	↑
Interest Rate (%)	↑	↑	↑
Fees	**Paid up front**	—	↑
Fees	**Rolled into loan**	↑	↑↑

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Disclosures for Good Decisions-Revolving Credit

How do you know if you are getting a good deal or paying too much for your credit? The Federal Truth-in-Lending Act requires lenders to disclose potential borrowers with cost information. There are two forms that can help you compare credit products before you sign on the dotted line. Here is a sample of the **disclosures** required **for revolving credit** (credit cards).

Required Disclosures	Example
Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	**8.99%, 10.99% or 12.99%** introductory APR for one year, based on creditworthiness. After that, your APR will be **14.99%.** This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	**15.99% -** This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	**21.99% -** This APR will vary with the market based on the Prime Rate.
Penalty APR (and when it applies)	**99. % -** This APR may be applied to your account if you: 1. Make a late payment; 2. Go over your credit limit; 3. Make a payment that is returned; or 4. Do any of the above on another account that you have with us.
How long will the penalty APR apply?	If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
How to avoid paying interest on purchases.	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charges	If you are charged interest, the charge will be no less than $1.50.
Fees	
Set-up and Maintenance Fees Annual Fee Account Set-up Fee Participation Fee Additional Card Fee	Notice: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available to use. For example, if you are assigned the minimum credit limit of $250, your initial available credit will be only about $209 (or about $204 if you choose to have an additional card).
Transaction Fees Balance Transfer Cash Advance Foreign Transaction	Either **$5 or 3%** of the amount of each transfer, whichever is greater (to a maximum fee, **$100**). Either **$5 or 3%** of the amount of each cash advance, whichever is greater. **2%** of each transaction in US dollars.
Penalty fees Late Payment Over-the-Credit Limit Returned Payment	**$29** if balance is less than or equal to $1,000; **$35** if balance is more than $1,000 **$29** **$35**
How we calculate your balance	We use a method called "average daily balance (including net purchases)."
Loss of introductory APR	We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.
For more credit card tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at www.federalreserve.gov/credit.card

Source: Federal Reserve Board of Governors

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Disclosures for Good Decisions-Installment Loans

In general, installment loans require fewer disclosure items than revolving credit as amortization simplifies the repayment calculation and process. (See page BTG-16) The items disclosed are just as important though because they can help you compare loan terms, cost, and the best deal for you. Here is an example of the information required to be disclosed for installment loans and how to review it. Pay close attention to the numbers in the red boxes when comparing loans.

2

You, the Buyer (and Co-buyer, if any) may by the vehicle below ... on credit. By signing this contract, you choose to buy the vehicle on credit according to the terms in this agreement. You agree to pay the Creditor – Seller the Amount Financed and Finance Charge according to the payment schedule below. Your finance charge will be figured on a daily basis at a Base Rate of ______% per year. The Truth-in-Lending Disclosures are part of this contract.

FEDERAL TRUTH-IN-LENDING DISCLOURES

6 ANNUAL PERCENTAGE RATE	5 FINANCE CHARGE	1 Amount Financed	4 Total of Payments	Total Sales Price
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you on your behalf.	The amount you have paid after you have made all payments as scheduled.	The total cost of your purchase on credit including down payment of $ 0.00
$\boxed{8.501 \%}$	$\boxed{\$ 1,812.00}$	$ 10,000.00	$ 11,472.00	$ 11,812.00

3 7

Number of Payments	Amount of each Payment	Payments are Due	
48	$ 239.00	☒ monthly ☐ weekly (Beginning Date of Payment) 1/1/20xx	***Late Charge.*** You must pay a late charge if a payment or part therein is more than 10 days late. The charge is $35 or 5% of the outstanding balance, whichever is greater. ***Prepayment.*** If you pay off early, you will not have to pay a penalty. ***Security Interest.*** You are giving us a security interest in the vehicle being purchase.
____	$______	________	
____	$______	________	

1. **Amount financed:** This is the loan amount or 'principal' borrowed.
2. **Interest rate:** This is the rate of interest you will be paying on the amount financed and is used to calculate your monthly payment. It is also called the note or loan rate.
3. **Payment schedule:** This information includes the number of payments to be made, or the 'term' of the loan, the amount of each payment, how often the payments are made, and the date the first payment is due.
4. **Total of payments:** This simply the calculation of number of payments multiplied by the amount of each payment.
5. **Finance charge:** This is the total amount of interest and all loan related fees that will be paid in the credit transaction. It is also known as "the cost of credit." Note that the financial charge is greater than the total payments less amount financed. This would imply additional loan fees.
6. **Annual Percentage Rate (APR):** This is not your loan rate. It is the true cost of credit, including interest, loan fees, etc. represented as an annual rate. The great the difference between the APR and the loan rate, the higher the loan fees. This number is key to cost comparison of loan offers.
7. **Additional information:** This includes late payment fees, prepayment penalties, required insurances, collateral, etc.

