

Loan To Own



FDIC



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Welcome



1. Agenda
2. Ground Rules
3. Introductions



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Objectives



- **Identify various types of installment loans**
- **Identify the factors lenders use to make home loan decisions**
- **Identify how federal laws protect you when applying for a loan**
- **Identify the questions to ask when purchasing a car**



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Objectives

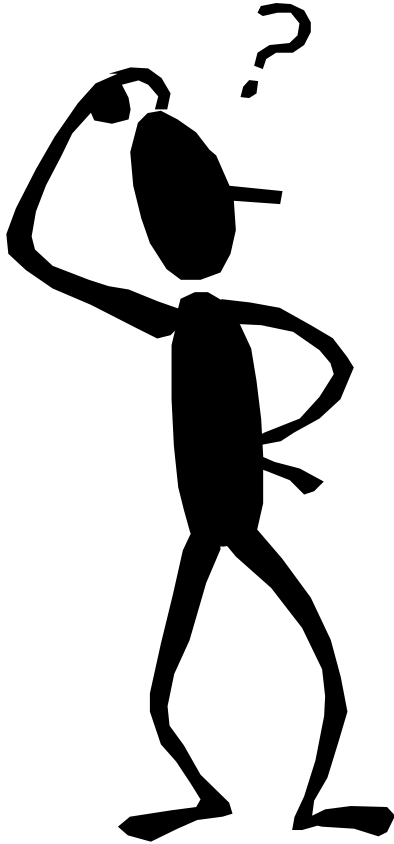


- **Explain why installment loans cost less than rent-to-own services**
- **Explain why it is important to be wary of rent-to-own, payday loans, and refund anticipation loan services**
- **Guard against predatory lending practices**



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What Do You Know?



What do you know or want to learn about installment loans?



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What is an Installment Loan?

- A loan that is repaid in equal monthly payments/installments for a specific period of time
- What items can be purchased with an installment loan?
 - Cars
 - Furniture
 - Computers
 - Household appliances



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Secured Installment Loans

- **Have lower interest rates than unsecured loans**
- **Require collateral**
- **Examples: Mortgages and home equity loans**



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Collateral

- What does *collateral* mean?
 - It is an asset you own and pledge to the lender if you cannot repay the loan
- **If you are unable to repay the loan and the collateral is insufficient to cover the balance, you are still responsible for:**
 - The remaining balance
 - Any fees and interest associated with the loan



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Unsecured Installment Loan

- **Not secured by collateral**
- **Tougher underwriting standards than secured loans**
- **Examples: personal loans and private student loans**



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Cost of Installment Loans

APR

Finance Charges

Fixed-rate loan

Variable-rate loan

1. **Dollar amount the loan will cost, including: interest, service charges, and loan fees**

Answer: Finance charges

2. **Loan with interest rate that might change during any period of the loan**

Answer: Variable-rate loan



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Cost of Installment Loans

APR

Finance Charges

Fixed-rate loan

Variable-rate loan

3. Cost of borrowing money on a yearly basis

Answer: APR

4. Loan with interest rate that stays the same throughout the term of the loan

Answer: Fixed-rate loan



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Identify the Term

APR

Finance Charges

Fixed-rate loan

Variable-rate loan

- 1. Stephanie took out a car loan with a 10% interest rate and paid \$100 in loan application fees. What lending term reflects the interest plus the application fee?**

Answer: APR



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Identify the Term

APR

Fixed-rate loan

Finance Charges

Variable-rate loan

- 2. Michael took out a loan to buy a computer. He must make 24 equal payments over 2 years at 10% interest. Which lending term best describes this type of loan?**

Answer: Fixed-rate loan



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Identify the Term

APR

Fixed-rate loan

Finance Charges

Variable-rate loan

- 3. Kevin took out a loan for a car. He must pay \$3,000 in interest, service charges, and loan fees. What lending term(s) best describe(s) these costs?**

Answer: Variable rate loan, Finance charges



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Why Do Borrowers Prefer Installment Loans?

- **Clear monthly payment amount and repayment period**
- **Lower rates than credit cards**
- **Lower loan balances during loan term because payment includes principal**



Purchasing or Leasing a Car

- **What are some questions to ask yourself when looking for a car?**
 - Should I get a new or used car?
 - Should I lease or buy?
 - How much can I afford?
 - Should I trade in my old car?



