

# Oklahoma's Personal Financial Literacy Passport

**Standard 7: The student will identify the procedures and analyze the responsibilities of borrowing money.**

## **Standard 7. Borrowing Money**

Lesson 7.1 Remember the Interest

Handout 7.1.1 — Borrow, Do Not Borrow

Lesson 7.2 It's in Your Interest

Handout 7.2.1 — Types of Lenders

Lesson 7.3 Your Credit Score

Handout 7.3.1 — Making a Loan

Lesson 7.4 Consumer Credit Legislation

Handout 7.4.1 — Protecting Your Rights



Teacher Presentation Series 7

- 🏠 Identify and analyze sources of credit (e.g., financial institutions, private lenders, and retail businesses) and credit products (e.g., student loans, credit cards, and car loans).
- 🏠 Identify standard loan practices, predatory lending practices (e.g., rapid tax return, rapid access loans, and payday loans), and legal debt collection practices.
- 🏠 Explain the importance of establishing a positive credit history (e.g., maintaining a reasonable debt to income ratio), describe information contained in a credit report, and explain the factors that affect a credit score (e.g., the relationship between interest rates and credit scores).
- 🏠 Explain how the terms of a loan (e.g., interest rates, fees, and repayment schedules) affect the cost of credit.



# **Standard 7.1**

## **Borrowing Money**

### **Remember the Interest**

# ≡ *Payoff* ≡



- 🏆 Explain why people borrow money.
- 🏆 Identify the rights and responsibilities of borrowing money.
- 🏆 Demonstrate appropriate situations to borrow money.
- 🏆 Evaluate the impact of borrowing money.



# == *Down Payment* ==



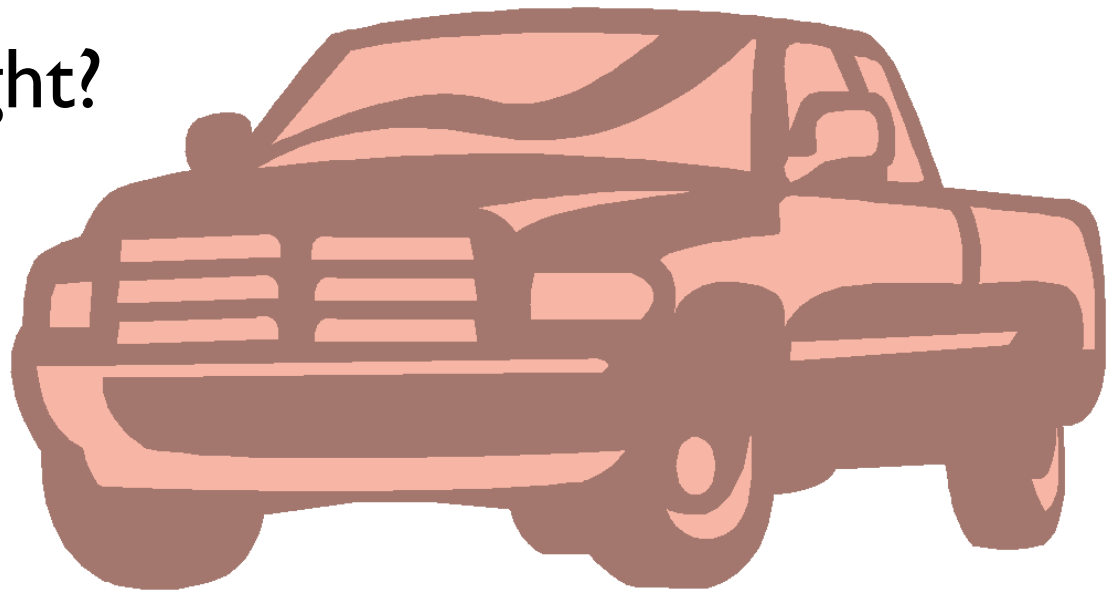
- 🍷 Rik wanted his parents to buy him a new truck.
- 🍷 His mom told him to “go pick out one and we will see how much it really costs to buy that new truck.”
- 🍷 Rik went online and the one he wanted was only \$28,800 suggested price, with a \$2,000 rebate.

# Down Payment



🍷 In 72 months, he figured he could pay it off at \$375 a month.  $\$26,800 / 72 = \$347$ , plus a little interest, would bring it to about \$375/month.

🍷 Is Rik right?



# == *Cache* ==



- 💰 Credit
- 💰 Collateral
- 💰 Comparison Shopping
- 💰 Interest
- 💰 Installment Credit
- 💰 Interest Rate
- 💰 Loan Agreement
- 💰 Mortgage

# == *Cache* ==



👛 Secured Credit

👛 Non-installment Credit

👛 Unsecured Credit





# == ***Building Interest*** ==



- 💡 How are you going to pay your tuition when you head off to college?
- 💡 Where will you get the money to get the car you need to travel back and forth to classes?
- 💡 How much more is it going to cost you if you have to get your money from other sources to do these things?

# Borrowing Money



- 💰 Interest is payment for using someone else's money.
- 💰 Percentage charged is the interest rate.



💰 Interest and other fees increase your cost of borrowing, but they also make it possible for lenders to stay in business.

# Why People Borrow Money?



- 🏠 People borrow because they need a way to make “big ticket” purchases.
- 🏠 Borrow money when you are investing in the future – not just to buy something you want now.
- 🏠 Borrowing to make minor purchases is a sure way to overspend or generate more debt than you can manage.