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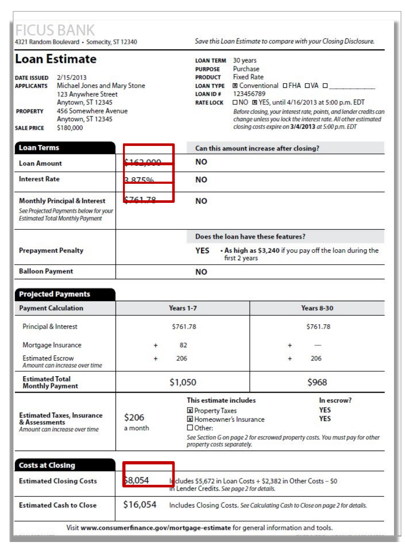
Disclosures for Good Decisions-Mortgage Loans

The disclosures required for mortgage loans are more complex than installment loans as it corporates rules from the Real Estate Settlement Procedures Act (or RESPA). Here is an example of the three-page loan estimate disclosure. Again, pay close attention to the numbers in the red boxes when comparing loans.


FICUS BANK
4321 Random Boulevard • Somecity, ST 12340
Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone, 123 Anywhere Street, Anytown, ST 12345
PROPERTY 456 Somewhere Avenue, Anytown, ST 12345
SALE PRICE $180,000

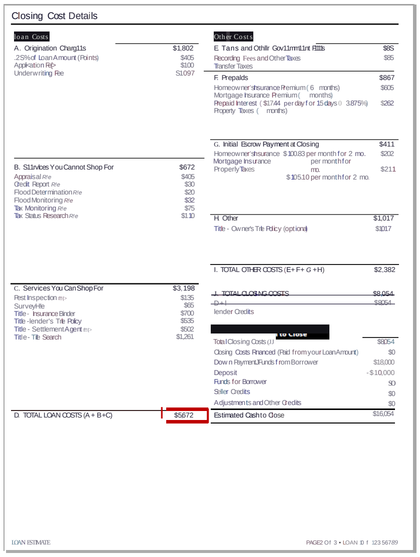
LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐ ________
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

Loan Terms		Can this amount increase after closing?
Loan Amount	$\boxed{\$162,000}$	NO
Interest Rate	$\boxed{3.875\%}$	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	$\boxed{\$761.78}$	NO
		Does the loan have these features?
Prepayment Penalty		YES • As high as $3,240 if you pay off the loan during the first 2 years
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow Amount can increase over time	+ 206	+ 206
Estimated Total Monthly Payment	$1,050	$968
Estimated Taxes, Insurance & Assessments Amount can increase over time	$206 a month	This estimate includes ☒ Property Taxes (In escrow? YES) ☒ Homeowner's Insurance (YES) ☐ Other: See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.

Costs at Closing		
Estimated Closing Costs	$\boxed{\$8,054}$	Includes $5,672 in Loan Costs + $2,382 in Other Costs – $0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	$16,054	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.



Closing Cost Details

Loan Costs	
A. Origination Charg11s	$1,802
.2S% of Loan Amount (Points)	$405
Applcation Fe[>	$100
Underwriting Fee	S1097
B. S11rvices You Cannot Shop For	$672
Appraisal R!e	$405
Credit Report R!e	$30
Flood Determination R!e	$20
Flood Monitoring R!e	$32
Tax Monitoring R!e	$75
Tax Status Research R!e	$110
C. Services You Can Shop For	$3,198
Pest Inspection	$135
SurveyH!e	$65
Title - Insurance Binder	$700
Title - lender's Trle Policy	$535
Title - Settlement Agent	$502
Title - Tie Search	$1,261
D. TOTAL LOAN COSTS (A + B+C)	$5,672

Other Costs	
E. Tans and Othllr Gov11mm11nt F111s	$8S
Recording Fees and Other Taxes	$85
Transfer Taxes	
F. Prepalds	$867
Homeowner's Insurance Premium (6 months)	$605
Mortgage Insurance Premium (months)	
Prepaid Interest ($17.44 per day for 15 days 0 3.875%)	$262
Property Taxes (months)	
G. Initial Escrow Payment at Closing	$411
Homeowner's Insurance $100.83 per month for 2 mo.	$202
Mortgage Insurance per month for mo.	
Property Taxes $105.10 per month for 2 mo.	$211
H. Other	$1,017
Title - Owner's Trle Policy (optional)	$1,017
I. TOTAL OTHER COSTS (E+ F+ G +H)	$2,382
~~J. TOTAL CLOSING COSTS~~	~~$8,054~~
~~D+I~~	~~$8054~~
lender Credits	
to Close	
Total Closing Costs (J)	$8054
Closing Costs Financed (Paid from your Loan Amount)	$0
Down Payment/Funds from Borrower	$18,000
Deposit	-$10,000
Funds for Borrower	$0
Seller Credits	$0
Adjustments and Other Credits	$0
Estimated Cash to Close	$16,054

