

Instructor Guide

Money Smart

Borrowing Basics



NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

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Instructor Information

Before the Session

To properly present the *Borrowing Basics* course, you should:

- Review all materials in the Instructor Guide and the Participant Take-Home Guide.
- Make copies of the Participant Take-Home Guide.
- Copy the slides (overheads) onto transparencies.
- When appropriate, prepare the chart paper examples.
- Make copy slides and cut plan money.
- When appropriate, prepare chart paper examples.
- Identify potential trouble spots in the exercises, as well as hints for assisting participants.
- Select and prepare anecdotes from real-world experiences that can be used to illustrate special scenarios, generate discussion, and maintain participant interest.

Material and Equipment

- Transparency projector
- *Borrowing Basics* transparencies
- Chart paper and easel
- Markers for chart paper and transparencies
- Name tents
- Pencils or pens for each participant
- Participant Take-Home Guides

Instructor Steps

Step-by-step directions are provided for the instructor. The text below is an example of an instructor step:

Instructor Cue	Instructions
Slide 2	<ul style="list-style-type: none">➤ Show Slide 2 (You Will Know).➤ Review course objectives.

Generally, these steps enable the instructor to ask questions, provide explanations, show slides, hand out materials, and introduce exercises.

Icons

Icons alert the instructor to discussion questions, exercises, transitions, and summaries. They appear in the left margin:



Ask questions or conduct a discussion.



Distribute a handout.



Give exercise information or record the results of a brainstorm.



Refer to activity material.



Indicate the beginning of an individual activity or exercise.



Indicate the beginning of a group activity or exercise.



Summarize an activity or check for understanding.



Summarize the course.



Transition to the next topic.

Borrowing Basics

Time



60 Minutes


Objectives

By the end of this course, participants will be able to decide when and how to use credit. To achieve this objective, the participants will be able to:



- Explain the value of credit
- Describe different types of loans

Course Instruction



Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Before the start of the class, hand out the following materials to each participant: <ul style="list-style-type: none"> • Participant Take-Home Guide • Name tent • Pencil or pen
Slide 1	<ul style="list-style-type: none"> ➤ Show Slide 1 (Borrowing Basics). ➤ “Welcome to <i>Borrowing Basics!</i>” Introduce yourself (e.g., your name and experience as an instructor or credit union employee).
	<ul style="list-style-type: none"> ➤ Ask: “How many of you have ever borrowed money? This doesn’t include borrowing from family or friends, but from a credit union, bank, or thrift.” ➤ Have participants respond by a show of hands. ➤ Ask: “What was the experience like?” ➤ Guide a brief discussion, allowing participants to share their experiences borrowing money from a financial institution.




Instructor Cue	Instructions
<p style="text-align: center;">Slide 2</p>	<ul style="list-style-type: none"> ➤ Show Slide 2 (You Will Know). ➤ Explain: “By the end of the course, you will be able to decide when and how to use credit. You will know: <ul style="list-style-type: none"> • The value of credit, and • Different types of loans.” ➤ Explain: “Understanding how credit works can save you money.”
	<ul style="list-style-type: none"> ➤ Show the Participant Take-Home Guide to the class. ➤ Explain: “Each of you has a copy of the <i>Borrowing Basics</i> Take-Home Guide which contains highlights of the course. We will be using this throughout the course. Take it home and use it as a reference.”


What Do You Know

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Take out the last page of your Take-Home Guide, the What Do You Know form.”
	<ul style="list-style-type: none"> ➤ Explain: The “What Do You Know form lets you measure how much you have learned from the course.”
	<ul style="list-style-type: none"> ➤ Read the instructions and walk the participants through each statement. ➤ Explain: “Complete the Before-the-Course column only. You will complete the other column at the end of the course.”
	<ul style="list-style-type: none"> ➤ Provide enough time for participants to complete the What Do You Know form. (1-2 minutes) ➤ Have participants put these forms aside until the end of the course when they will complete the After-the-Course column.
	<ul style="list-style-type: none"> ➤ Transition: “Now, let’s take a look at how credit works.”



Overview of Credit


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Guide a group discussion by asking the following questions. This will help you assess participants' current understanding of credit.
	<ul style="list-style-type: none"> ➤ Ask: “What is credit?”
	<ul style="list-style-type: none"> ➤ Write participants' responses on chart paper.
	<ul style="list-style-type: none"> ➤ Explain: “Credit is money you borrow to pay for things. Credit is usually referred to as a loan. You make a promise to pay back the money you borrowed plus some extra. The extra amount is part of the cost of borrowing the money. ➤ If you use credit carefully, it can be useful to you. If you are not careful in the way you use credit, it can cause problems. ➤ The loans discussed in this course are used for personal, family, or household purposes. Loans for businesses or commercial purposes will not be discussed in this course.”
	<ul style="list-style-type: none"> ➤ Explain: “Good credit means you make your loan payments on time and repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future. ➤ If you have problems on your credit record, it will be harder to borrow money in the future.”




Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Ask: “Why do you think credit is important?”
	<ul style="list-style-type: none"> ➤ Write participants’ responses on chart paper.
Slide 3	<ul style="list-style-type: none"> ➤ Show Slide 3 (Importance of Credit) ➤ Explain: <ul style="list-style-type: none"> • “Credit can be useful in times of emergencies. • Credit is sometimes more convenient than cash. • Credit allows you to make large purchases such as a car or a house.”
	<ul style="list-style-type: none"> ➤ Explain: “A loan can be secured by collateral.”
	<ul style="list-style-type: none"> ➤ Ask: “What is collateral?” ➤ Answer: Collateral is what you promise to give to the financial institution if you do not pay back the loan.
	<ul style="list-style-type: none"> ➤ Explain: “You can use the car or home you are purchasing with a loan as collateral. There are other items of value you can use as collateral.”
	<ul style="list-style-type: none"> ➤ Show Slide 4 (Collateral Items). ➤ Give examples of items that can be used as collateral: <ul style="list-style-type: none"> • Home • Automobile • Savings and investment accounts





Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Some items cannot be used as collateral. For example, financial institutions cannot take household goods that are necessary for everyday living as collateral. ➤ Household goods you already own cannot be used as collateral, but this rule does not apply to items you are purchasing on credit.” ➤ Give examples of items that cannot be used as collateral: <ul style="list-style-type: none"> • Furniture • Clothing • Family china
	<ul style="list-style-type: none"> ➤ Transition: “Now that we know what credit is, let’s talk about different types of loans.”

Type of Loans

Instructor Cue	Instructions
	<p>Explain: “A consumer installment loan is used to pay for personal expenses for you and your family”</p>
<p>Slide 5</p>	<ul style="list-style-type: none"> ➤ Show Slide 5 ➤ Give examples of consumer loans: <ul style="list-style-type: none"> • Auto Loans • Unsecured loans for short-term needs like buying a computer.
	<ul style="list-style-type: none"> ➤ Ask: “What are some other reasons for obtaining a consumer installment loan?”
	<ul style="list-style-type: none"> ➤ Write participants’ responses on chart paper.
<p>Slide 6</p>	<ul style="list-style-type: none"> ➤ Show Slide 6 (Credit Cards). ➤ Explain: “Credit cards give you an ongoing ability to borrow money for household, family or personal expenses. <p>Having a credit card does not mean you have additional income to spend on purchases. The money is a loan that you have to pay back. You need to be able to pay your monthly credit card bill.”</p>
<p>Slide 7</p>	<ul style="list-style-type: none"> ➤ Show Slide 7 (Home Loans) ➤ Explain: “There are three main types of home loans: <ul style="list-style-type: none"> • Home purchase loans • Home refinance loans, and • Home equity loans.”

Instructor Cue	Instructions
	<p>➤ Explain: “Home purchase loans are made for the purpose of buying a house. These loans are secured by the house you are buying.”</p>
	<p>➤ Explain: “Home refinancing is a process by which an existing home loan is paid off and replaced by a new loan. Reasons homeowners might want to refinance their home loan include:</p> <ul style="list-style-type: none"> • Getting a lower interest rate • Getting money for home repairs, or • Getting money for other personal expenses.”
	<p>➤ Explain: “Home equity loans are secured by the residence of the borrower. The amount of equity is the value of the home minus the debt. Home equity loans generally can be used for any purpose.”</p>
	<p>➤ Write the following on chart paper:</p> $ \begin{array}{r} \text{Value of Home} \\ - \text{Debt} \\ \hline = \text{Equity} \end{array} $ <p>➤ Use the following dollar values as an example:</p> $ \begin{array}{r} \text{(value of home) } \$100,000 \\ - \text{(debt) } \$70,000 \\ \hline = \text{(equity) } \$30,000 \end{array} $

Instructor Cue	Instructions
	Emphasize that if any home loan is not repaid you might lose your house.
	<ul style="list-style-type: none"> ➤ Write the following types of loans on chart paper. <ul style="list-style-type: none"> • Consumer installment loan • Credit card • Home loan (including refinance or equity)
	<ul style="list-style-type: none"> ➤ Explain: “I am going to describe a situation in which you might want to borrow money. For each situation, choose a loan option from the list that would be appropriate.”
	<ul style="list-style-type: none"> ➤ Ask: “Which type of loan would be appropriate for financing college tuition?” ➤ Answer: Consumer installment loan or home loan. Homeowners often use home equity or home refinance loans to finance college tuition. Non-homeowners can get a consumer installment loan. ➤ Some people use credit cards to pay for tuition, but that usually costs more than installment or home loans.
	<ul style="list-style-type: none"> ➤ Ask: “Which type of loan would be appropriate for making small purchases in a department store, for example, a \$50 household appliance?” ➤ Answer: Most people would use a credit card.