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Car Loans Versus Car Leases

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



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Financing a Car



- **The car is the collateral for the loan.**
- **The title indicates who owns the car.**
- **When considering a car loan:**
 - Know the costs and how much you need to borrow
 - Shop for the best deal



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Where to Obtain Car Loans

- **Banks/thrifts**
- **Credit unions**
- **Finance companies**
- **Car dealerships**



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When Dealers Offer Low Interest Rates

- **The best deal may require:**
 - Large down payment
 - Short loan term (3 years or less)
 - Excellent credit history
 - Participation fee



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Low Interest Rates



- **Ask about:**

- Price of low-rate financing
- Advantages of paying with cash/using your own financing
- Down payment required
- Limits on the length of the loan
- Balloon payments, if due at the end of the loan



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Special Promotions

- **Ask about:**
 - Trade-in allowance
 - Limits on special offers
 - Meaning of dealer's invoice



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Auto Service Contracts

- A promise to perform (or pay for) certain repairs or services
- Ask questions before buying auto service contracts.



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Used Car: Warranty Protection

- Look for the Buyer's Guide sticker to indicate whether the vehicle is being sold:
 - With a warranty
 - With implied warranties
 - "As is"

BUYERS GUIDE

IMPORTANT: Spoken promises are difficult to enforce. Ask the dealer to put all promises in writing. Keep this form.

VEHICLE MAKE MODEL YEAR VIN NUMBER

DEALER STOCK NUMBER (Optional)

WARRANTIES FOR THIS VEHICLE:

AS IS - NO WARRANTY

YOU WILL PAY ALL COSTS FOR ANY REPAIRS. The dealer assumes no responsibility for any repairs regardless of any oral statements about the vehicle.

WARRANTY

FULL LIMITED WARRANTY. The dealer will pay ____% of the labor and ____% of the parts for the covered systems that fail during the warranty period. Ask the dealer for a copy of the warranty document for a full explanation of warranty coverage, exclusions, and the dealer's repair obligations. Under state law, "implied warranties" may give you even more rights.



Alternative Fueled Vehicles


- **Before buying or leasing, consider:**
 - Fuel type and availability
 - Operating costs
 - Performance/convenience
 - Energy security/renewability
 - Emissions



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Activity 1: Beware of Dealer-Lender Relationships

Complete Activity 1 in the Participant Guide.

- 
1. Read the scenario carefully.
 2. Write down some things that Sam could have done differently.
 3. Be prepared to explain your answers.



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Structuring a Car Loan

- **Make as large a down payment as possible**
- **Consider the total cost of the loan:**
 - Example: \$15,000 at 4% interest for **36** months = **\$443** versus **48** months = **\$339** a month
 - Total cost: **\$15,948 versus \$16,272**
- **Be cautious about taking on an auto loan term of 5 years or more**



Beware of Car Title Loans

- You risk losing your car if you cannot pay.
- They can be costly loans.
- **Example:**
 - 1st month: \$500 loan + \$100 interest ($\$500 \times 20\%$) = \$600
 - 1 year: \$500 loan + \$1,200 interest ($\$110 \times 12$) = 240% APR



Equity

- The value of the home minus the debt

Value of home	\$250,000
<u>minus debt</u>	<u>- 180,000</u>
Equity	\$ 70,000

- A *home equity loan* allows you to borrow against the value of your home.



How Home Equity Loans Work

**80% loan-to-value ratio:
\$250,000 x 80% = \$200,000**

\$200,000 (value of home)

\$180,000 (mortgage)

\$20,000 (value of home equity loan)



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Types of Home Equity Loans



- **Home Equity Loan:**
 - One-time loan for a lump sum
 - Typically at a fixed interest rate
- **Home Equity Line of Credit (HELOC)**
 - Line of credit that works like a credit card
 - Interest rates are typically variable



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Borrowing Against Your Home

- **What are the advantages of taking out a home equity loan?**
 - Lower interest rates
 - Tax-deductible interest
- **What is the danger of borrowing against your home?**
 - Losing your home
 - Owning more than your home is worth



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Right to Rescind/Right to Cancel

- **You have 3 days to reconsider a signed home equity loan agreement and cancel the loan without a penalty when you use your primary home as collateral.**



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Is a Line of Credit Right for You?