LOAN ESTIMATE PAGE 2 OF 3 • LOAN ID 123456789

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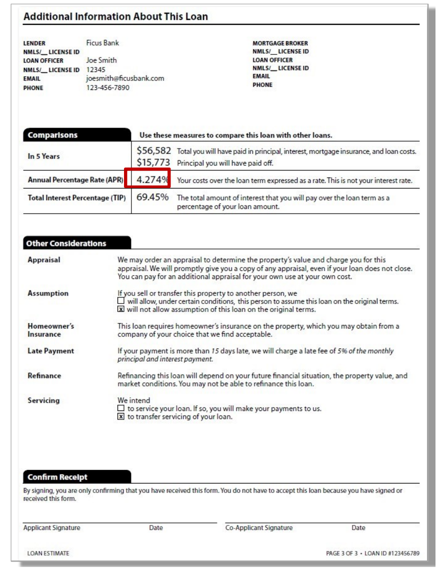

Additional Information About This Loan

LENDER Ficus Bank
NMLS/__ LICENSE ID
LOAN OFFICER Joe Smith
NMLS/__ LICENSE ID 12345
EMAIL joesmith@ficusbank.com
PHONE 123-456-7890

MORTGAGE BROKER
NMLS/__ LICENSE ID
LOAN OFFICER
NMLS/__ LICENSE ID
EMAIL
PHONE

Comparisons	Use these measures to compare this loan with other loans.
In 5 Years	$56,582 Total you will have paid in principal, interest, mortgage insurance, and loan costs. $15,773 Principal you will have paid off.
Annual Percentage Rate (APR)	4.274% Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	69.45% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

Assumption If you sell or transfer this property to another person, we
☐ will allow, under certain conditions, this person to assume this loan on the original terms.
☒ will not allow assumption of this loan on the original terms.

Homeowner's Insurance This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.

Late Payment If your payment is more than *15* days late, we will charge a late fee of *5% of the monthly principal and interest payment.*

Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Servicing We intend
☐ to service your loan. If so, you will make your payments to us.
☒ to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature Date Co-Applicant Signature Date

LOAN ESTIMATE PAGE 3 OF 3 • LOAN ID #123456789

Source: Adapted from the Federal Trade Commission

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Amortize This!

'Amortization' is another one of the fancy financial terms that simply means how your installment loan is paid back. With each payment, some goes to principal and some for interest. Little by little your principal **balance** decreases, so you pay less and less interest. Below is an example of a four year auto loan, showing the first year's and fourth year's payments. Notice the difference between the amounts of interest paid in the first payment to that in the last payment.

Sample Amortization Chart

Amount Borrowed: $10,000 Term (months): 48
Interest Rate: 7% Monthly Payment: $239

Month	Beginning Balance	Payment	Interest Paid	Principal Paid	Ending Balance
1	$10,000	$239	$58	$181	$9,819
2	$9,819	$239	$57	$182	$9,638
3	$9,638	$239	$56	$183	$9,455
4	$9,455	$239	$55	$184	$9,271
5	$9,271	$239	$54	$185	$9,086
6	$9,086	$239	$53	$186	$8,900
7	$8,900	$239	$52	$187	$8,713
8	$8,713	$239	$51	$188	$8,525
9	$8,525	$239	$50	$189	$8,336
10	$8,336	$239	$49	$190	$8,145
11	$8,145	$239	$48	$191	$7,954
12	$7,954	$239	$46	$193	$7,761
13	$7,761	$239	$45	$194	$7,567
14	$7,567	$239	$44	$195	$7,372
15	$7,372	$239	$43	$196	$7,176
16	$7,176	$239	$42	$197	$6,979
41	$1,887	$239	$11	$228	$1,659
42	$1,659	$239	$10	$229	$1,430
43	$1,430	$239	$8	$231	$1,199
44	$1,199	$239	$7	$232	$967
45	$967	$239	$6	$233	$734
46	$734	$239	$4	$235	$499
47	$499	$239	$3	$236	$263
48	$263	$239	$2	$237	$26

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Credit or No Credit?

Sam and Tony both want to buy the same car for $15,000 and have come to you for a car loan. Read their individual situations and determine which one you would approve for a loan.

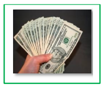
Sam		Tony
26	**Age**	38
$40,000	**Income**	$40,000
Single	**Marital Status**	Married
African-American	**Race**	Caucasian
$4,000	**Down Payment**	$2,000
$11,000	**Loan Amount**	$13,000
$8,478 Minimum monthly payment: $423.90	**Credit Card Balances**	$1,832 Minimum monthly payment: $91.60
Missed one payment in past four years. He was late because of a medical emergency.	**Payment history**	Averages one late payment every four months. Two accounts that have gone to collection agencies.

Who would you loan money to and provide three (3) reasons why?

Credit: How to Get It!

When you apply for credit, lenders use the"**5 C's of Credit**," to determine if you are creditworthy.