# Rights and Responsibilities of Borrowing Money



- Loans have loan agreements, a contract requiring both parties to do exactly what is stated in the document.




# Rights and Responsibilities of Borrowing Money



- 🏠 Basic components of a loan agreement include:
- Amount--the exact amount you are borrowing.
  - Interest Rate--the rate of interest you will be charged.
  - Payment--the exact payback amount and the frequency of payments (weekly, monthly, annually, etc.).
  - Prepayment--a clause allowing you to make additional payments to pay off the loan faster.

# Rights and Responsibilities of Borrowing Money



 Basic components of a loan agreement include:

- Late fees – The additional amount owed if you are late with a payment.
- Default – What happens if you fail to make the payments.



# Different Kinds of Credit



👉 Four types of credit are:

- secured credit,
- unsecured credit,
- installment credit, and
- non-installment credit.



👉 Secured credit is backed by collateral as the lender has less risk

# Different Kinds of Credit



## Unsecured credit:

- Lender loans you money based on your willingness and your ability to repay the money.
- Results in more risk for the lender.
- If the loan is not repaid, the lender can sue for the balance.



# Different Kinds of Credit



## Installment credit:

- Can be either secured or unsecured.
- Requires regular, periodic payments to repay the full amount of the loan, plus interest.
- Called “open ended” or “revolving” credit” and each payment reduces the amount owed and allows you to borrow more.

# Different Kinds of Credit



## Non-installment credit:

- Can be secured or unsecured.
- Requires you to pay back the entire amount by a specific date.
- Examples: cell phone, doctor's, or cable bill



# Financial Impact



🏠 When debt rises:

- Becomes difficult to make monthly payments.
- Missing or late payments have a negative effect on your ability to get additional credit.



- Could end up paying higher interest rates than people with good credit.

# == *Earnings* ==



- 💰 Buying everything on credit reduces the amount of money you have available for future purchases.
- 💰 Before borrowing, think about the hours you will need to work and the years it will take to pay off the loan.



# == *Earnings* ==

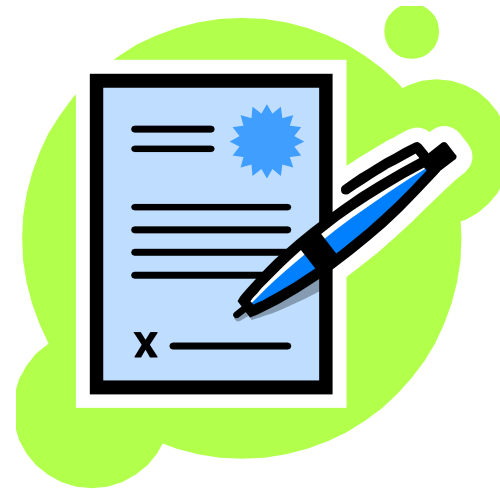


- 💰 Borrowing money is based on a contractual agreement.
- 💰 Failing to make payments or defaulting on a loan will have a long-term negative impact on your ability to get credit for many years.
- 💰 Depending upon the terms of the loan agreement, you may end up paying more for the sale item than when making the purchase for cash at the full price.

# == Balance Sheet ==



- 📌 Explain the difference between secure and unsecured credit.
- 📌 Why do people borrow money?
- 📌 Why do you need to read your loan agreement?



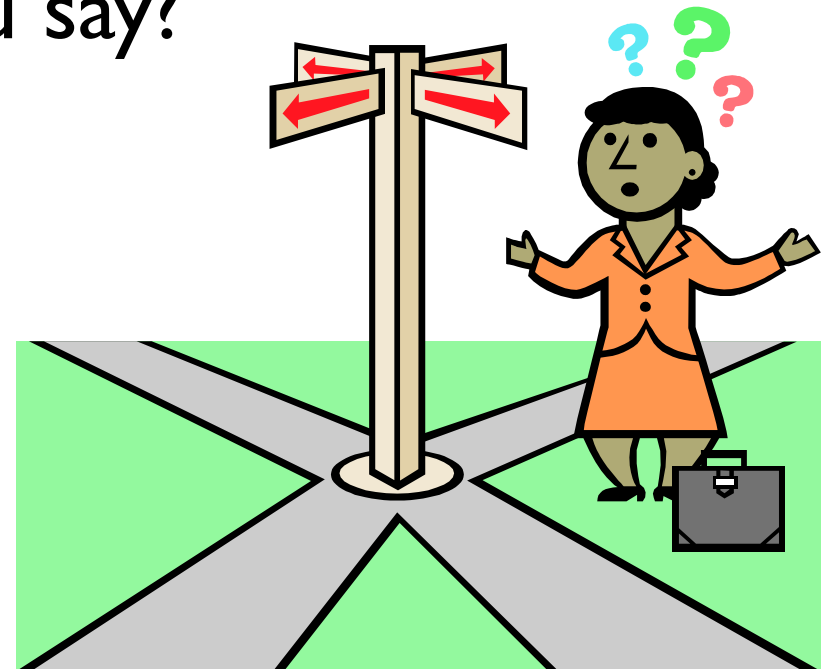
## == ***Paid in Full*** ==



- 💰 Rik's computations are not right!
- 💰 When he talked to the new truck manager, the payments were \$100 more than he calculated.
- 💰  $\$475 \times 72$  is over \$34,000.
- 💰 At \$375 a month, it would take 8 years to pay it off and the total cost of the truck would be more than \$37,000.
- 💰 Rik decided he would continue to drive Dad's truck.