- **Can you afford the increased monthly payments after the introductory period ends or when interest rates rise?**
- **Are you comfortable with fluctuating monthly mortgage payments?**
- **Will you be investing your home equity in another asset of long-term value?**



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Unsecured Installment Loans

- **Loans used for a variety of personal expenses with no collateral required**
- **Terms: 1 to 5 years**
- **Benefits: fast approval times, lower interest rates than credit card rates**
- **Drawbacks: Higher interest rates, stricter credit requirements**



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Refund Anticipation Loans

- Short-term loans secured by your income tax refund

- **Example:**

• Refund:	\$1,500
• Fees:	<u>- \$300</u>
• Check to you:	\$1,200



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Borrow From Yourself First

- **Establish an emergency savings account**
- **Save at least 6 months of living expenses**
- **Consider making small, simple changes in your habits or banking practices to save**



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Comparison Shop

- **If you must borrow money, look at both total dollar costs and APR**
- **Example:**
 - \$75 interest on a \$500 loan for 2 weeks translates into 391% APR!
 - If you pay \$75 to renew or roll over the \$500 loan, you will owe more in fees (\$525) in 14 weeks than the original loan!



Emergency Options for Cash

- **Talk to your financial institution for loan options (e.g., line of credit)**
- **Build a savings fund**



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The Four Cs

- ***Capacity:*** your present and future ability to meet your payment obligations
- ***Capital:*** the value of your assets and your net worth
- ***Character:*** how you have paid bills or debts in the past
- ***Collateral:*** property or assets offered to secure the loan



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Consumer Protection Laws


- **Equal Credit Opportunity Act**
- **Truth in Lending Act**
- **Fair Credit Reporting Act**
- **Fair Debt Collection Practices Act**
- **Fair Credit Billing Act**



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Activity 2: How Lending Laws Protect You

Complete Activity 2 in the Participant Guide.

- 
1. Read the scenario carefully.
 2. Answer the questions.
 3. Be prepared to explain your answers.



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Resolving Complaints



- **Write to the Federal Deposit Insurance Corporation (FDIC):**
 - State the problem
 - Include pertinent information
- **Send copies of documents that may help explain your problem**
 - Keep the original documents
- **Sign and date your letter**



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Additional Consumer Protection Laws

- **Servicemembers Civil Relief Act**
- **Real Estate Settlement Procedures Act**
- **Fair Housing Act**
- **Consumer Leasing Act**



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Predatory Lending Practices

- **Includes the use of:**
 - Certain marketing tactics
 - Abusive collection practices
 - Loan terms that deceive and exploit borrowers
- **Occurs in mortgage, home equity, credit card, auto lending, and payday lending markets**



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Subprime Lending

- **Involves extending credit to borrowers with a poor credit history:**
 - Most predatory loans are made to subprime borrowers, but not all subprime loans are predatory.
 - Interest rates and loan fees may be higher to offset the higher costs associated with lending to these borrowers.



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Predatory Payday Loans

- **Small cash advances minus the lender's fees**
 - Example: You agree to pay \$230
 - You receive \$200
 - Lender fees: \$30 (which equals 390% APR)



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Predatory Mortgage Lending Practices


- **Excessive fees**
- **Abusive repayment penalties**
- **Kickback to brokers (yield spread premium)**
- **Loan flipping**
- **Unnecessary products**
- **Asset-based lending**
- **Steering and targeting**



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Activity 3: Predatory Lending Practices

Complete Activity 3 in the Participant Guide.

- 
1. Read the scenario carefully.
 2. Answer the questions.
 3. Be prepared to explain your answers.



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Summary

- **What final questions do you have?**
- **What have you learned?**
- **How would you evaluate the training?**



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Conclusion

- **You learned about:**
 - Secured and unsecured loans
 - The cost of loans
 - Car loans and auto financing
 - Home equity loans
 - The Four Cs of loan decisions
 - Predatory lending practices



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