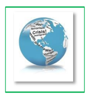
Capacity: Lenders want to know that you have the capacity to pay back the loan. In other words, do you have enough ***income*** to make the payments on the amount you want to borrow?



Capital: Lenders want to know the value of your savings and debt. They want to make sure that you're not using too much of OPM! They want to make sure you have enough ***cash*** on hand to make a down payment or pay for other fees charged for the purchase.

Collateral: Lenders will look at the ***value of the asset*** you are pledging (as a promise to pay) to make sure that they do not lend you more money than it's worth. Remember, if you don't repay the loan, the lender can take the property and sell it to recover the amount owed.

Character: Lenders want to know how you have paid your debts in the past. They will review your ***credit history*** to look for responsible use of OPM and repayment of debt.



Conditions: This refers to situations that affect your ability to borrow money but may be beyond your control. For example, general conditions of the economy may limit the amount of money available to borrow or the type of loan offered.

Source: Adapted from *Right on the Money: Talking Dollars and Sense with Parents and Kids* (Penn State Extension) and *Money Smart* (FDIC)

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Your Credit Report Card

Your credit report is an overall snapshot of how you have used OPM in the past. It's like a report card for credit!

Creditors report information to one or all of the three main credit reporting bureaus, Equifax, Experian, and TransUnion, which then collect and compile information about your credit usage. Every time you make a payment, miss a payment, apply for new credit, etc., that information is reported to the bureaus. The credit bureaus can then provide the information to you, potential creditors, insurance companies, potential employers, etc., who have an interest in how you have met your obligations in the past.

Here is the type of information that can be found in a credit report:

- **Personal information:** Name or names you have used; current and past addresses, telephone numbers, employers; Social Security Number
- **Public records** (of a financial nature): bankruptcies, judgments, or liens
- **Credit accounts not paid as agreed:** accounts with late payments, or that are in default, collections or charged-off
- **Credit accounts paid as agreed:** accounts that have a positive status; those that are current or have been successfully paid off
- **Inquiries (hard):** show who has reviewed your credit report because you have applied for new credit, insurance, housing, etc. Creditors evaluate your creditworthiness because of something you have initiated.
- **Inquiries (soft):** show who has reviewed your report (or parts of) as allowed by the Fair Credit Reporting Act. This includes creditors that want to extend pre-approved offers, employers, current creditors that are conducting account reviews and your own requests to see your report. These inquiries do not affect your creditworthiness or scoring.
- **Personal statements:** You can put statements on your report, such as, an explanation for disputed information or a fraud alert, which will be seen by anyone that reviews your report.
- **Credit score:** Your report may or may not include a credit score. If it is included, there is usually an explanation of what has negatively impacted the score and how to improve it.

Source: Adapted from *A Sample Credit Report* (Experian)

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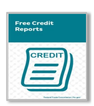
Your *Free* Credit Report: Get It and Check It!

You can get a ***free**** copy of your credit report ***from each*** of the three main credit bureaus once every 12 months. You can request one or all three at the same time.



Online: www.annualcreditreport.com
By telephone: 1-877-322-8228
By mail: Annual Credit Report Service Request
PO Box 105281
Atlanta, GA 30348-5281.

Did you know that 79% of credit reports have errors?** That's why it's so important to order your free credit reports and check them! If you find errors, there are two steps you can follow correct them.

1. File a dispute form or letter with the credit reporting bureau(s). Include copies of documents that support your position. Here is their contact information:

Equifax	Experian	TransUnion
PO Box 740241	PO Box 2002	PO Box
Atlanta, GA 30374	Allen, TX 75013	1000
		Chester, PA 19022
1-800-685-1111	1-888-322-5583	1-800-888-4213
www.equifax.com	www.experian.com	www.transunion.com

The credit reporting bureaus must investigate your dispute within 30 days. They will contact the creditor and ask for a verification of the reported information. If the information cannot be verified as accurate, the bureaus must correct your file. If the information is verified, it will remain on your report.

2. If you still believe this item to be an error, then you must contact the creditor directly, in writing, along with copies of your supporting information. If the information is found to be inaccurate, your creditor cannot report it again.

Be careful of businesses claiming to remove items from your credit file for a fee. All they can do legally is dispute items, just as you can do yourself-for free! You cannot pay to have accurate, negative information removed from your file. The only thing that can remove it is time. Generally, negative items will stay on your report for seven years from the date the event took place (late payment, collections, etc.). Chapter 7 bankruptcy can stay on for 10 years. Tax liens will stay on indefinitely until paid then the seven year reporting clock begins.

**Free reports do not contain a credit score.*
*** National Association of State Public Interest Research Groups*

Source: Federal Trade Commission

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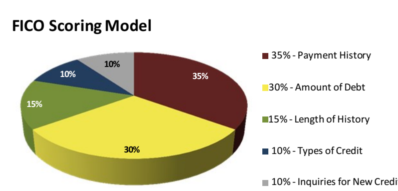
What's Your Number?