# Handout 7.1.1 Borrow, Do Not Borrow

💰 If you were going to summarize the logic you used in deciding when or when not to borrow in this exercise, what would you say?







# **Standard 7.2**

## **Borrowing Money**

### **It's in Your Interest**

# = *Payoff* =

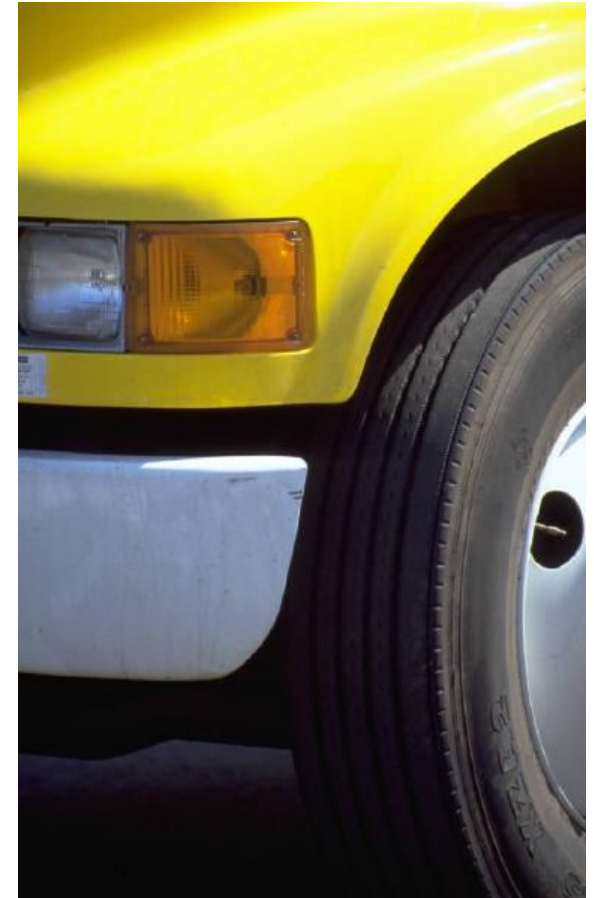


- 👛 Identify potential sources of credit.
- 👛 Compare credit sources.
- 👛 Evaluate credit practices.
- 👛 Calculate credit costs.
- 👛 Demonstrate the ability to make good credit choices.

# Down Payment



- Jason received a credit card application in high school, and at first, it was easy to pay the balance each month.
- Then, his car needed TWO tires and his battery failed. He could not quite pay the entire bill.



# Down Payment



- 💰 He took Susan to the prom and he had more bills than expected.
- 💰 Now he was almost maxed on his credit limit, interest rates were killing him, and he did not want to tell his parents because they had warned him against using credit cards.
- 💰 What should Jason do?

# == *Cache* ==



- 💰 Credit
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- 💰 Mortgage

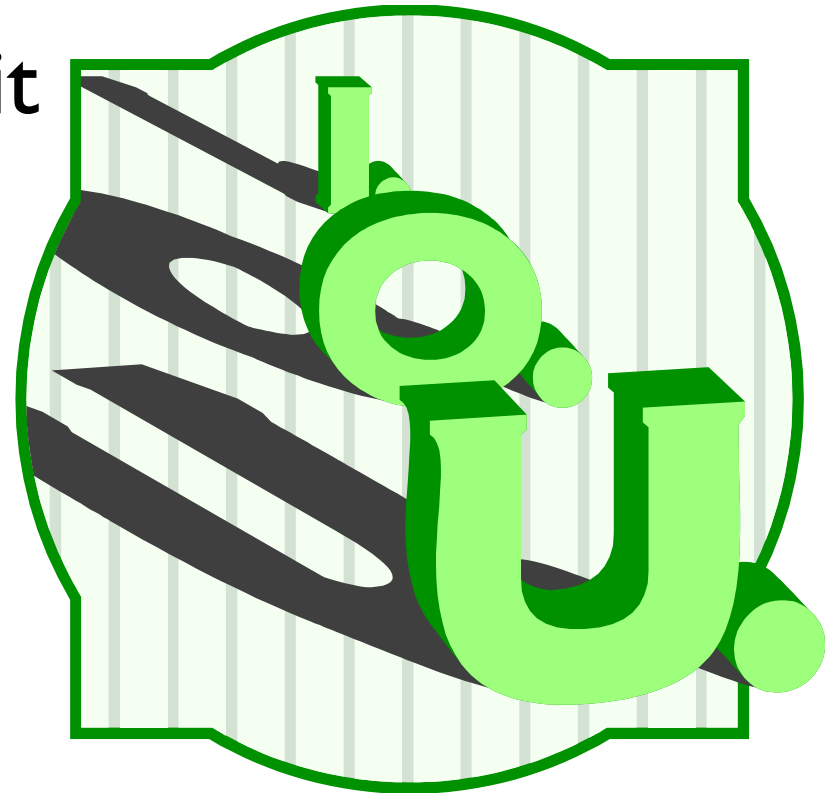
# == *Cache* ==



 Secured Credit

 Non-installment Credit

 Unsecured Credit



# **Building Interest**



- 👛 Identify some types of places you can go to borrow money.
- 👛 What are some of the differences you can experience borrowing money from different types of lending institutions?