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Ask: “Which type of loan would be appropriate for making home improvements?” ➤ Answer: Home loan or consumer loan. Homeowners often use home equity or refinance their mortgage for home improvements, but some may use a basic consumer loan.
	<ul style="list-style-type: none"> ➤ Ask: “Which type of loan would be appropriate for consolidating debts?” ➤ Answer: Consumer loan or home loan. Homeowners often use home equity or home refinance loans to consolidate debts. Non-homeowners often use consumer loans. ➤ Borrowers should be careful of consolidation loans and make sure they are getting a better deal than their old loans. Some dishonest lenders trick people into signing up to consolidate bills with a loan that has a higher interest rate or expensive fees. This can leave the borrower paying more in interest and loan origination fees.
	<ul style="list-style-type: none"> ➤ Ask: “Which type of loan would be appropriate for buying a refrigerator?” ➤ Answer: Consumer loan or a credit card.
	<ul style="list-style-type: none"> ➤ Transition: “As with any type of business transaction, it is important to remember credit is not free. Now let’s look at the cost of credit.”


Cost of Credit


Instructor Cue	Instructions
<p>?</p>	<ul style="list-style-type: none"> ➤ Ask: “What does credit cost?” ➤ Answer: When you get a loan, there are generally two costs you must pay: fees and interest. Because credit unions are owned by their members, credit union fees and interest are most often lower than fees at other financial institutions.
	<ul style="list-style-type: none"> ➤ Explain: “Fees are charged by financial institutions for activities such as reviewing your loan application and servicing your account.”
<p>Slide 8</p>	<ul style="list-style-type: none"> ➤ Show Slide 8 (Fees). ➤ Give examples of fees: ➤ Explain: “An example of an annual maintenance fee is a \$30 fee every year to keep your credit card.” ➤ Explain: “Examples of service charges include a fee to get a cash advance or a penalty fee for charging over your credit limit.” ➤ Explain: “An example of a late fee is a \$25 charge for not paying your bill on time.”
	<ul style="list-style-type: none"> ➤ Explain: “Interest is the amount of money the financial institution charges for letting you use its money. Interest is only part of the total cost of credit. ➤ Interest can be either variable or fixed: <ul style="list-style-type: none"> • Variable rate means the interest rate might change during the loan term, as written in the contract. • Fixed rate means the interest rate stays the same throughout the term of the loan.”


Instructor Cue	Instructions
Slide 9	<ul style="list-style-type: none"> ➤ Show Slide 9 (Cost of Credit). ➤ Explain: “Credit terms can be confusing. Lenders charge various rates and fees. The Truth in Lending law requires financial institutions to state charges in a clear and uniform manner so consumers can easily compare prices. Lenders are required to disclose: <ul style="list-style-type: none"> • Amount Financed – the amount of the loan provided to you. For this example, you are borrowing \$5,000. • Annual Percentage Rate, or APR – the cost of your loan expressed as a yearly percentage rate. When shopping for loans, you should compare APRs, not interest rates, since APRs reflect the interest plus other finance charges. For this example, the APR is 12%. • Finance Charge – the total dollar amount the loan will cost you. It includes items such as interest, service charges, and loan fees. For this example, the finance charge totals \$675.31. • Total of Payments – the amount you will have paid after you have made all payments as scheduled. For this example, the total of payments equals \$5,675.31. • For this example, we are assuming the loan is for two years. Remember, if the length of the loan is longer, the monthly payments will be lower. However, you will end up paying more interest in the end.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ State: “Now that you understand some of the costs associated with credit, tell me whether you would get a loan for the following items.” ➤ Ask participants the following list of questions. Have volunteers respond as to whether credit is appropriate for each one. ➤ Remember that the answers to these are not right or wrong. In the discussion, use the comments after each question to help participants to see possible consequences of credit decisions.
<p>?</p>	<ul style="list-style-type: none"> ➤ Ask: “Would you use credit to pay overdue bills?” ➤ It is usually not a good idea to use credit to pay overdue bills. If you are charged a fee for getting a loan, you owe the cost of the bills and the fee you were just charged. On top of that, you will have to pay interest. ➤ If you have problems paying bills, you may need to reduce spending or negotiate with creditors for smaller payments. ➤ Most areas have free credit counseling services that can help you manage your credit problems. Many credit unions provide this service to their members.
<p>?</p>	<ul style="list-style-type: none"> ➤ Ask: “Would you use credit to make a purchase even if you could pay cash?” ➤ You may want to use credit in such a situation to establish a record of responsible credit use.