Just as you find grades on a report card, your credit report has a grade, too, called a 'credit score' (or risk score). A credit score is a number that is a measure of the risk of you not paying back a loan. A credit score is calculated from the information contained in your credit report at that moment in time. Your credit score will change every time new information is reported. Just as with grades in school, the higher the score the better.

Credit scores were created to help lenders make credit decisions fairer and quicker. Credit scores are *based solely on your credit behavior* which includes your payment history, amount of debt, length of using credit, types of credit used, and how often you apply for new credit, as well as the relationship between those types of information. Credit scores do not consider your gender, race, nationality, religion, or marital status. (Note: If you are married, your spouse will have his/her own credit report. There are no 'joint' credit reports.) In fact, credit scores even ignore your income; they are based only on your how you have handled using OPM.

The most commonly used scoring model is the FICO Score, which was created by the Fair Isaac Corporation. For the general population of credit users, a FICO score weighs the importance of key credit behaviors according to the following:



Keep in mind that for individual situations, the relative importance of these categories may be different. For example, a person that is new to using credit will be affected differently than someone with a long history when making a late payment on a credit account. Regardless of the exact weight, the best way to improve a score is to *make payments on time* and *don't borrow in excess.*

Source: Adapted from *Understanding Your FICO Score* (www.myFICO.com)

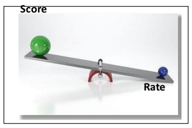
Grades Do Matter

Credit scores are used to determine how much credit will cost you. Just like in school, the higher the score, the better. The higher the score, the less credit will cost you. Here is an example of how credit scores relate to the interest rate charged and monthly payment for a four-year auto loan for $10,000.

FICO Score	APR	Monthly Payment	Total Interest Paid
720-850	4.412%	$228	$ 927
690-719	5.773%	$234	$1,223
660-689	7.82%	$243	$1,678
620-659	10.605%	$257	$2,314
590-619	14.49%	$276	$3,235
550-589	15.657%	$282	$3,519

**Source: myfico.com for rates quoted 5-30-17*

So why do lenders charge higher rates for lower scores? It's pretty simple, the higher the score, the less likely you are to default, or not pay back your loan. Lenders will lend to borrowers with lower scores, but they want to be compensated for taking on extra risk for a borrower that is less likely to pay on-time or pay at all. That compensation for the extra risk is a higher interest rate.



Even though it's easy to become overly concerned about credit scores, it's more important to focus on long-term responsible use of credit rather than chasing a number. Responsible use of OPM will result in a good credit score.

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Credit: How to Use It!

Credit can be an effective tool to make purchases if used wisely. As a general rule, credit should be used to buy items that increase in value over time, like *investing in yourself* through education or making money work by building assets. In other words, borrow to grow.

However, there may be times when using credit is necessary for things that don't increase in value over time. Review the following situations. In your opinion, would you use credit for any of these purchases? There is no right or wrong answer.

Item/Situation	Yes	No	Maybe	Reason
A friend's birthday present				
Weekly groceries				
College education				
New basketball shoes when the one you have now are still good to wear				
New refrigerator because yours broke				
A snack				
Materials for a craft project				
Medical procedure that the doctor told you to have done immediately				
Overdue bills				
Fixing a car				
Attending a swap meet				

Source: Adapted from *Building Native Communities: Investing for Your Future* (First National Development Institute)

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Know When to Say 'When'

Even when you 'borrow to grow,' it is still possible to borrow too much. Here are figures you can use as a guide for keeping your borrowing to reasonable levels. Use information form the Case Study (page 31) to complete the calculations below.

Debt-to-Income Ratio
This is also called your monthly 'debt service.' In other words, it says how much of your income is used to pay debts every month. It is calculated by dividing your minimum monthly debt payments by your gross monthly income. Use your numbers to see where you stand.

Monthly debt payments → $

Divided by ÷ x 100= ______

Monthly gross income → $ Debt-to-Income

A general rule is to keep your debt-to-income ratio **less than 10%. If you include your housing related expenses** such as **rent** or **mortgage,** your ratio should be **less than 40%.**

Debt Utilization Ratio
This number represents how much of your available credit (or credit limit) you are using. It is calculated by dividing your total amount of debt by total credit limit. Use your numbers to see where you stand.

Total debt → $

Divided by ÷ x 100= ______

Total credit limit → $ Debt Utilization

A general rule is to keep your debt utilization ratio **below 30%.** The next time you hear someone say they have "maxed out" their credit cards, you can let them know that their debt utilization ratio is 100%!

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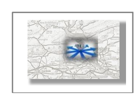
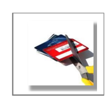
Credit: How to Keep It!

Just as we tell our kids to take care of their clothes and toys to make them last, we need to take care of our good credit to make it last. It's not difficult to do, but it does take some effort. Here are some general suggestions:



1.Start with a money map. Not only does a money map help you to control where your money is going, it can help you determine if your debt service is too high. Even if your debt-to-income ratio is below the general guidelines, your money map can show you if your debt is affordable considering your needs, other obligations, and goals.