# Calculating Interest Rates



 Interest rate:

- Calculated as the dollar amount of interest charged, divided by the amount of money borrowed.
- Always stated as APR, or the annual percentage rate (the percentage cost of credit on an annual basis, which must be disclosed by law).



# Calculating Interest Rates



 To find your APR:

- Divide the number of months in the year (12) by the number of months you are borrowing the money (3 in this example).
  - $12/3 = 4$
- Multiply the rate of interest paid (6 percent in this example) by 4 (the answer in step 1).
  - $6 \times 4 = 24$
- Your annual rate of interest for this loan is a whopping 24 percent!

# Calculating Interest Rates on Credit Cards



- 💧 Credit card interest rate = average daily balance  $\times$  periodic interest rate
- 💧 Most credit card companies give you a grace period before adding interest to new charges (usually about 20 days).
- 💧 Interest rates on credit cards range from very low to very high (over 25 percent).

# Calculating Interest Rates on Credit Cards



- 💡 Credit cards are open-ended, so card companies can increase your interest rate at any time and for almost any reason.
- 💡 Most card companies will notify you about 30 days in advance if they are changing the terms, so it is important to read any information sent by your lender.

# Making Minimum Payments



- 👛 Minimum payment on credit cards debt is a percentage of your current balance.
- 👛 Minimum payment drops as your balance is paid.
- 👛 Making only minimum payments means you will be paying interest for a long time and it greatly increases the cost of the goods and services you purchased.

# == *Earnings* ==



- 🏆 Borrowing money is convenient, but also expensive.
- 🏆 Making good choices about borrowing includes borrowing only what you need, understanding the terms of the loan, and choosing the best lender.
- 🏆 Knowing what is expected of you and the lending company will help prevent future problems.

## == ***Paid in Full*** ==



- 👉 First, Jason should do is quit spending!
- 👉 Second, Jason should talk to his parents, explaining what happened and how he plans to pay off the credit card.
- 👉 He may need to get an extra job or find a way to cut his expenses.
- 👉 It is important to take control of your spending, instead of having it control you.

# Handout 7.2.1 – Types of Lenders

💰 Discuss scenarios where it might be better to get a loan from one type of lender on this list over another. For example, identify a scenario where you might want to get a loan from a pawnbroker.





# **Standard 7.3**

## **Borrowing Money**

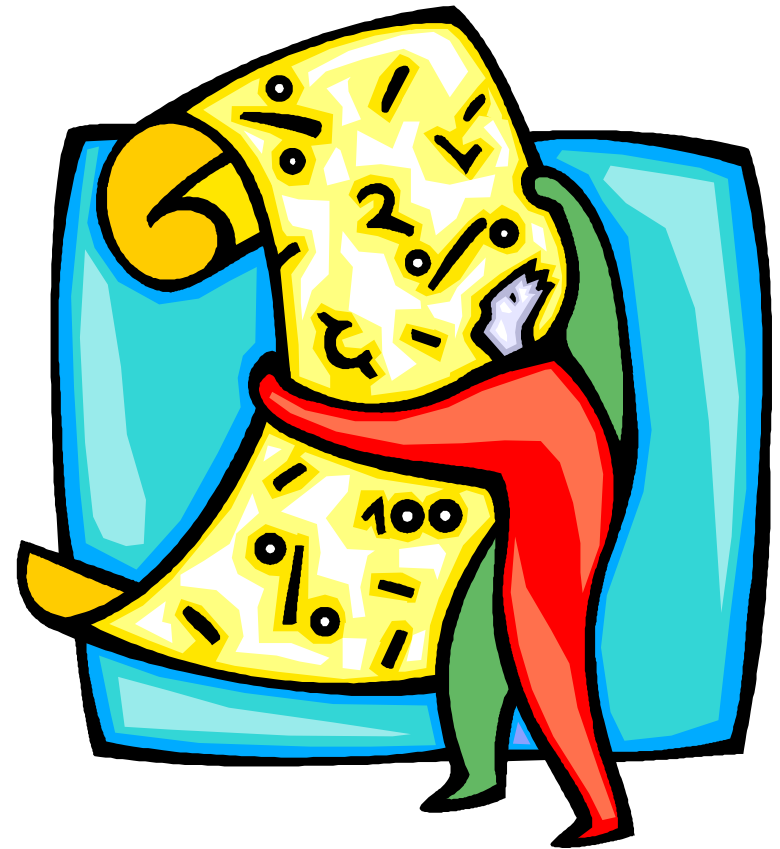
### **Your Credit Score**



# ≡ *Payoff* ≡



- Describe the purpose of a credit report.
- Define the role of credit scores.
- Explain the importance of a good credit score.



# Down Payment



- Julie did not understand why she was turned down for her loan application.
- Several friends had more credit cards and laughed about missing payments.
- Julie decided she would not worry either and borrow money where they did.