2.Pay bills on time. Not only does paying bills on time prevent late fees and penalties, it establishes good credit "character." Lenders look favorably upon those that have consistently paid their bills on time. Make payments 5 to 10 days before they are due to avoid the risk of paying late fees. Try automatic bill pay to avoid late payments.



3.Limit debt amount. Not only does this keep your debt ratios low, but it is necessary in order to achieve financial stability. Recall the example of famous people that filed for bankruptcy in the Make Money Work module. Owing more than you own is a recipe for financial disaster. Pay more than the minimum on credit balances lowers your interest cost too.

4.Use only what you need. Not only does this show responsible use of credit, it saves you money! Credit is not free, and the less you use, the less you pay in interest. Shop around for the best APR's when you need credit. In case you are tempted by pre-approved credit offers, call 1-888-5-OPTOUT to have your name removed from marketing lists.

5.Borrow to Grow! Make sure that if you borrow money, it will be beneficial to your financial situation.

My Credit Practices

Read the following statements about using credit and check those that apply to your situation.

- I only buy things that I need or that I can afford.
- I hide things that I buy on credit or lie about how I paid for them.
- I know how much money I need each month for my living expenses.
- I use cash advances on a credit card to pay for groceries or other necessities.
- I know how much I owe in total on my debts.
- I put off looking at my bills and credit card statements.
- I usually pay more than the minimum on my credit cards
- I charge more on my credit cards than I pay each month.
- I know the total amount of interest that I pay every year on my debts.
- I owe money to seven or more creditors.
- I look at the total cost of interest before I borrow.
- I have overdue credit payments that will take more than a year to repay.
- I know the percentage (%) of my gross monthly income that goes to credit payments.
- I have used *rent-to-own* stores, pay day loans, or *buy here, pay here* car dealers.
- I have ordered my free credit reports within the past year and reviewed for errors.
- I have a past due credit payment that will take more than a year to pay repay.

The statements with green boxes represent positive credit practices. The more you have checked, the easier managing your credit will be! The unchecked green boxes are practices in which to work towards implementing. The statements with red boxes indicate credit practices that will hinder improving your credit and will need some adjustments. Moving forward, start small by working on one or two areas and continue until you have addressed all of the unchecked green boxes and the red box items that you checked.

Source: Adapted from *DollorWorks 2* (University of Minnesota)

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Dissecting Your Debt

To help get a better look at your debt, complete the following chart to dissect your debt. Check on your most recent statements for the information or call your creditors to find out. Place a check in the C column if the debt has been sent to a collection agency. See below for instructions on the Debt Priority (DP) column.

Dissecting Your Debt

Description	APR	Balance	Monthly Payment	# of Payments Behind	$ Amount Behind	C	DP
Totals:							

The DP ("Debt Priority") column is to help you decide which debts need to be paid first. Secured debt is usually at the top of the list because, if you don't make the payments, the lender can take back the property used to secure the loan. In the example above, the car loan should be paid first; without a car, you may not be able to get to work! With other unsecured debt, there are two schools of thought:

1. Pay off the higher interest rate loans to save the interest expense; or
2. Pay off the smaller balances so you can write fewer checks and enjoy the small victories along the way.

There is no right or wrong answer for the DP column. This is a personal choice, and **you** must **decide what is best** for **your** situation.

Source: Adapted from *DollorWorks 2* (University of Minnesota)

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Credit: How to Fix It!

What if you have some warning signs with your debt situation and need to fix it? Although it's unsettling, the good news is that you have options: on your own, credit counseling, a debt management program (DMP), debt settlement or bankruptcy. Here is a brief look at pros and cons of each choice.

On Your Own	Pros	Cons
• Establish a manageable money map • Contact creditors and ask for reduced interest rates, payments or refinance options • Make good on your promises to pay and make payments on-time	• Takes control of your situation • Saves money in additional late fees or penalties • Re-establish payment history	• Takes time to pay off debts • May still have to manage multiple debt accounts and payments
Credit Counseling	**Pros**	**Cons**
• Evaluate credit report and debt • Establish a manageable money map • Suggest repayment strategies • Helps contact creditors and ask for reduced interest rate, payments or refinance options	• Professional analysis of your situation • Saves money in additional late fees or penalties. • Re-establish payment history	• Takes time to pay off debts • May still have to manage multiple debt accounts
Debt Management Program (DMP)	**Pros**	**Cons**
• Credit counseling • Contact creditors and negotiates a lower interest and manageable repayment plan • One monthly payment to provider • Monthly disbursements to creditors	• Professional analysis of your situation • Saves money in additional late fees or penalties. • Re-establish payment history • Write one check per month	• Will take time to pay off debts (2-5 years) or more • May not qualify for credit until program completed • Monthly fee
Debt Settlement	**Pros**	**Cons**
• Credit counseling • Accounts must be in *collection;* if not, you will be advised to stop making payments • Make payments to provider; $ held in trust account for future settlement • Contact creditors and negotiates a settlement payment for less than owed • Disburse settlement payment to creditors	• Pay less than owed	• High fees • May have to claim forgiven debt as income on your taxes • Creditors may still try to collect on accounts • Immediate damage to credit if had been making on-time payments to creditors before
Bankruptcy	**Pros**	**Cons**
• Must attend pre-bankruptcy counseling before filing • File and "means" test for payment plan (Chpt 13) • Notification to creditors • Debtor education • Discharge approval or denied	• Some or all of debt forgiven • Maybe faster than repayment plan • Not taxable	• Not all debt forgiven (alimony, child support, taxes, etc.) • Will affect qualification for new credit (usually 2+ years) • May be reported for 10 years

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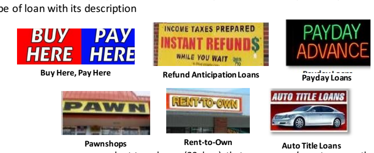
Other Types of "Credit"…Forget It!

There are some types of credit and services that are considered predatory or abusive, charging excessive fees and interest. The lenders that offer these types of products prey on consumers with limited credit experience, a poor credit history, the elderly, minorities, immigrants, and those in a money crisis. What they have to offer may sound great, but when it comes down to the numbers, it is very expensive and unsafe way to borrow money. See if you can match the type of loan with its description



____________________are short-term loans, (30 days), that use a person's car to secure the loan. If the loan is not repaid, the lender may take the car and sell it to get the loan money back. Lenders charges 25% per month (300% APR) on loans which are only a small fraction of the car's value. Failure to pay in full at the end of the month can lead to repossession.

____________________are businesses that provide short-term loans, usually one to two months, which are secured by personal property that you turn over to the business. The business can legally sell the property if you fail to repay the loan when due.

____________________are loans that are secured by your own tax refund money. When your refund is issued by the IRS, it is used to pay back the loan. Regardless of when the refund is processed or the amount, you are subject to repay according to the terms of the loan. Because of new IRS rules, this product may not be available after the 2011 tax year filing season.

____________________are businesses that allow you to make purchases with little or no down payment by first renting the item to you for a period of time before you own it. You only have to make small weekly payments; however, the extended period of time can end up costing 100-300% of the value of the item.

____________________are short-term loans that are typically repaid in two weeks, usually on your next payday. These loans are secured by a post-dated check that will be deposited on the loan's due date. Lenders charge flat fees for these loans which equate to 300+% APR's. If you don't have the money to cover the check, you may be forced to roll-over the loan for another two weeks, incurring more fees.

____________________are businesses that sell and finance automobiles, based on a monthly payment the customer can manage rather than the automobile's value. Typical interest rates start at 25%, and the payoff schedule can last beyond the useful life of the automobile. In most cases, the down payment a customer makes covers the dealers cost of the entire vehicle.

Source: Adapted from *DollorWorks 2* (University of Minnesota)

Predatory Lending: Too Good to Be True

Predatory lending is an unfair practice that takes advantage of consumer's vulnerability and fears. It hurts consumers by increasing their debts, impairing their ability to make payments on the loans and damaging their credit. It is bad for families and bad for the neighborhoods where they live. Predatory lending causes untold harm.

Predatory lending initially hides in appealing disguises that attract the very victims who should be most wary. They can appear to be their victims' allies against hostile financial forces. Only later do the unsuspecting marks realize that their former friends have saddled them with debts they can never repay. For many, the awakening comes too late. Some never recover and those who do lose thousands of dollars.

The only way to avoid predatory lending is through knowledge. Although there are statutes designed to protect consumers, there is still no substitute for a little common sense and knowing what to look for when seeking credit. No less than the law of gravity, the laws of economics apply to everyone, ***so if a deal sounds too good to be true, it is too good to be true.*** "Let the buyer beware" was good advice when it was offered thousands of years ago, and it still holds true today.

Here are some common practices of predatory lending to be aware of when using credit:

- Being asked to sign blank forms that will be filled in later.
- Willingness of company representatives to falsify loan applications, particularly information about income.
- Forging important, key loan documents.
- "High-pressure" sales presentations with "one-time" offers.
- Being offered loans for much higher amounts than required.
- Failure to provide the required Truth-in-Lending Disclosure
- Planning loan closings at places other than in lender offices (such as in the home, in a motor vehicle, at a restaurant, etc.).
- Other names ("phantom" signers frequently unknown to borrowers) are added to documents to make loans seem more affordable.
- Changing loan terms at closing.
- Being encouraged to repeatedly refinance the loan.
- Being contacted by companies at home, without having requested a call.

If you feel you've been a victim of predatory lending, contact the Pennsylvania Department of Banking and Securities at 1-800-PA-BANKS or the Attorney General Office at 1-800-441-2555.

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Additional Resources to: *Borrow To Grow*

Annual Credit Report.com **www.annualcreditreport.com**
AnnualCreditReport.com is the only authorized site that provides consumers with the secure means to request and obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies in accordance with the Fair and Accurate Credit Transactions Act (FACT Act).