# Down Payment



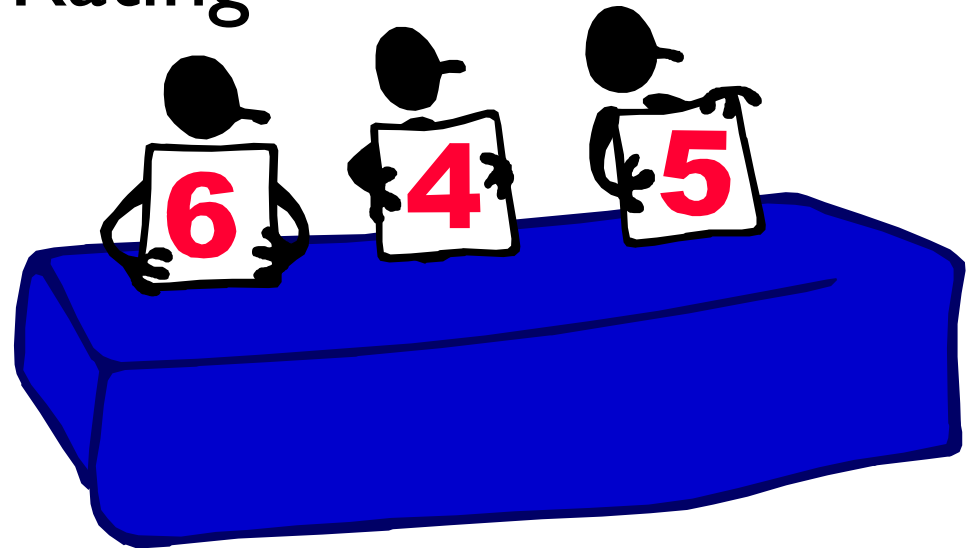
- 💰 Susan missed a couple of payments and her debt was mounting.
- 💰 She had borrowed too money.
- 💰 Her credit score was only 450, so she began taking immediate steps to improve her credit score.
- 💰 Who was right? Julie or Susan?



# == Cache ==



- 👤 Credit Bureau
- 👤 Credit History
- 👤 Credit Report
- 👤 Credit Score/Rating
- 👤 FICO



## **Building Interest**

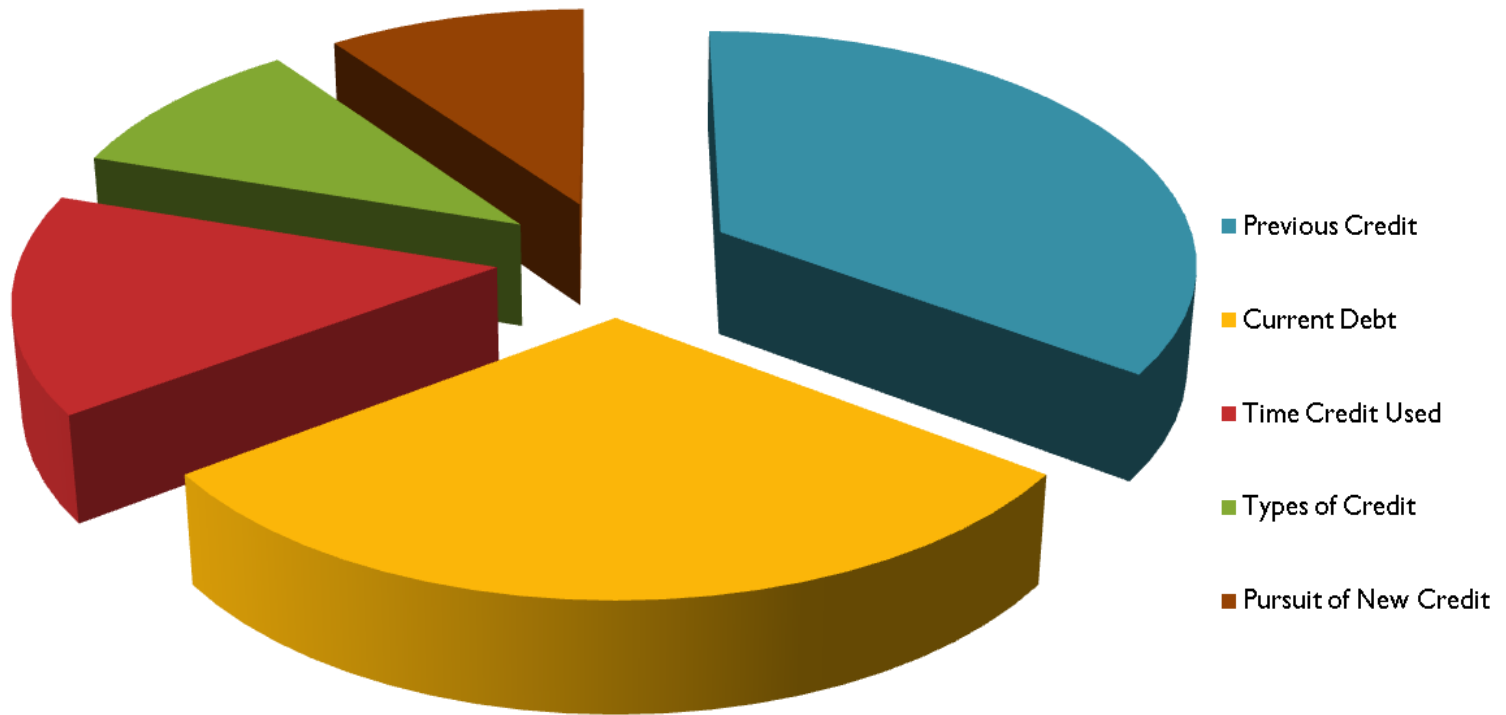


- 💰 How does a lender know if you are a good credit risk?
- 💰 What makes up your “credit history?”
- 💰 What is the credit bureau?
- 💰 What can you do to ensure that your credit scores remain good?