Aspen Institute: **www.aspeninstitute.org**
The Nasty Nine
Read about nine high-cost practices that could strip cash away from you.

Doorways to Dreams (D2D) Fund: **www.finicalentertainment.org**
Celebrity Calamity
This online game challenges players to manage credit cards and spending.

Experian: **www.experian.com**
Sample Credit Report
See what a credit report looks like, what's reported, and how.

Fair Isaac Corporation: **www.myfico.com**
Understanding Your FICO Score
Learn what goes into a FICO score and ways to improve your score.

Family Economics & Financial Education: **www.takechargetoday.arizona.edu**
Understanding Credit Reports
This article explains credit reports and how they are used.

Federal Deposit Insurance Corporation (FDIC): **www.FDIC.gov**
Money Smart – A Financial Education Program
This interactive online (and MP3) program has five (5) modules dedicated to borrowing: Borrowing Basics, To Your Credit, Charge It Right, Loan to Own, and Financial Recovery. \

Federal Trade Commission: **www.ftc.gov**
A Summary of Your Rights Under the Fair Credit Reporting Act
Review your consumer rights when it comes to credit reporting, scoring and access to your file.
Building A Better Credit Report
Browse through this book to determine helpful ways to build a better credit report.
FTC Fact for Consumers: Credit and Your Consumer Rights
Learn more about credit and important rights you have as a consumer.

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Federal Trade Commission: **www.ftc.gov** *(continued)*
FTC Fact for Consumers: Credit Repair-How To Help Yourself
This resource helps you recognize credit repair scams and ways to repair your credit.
Understanding Your FICO Score
Learn what goes into a FICO score and ways to improve your score.
Settling Your Credit Card Debts
Learn the pros and cons of settling your credit card debts for less than what is owed.
Your Access To Free Credit Report
Learn more information from questions and answers about credit reports and how to get yours for free.

Financial Football: **www.financialfootball.com**
Pick your NFL team and answer questions about "*How Credit Worthy are You?" in* order to move the football down the field.

Financial Planning Association: **www.fpanet.org**
Debt Management Plan
Use this to determine create a manageable repayment plan of your debt.

National Foundation for Credit Counseling (NFCC): **www.nfcc.org**
Find a Counselor Now
NFCC agencies provide non-profit credit and budget, housing, and bankruptcy counseling throughout Pennsylvania. Use the zip code search to find one near you.

PA Insurance Department: **www. www.insurance.pa.gov**
How Credit Relates To Insurance: A Fact Sheet For Pennsylvania Consumers
Learn more about credit reports, credit scores, and insurance scores.

PA Housing Finance Agency (PHFA): **www.buildingyourfinancialhouse.org**
Building Your Financial House is a commercial free financial resource for Pennsylvanians. Mirroring PHFA's flagship financial education program, the site provides comprehensive information on general financial topics and major milestones in life. The site also has over 40 worksheets, including those found in this module, to help build your own financial house.

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Session Evaluation

We hope you found today's session engaging and of value to your situation. Please share your opinions and comments so we may continue to improve the program. Thank you!

	Excellent	*Very Good*	*Good*	*Fair*	*Poor*
Overall, I feel the session was:	❑	❑	❑	❑	❑
The location of the session was:	❑	❑	❑	❑	❑
The meeting room and facilities were:	❑	❑	❑	❑	❑
Before the session:					
My knowledge and skills about the topic were:	❑	❑	❑	❑	❑
After the session:					
My knowledge and skills about the topic are:	❑	❑	❑	❑	❑
My confidence to apply what I have learned today is:	❑	❑	❑	❑	❑
During the Session:	*Strongly Agree*	*Agree*	*Not Sure*	*Disagree*	*Strongly Disagree*
The instructions were clear and easy to follow.	❑	❑	❑	❑	❑
The time allocated was right for the topic.	❑	❑	❑	❑	❑
There was ample opportunity to share experiences/ideas.	❑	❑	❑	❑	❑
The overhead slides were clear and helped my learning.	❑	❑	❑	❑	❑
The activities and examples helped my learning.	❑	❑	❑	❑	❑
The activities and examples were relevant to my situation.	❑	❑	❑	❑	❑
The instructor:					
Was knowledgeable about the topic.	❑	❑	❑	❑	❑
Delivered lessons in a clear and understandable manner.	❑	❑	❑	❑	❑
Was engaging and encouraged interaction.	❑	❑	❑	❑	❑
Was well-prepared.	❑	❑	❑	❑	❑
Was approachable and open to questions.	❑	❑	❑	❑	❑
The session:					
Met my expectations.	❑	❑	❑	❑	❑
Was of value to me.	❑	❑	❑	❑	❑
Has motivated me to take action.	❑	❑	❑	❑	❑

Final Questions	
The most valuable thing I learned today was:	What was the least valuable part of the session and how could it be improved?
Additional comments:	

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