# Building Interest



## Credit Scores



Source: [www.myfico.com](http://www.myfico.com)

# What Difference Does it Make?



 Your credit score can impact your ability:

- To get credit
- To get a job
- To get an apartment
- To get a good interest rate on a loan



# What Difference Does it Make?



💡 A higher credit score shows:

- you are a good money manager.
- you pay your bills on time.
- you are a responsible consumer.
- you show maturity in your actions.

💡 Low credit scores show the opposite, indicating that you are a high risk as a potential borrower, renter or employee.



# Negative or Inaccurate Information



- 📌 Negative information, such as late payments and loan defaults, stay in your credit files for seven years.
- 📌 If your credit report is incomplete or inaccurate, you have a right to file a dispute with the credit bureau.
- 📌 Check credit report before applying for a loan.


# == *Earnings* ==



- 💧 Your credit report is one of the most important sources of information that others use to make decisions about your creditworthiness.
- 💧 Information contained in your file can help determine whether or not you qualify for a loan, a job, an insurance policy or even a place to live.

# == *Earnings* ==



 Best way to maintain a positive credit history is to control your level of debt and pay your bills on time.



# == *Balance Sheet* ==



- 👉 Explain the role of a credit bureau.
- 👉 What is a FICO score and why do lenders use it?
- 👉 Why do people with high FICO scores pay lower interest rates than people with low FICO scores?
- 👉 What should you do if you find inaccurate information in your credit report?

## == ***Paid in Full*** ==



- 🍷 Julie may be able to get credit, but she will definitely be paying higher interest rates and higher payments.
- 🍷 Susan, however, started:
  - Shredding all of the credit applications.
  - Paying her bills through automatic payments.
  - Getting a handle on her debt by not spending.
  - Making extra credit card payments when she could.

## ≡ ***Paid in Full*** ≡

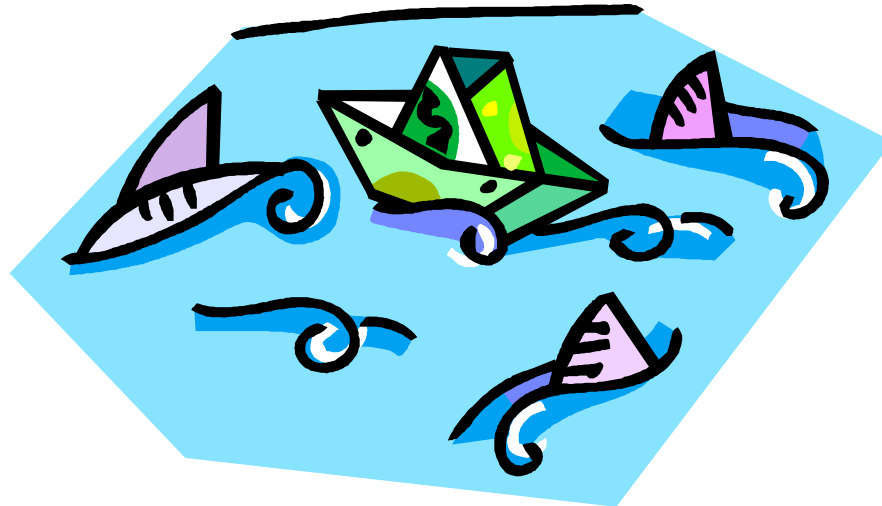


- Susan's disciplined behavior will result in lower interest rates and lower payments in the future.



# Handout 7.3.1 – Making a Loan

- 💰 What did you consider to be the most important factor in deciding if these individuals should receive a loan?
- 💰 What factors caused you to decide not to loan an individual money?





## **Standard 7.4**

### **Borrowing Money**

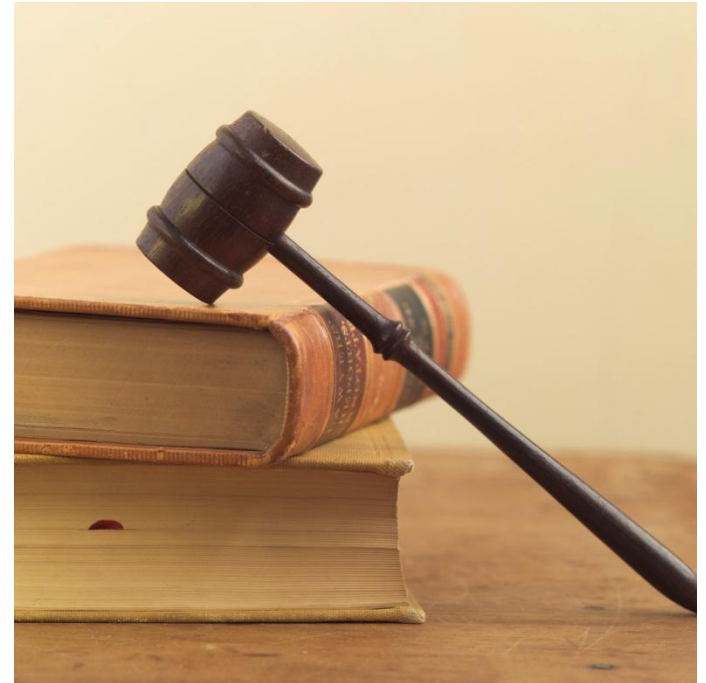
# **Consumer Credit Legislation**



# ≡ *Payoff* ≡



- 📌 Explain key legislation related to consumer credit.
- 📌 Apply consumer credit legislation to specific credit problems.



# == Down Payment ==



💰 Jenna's credit card company had raised her interest rate.

💰 Her new interest rate made her payments so high she was not sure she could make the minimum payments any more.

💰 Jenna thought she had read everything they sent her.

# Down Payment

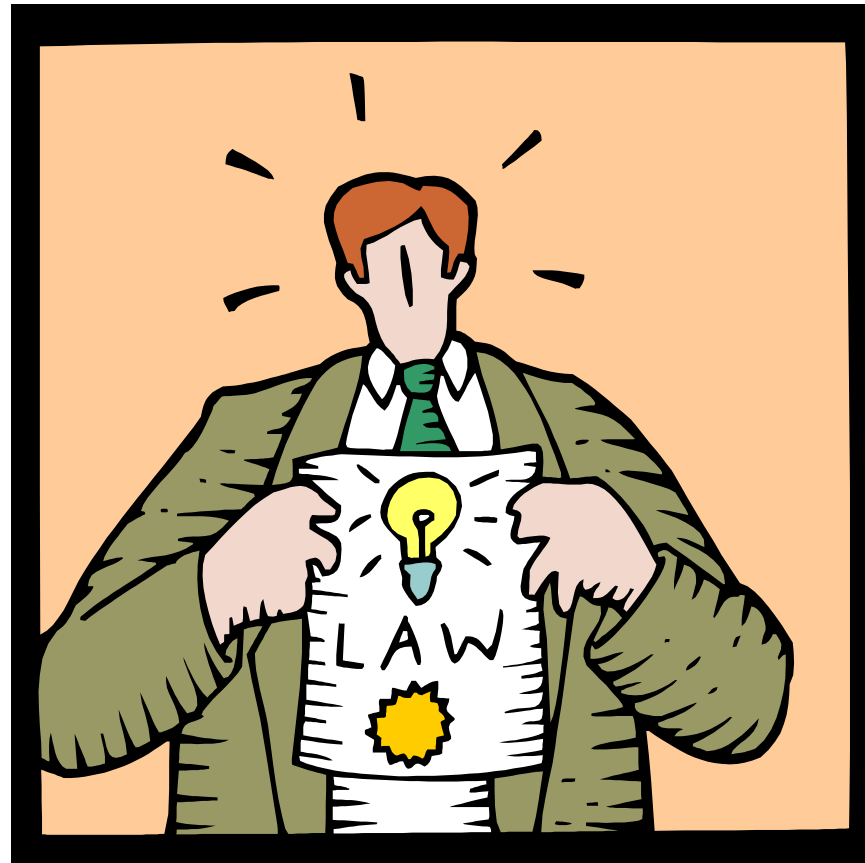


- 👤 Mom told her to check consumer protection laws to see if there was something that applied to her situation.
- 👤 Given the laws, what can Jenna do if she is correct?

== **Cache** ==






## Consumer Credit Legislation



## ***Building Interest***



-  Do you know your rights as a consumer?
-  Who is responsible for enforcing most federal consumer legislation?
-  What are some of the most important legislation impacting consumers?

# Consumer Credit Legislation



## Truth in Lending Act

- Requires potential borrowers to be informed about the cost of borrowing money, including finance charges and the annual percentage rate.
- Outlines criminal penalties for lenders who knowingly and willfully violate the law.
- Protects you if someone else uses your credit card without your permission.

# Consumer Credit Legislation



## Fair Credit Reporting Act

- Sets limits on who has access to your credit file.
- Requires outdated information be removed from your file.
- Gives you the right to know what is in your credit report.
- Requires credit bureaus and creditors to correct any mistakes reported on your file.

# Consumer Credit Legislation



## Fair Credit Reporting Act – continued

- Allows you to dispute any inaccurate information and add a 100-word statement to your report to explain accurate negative information.
- Requires you to be informed about why you were turned down for credit.

**Rejected**



# Consumer Credit Legislation



## Fair Credit Billing Act

- Covers problems with credit card billings on open-end credit accounts such as credit cards.
- You must notify the creditor of any errors within 60 days of receiving the first bill with an error.
- Creditor must contact you within 30 days that your notice was received and then investigate the potential error.

# Consumer Credit Legislation



## Fair Credit Billing Act – continued

- Steps to damage your credit rating can not be taken while a dispute is pending.



# Consumer Credit Legislation



## Equal Credit Opportunity Act

- Ensures equal opportunity for receive credit or loans.
- Prohibits discrimination based on sex, race, marital status, religion, national origin, age or receipt of public assistance.
- Prohibits questions about your plans for having children.
- Prohibits refusing to consider alimony or child support payments as income.

# Consumer Credit Legislation



## **Equal Credit Opportunity Act – continued**

- Establishes your legal right to know why are denied credit.

## **Consumer Leasing Act**

- Requires lessors (people that lease something to another person) to provide you with uniform information about consumer leases.

# Consumer Credit Legislation



## Electronic Fund Transfer Act

- Explains your rights when mistakes are made with an ATM transaction or if your ATM card is lost or stolen.
- If you delay reporting your credit card lost or stolen, you can be liable for up to \$500, or an unlimited amount if you do not report the problem for more than 60 days

# Consumer Credit Legislation



## Fair Debt Collection Practices Act

- Prohibits debt collectors from engaging in unfair, deceptive, or abusive practices when collecting debts.
- Requires collectors to send you a written notice of the name business and the amount owed.
- Bill collectors cannot call you if you dispute the bill in writing with 30 days unless they provide proof that you owe the bill.

# Consumer Credit Legislation



## **Fair Debt Collection Practices Act -** continued

- Collectors must identify themselves on the phone and can call only between 8 a.m. and 9 p.m. unless you specifically agree to another time.
- Collectors cannot call you at work if you tell them not to.

# Consumer Credit Legislation



## Fair Credit and Charge Card Disclosure Act

- Is part of the Truth in Lending Act.
- Requires that all credit card applications include information on the card's key features and costs, including the APR, grace period, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances, and penalty fees such as over-the-limit fees and late-payment fees.

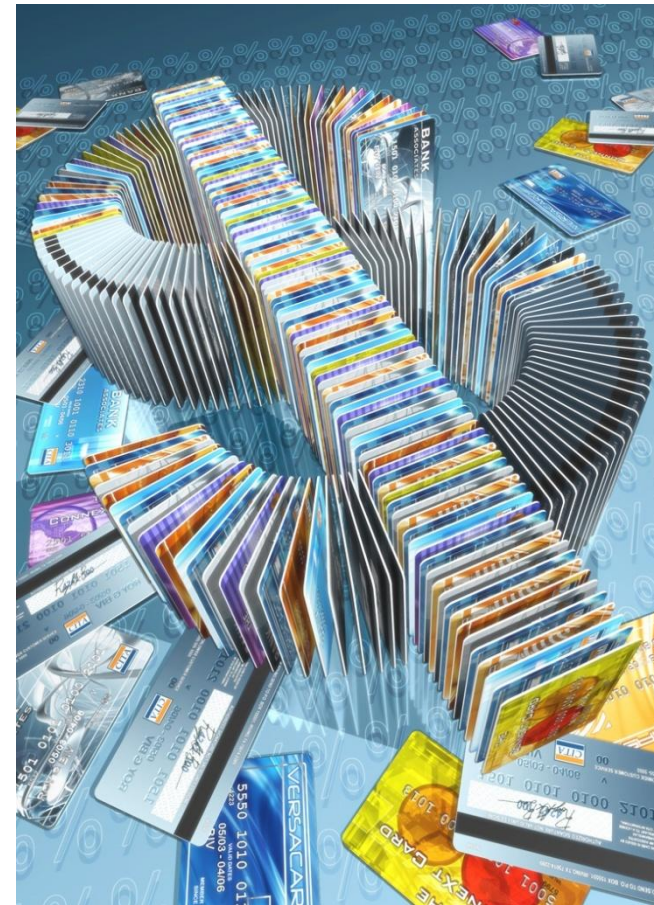


# Consumer Credit Legislation



## Fair Credit and Charge Card Disclosure Act - continued

- Card issuers must inform customers if they make certain changes in rates or coverage for credit insurance.



# Consumer Credit Legislation



## Consumer Credit Reporting Reform Act

- Is an amendment to the Fair Credit Reporting Act.
- Requires free credit reports for the unemployed, persons on public assistance, and fraud victims.
- Requires the full name of anyone requesting a credit report within the past year.
- Requires credit bureaus to share corrections to your file.

# Consumer Credit Legislation



## Consumer Credit Reporting Reform Act - continued

- Clarifies when the seven-year period for negative information begins.
- Raises the limits on what information can be reported longer than seven years (jobs paying \$75K or more and loans or life insurance of \$150K or more).

# Consumer Credit Legislation



## Credit Repair Organizations Act

- Makes it illegal for groups to make false promises or claims about improving your credit history.
- About the only things they can do for you are the same things you can do for yourself.



# So Many Laws!



- 💡 Why do you think so much legislation related to consumer credit has been passed by the U.S. Congress?
- 💡 Laws were passed because someone was harmed by an action that adversely impacted their personal finances.



# So Many Laws!



- The concepts of "fair" and "equal" credit have been written into laws to:
- Prohibit others from unfairly discriminating against you in credit transactions.
  - Require that you be told why you are denied credit.
  - Let you know what is included in your credit report.
  - To establish a way for you to dispute any inaccurate information or billing disputes.

# **Balance Sheet**



- 💡 Virtually everyone uses consumer credit or engages in financial transactions at some point.
- 💡 Knowing your rights and responsibilities helps protect you when making credit-related choices.
- 💡 Numerous laws have been enacted raising the standard for treating people fairly in the business dealings.

## == *Paid in Full* ==



- 🏠 A credit card company cannot change its interest rate without informing the card holder.
- 🏠 Important to read the information credit card companies and other lenders send you.





## == ***Paid in Full*** ==



- 👤 Jenna should call the credit card company to let them know she was not informed and request a delay in implementing the new interest rate.
- 👤 She can also file a complaint with the Federal Trade Commission.
- 👤 Most reputable lenders notify their customers about changes.

## == ***Paid in Full*** ==



📁 Credit card companies have the right to change interest rates at any time, as long as they notify you in advance.



# Handout 7.4.1

## Protecting Your Rights

📁 What are some of the main points you need to cover when writing a letter to advise a company of a billing issue?