Instructor Cue	Instructions
	<ul style="list-style-type: none"><li data-bbox="565 277 1367 394">➤ Ask: “Would you use credit if you really wanted something but could not afford the monthly payment?”<li data-bbox="565 436 1406 508">➤ If you cannot afford the monthly payment, you should not buy the item on credit.<li data-bbox="565 550 1315 655">➤ However, be careful of sales people who try to sell you products based on monthly payments only. Be sure to understand the total cost of the purchase.

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Getting credit is not cheap. However, getting a loan from a financial institution is usually less expensive than other alternatives. For example:”
	<ul style="list-style-type: none"> ➤ Explain: “Rent-to-own services allow you to use an item for a period of time by making monthly or weekly payments. If you want to purchase the item, the store will set up a plan for you to rent it until you pay enough to own it. ➤ The store is the legal owner of the item until you make the final payment. If a payment is missed, the store can take the item back. If this happens, you will not own the item and you will not get any money back. ➤ Rent-to-own agreements are technically not loans, so no ‘interest’ is charged. However, the difference between the cash price and your total payment is like the interest you pay on a loan. Generally, using rent-to-own services is more expensive than getting a consumer installment loan.”
	<ul style="list-style-type: none"> ➤ Explain: “You also need to be careful of payday loans. Payday loans are usually made to people who need money right away and plan to pay it back with their next paycheck. If you do not have the money to pay the loan within the agreed time period, the payday lender will renew the loan and charge you additional fees. This increases the total amount you owe.”

Instructor Cue	Instructions
	<p>➤ Give the following example of payday loan costs. Record the dollar figures on chart paper.</p> <ul style="list-style-type: none"> • Assume you go to a payday lender and borrow \$100. • The payday lender will usually make a 2-week loan and might charge a fee of \$15. • You will write a postdated personal check to the payday lender for \$115 (or write a \$100 postdated check and pay \$15 cash). • The payday lender holds the check for two weeks. When the money is due, you can repay the loan by letting the lender cash the check, or you can give the lender the full amount due in cash. • Most payday lenders allow you to “rollover” or renew your loan. The lender will charge an additional fee. In this case, you would write another postdated check, this time for \$130 (\$115 + \$15 additional fee). • If you roll the loan over four times, you would be paying \$60 to borrow the original \$100.

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “These payday lenders are not usually federally-insured financial institutions, and therefore are not closely monitored by the government. If you do wind up dealing with a payday lender, ask if they are a member of the Community Financial Services Association of America, or CFSA. CFSA has adopted some best practices its members must follow, which can help protect you.”
	<ul style="list-style-type: none"> ➤ Transition: “Now that we know more about loans, let’s look at how financial institutions decide to lend you money.”

When You Apply for Credit

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “When you apply for credit, the lender will review the Three Cs to decide whether you are a good credit risk and if you will be able to pay back the loan.” ➤ You can follow along on page 7 of your Take-Home Guide, <i>When You Apply For Credit.</i>”
Slide 10	<ul style="list-style-type: none"> ➤ Show Slide 10 (Three Cs). ➤ Explain: “Capacity refers to your present and future ability to meet your payments.” ➤ Explain: “Capital refers to your savings and other assets that can be used as collateral for loans.” ➤ Explain: “Character refers to how you have paid your bills or debts in the past.”
	<ul style="list-style-type: none"> ➤ State: “Turn to page 8 of your Take-Home Guide, <i>Checklist for Credit Decisions.</i>” ➤ Explain: “You will find some of the questions a lender will ask to review your capacity, capital, and character.” ➤ Review the questions and talk about how they relate to a person’s ability to obtain credit.

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “First, let’s discuss capacity.” ➤ Read: “How long have you been in your job?” ➤ Explain: “Generally, a lender would like to see that you have held the same job, or same type of job, for at least a year.”
	<ul style="list-style-type: none"> ➤ Read: “How much money do you make each month?” ➤ What are your monthly expenses?” ➤ Explain: “A financial institution will compare the amount you owe and your other monthly expenses to your monthly income. This is called a debt-to-income ratio. A debt-to-income ratio helps determine how much money you can afford to borrow.”
	<ul style="list-style-type: none"> ➤ Explain: “Next, let’s talk about capital.” ➤ Read: “How much money do you have in checking and savings accounts?” ➤ Do you own a house? ➤ Do you have investments or other assets (e.g., car)?” ➤ Explain: “Lenders want to determine the total value of your assets. Assets are things of financial value that you own. Lenders will also compare the difference between the value of your assets and the amount of debt you have. This is called net worth. A positive net worth demonstrates your ability to manage your money.”



Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Finally, let’s discuss character.” ➤ Read: “Have you had credit in the past?” ➤ Explain: “If you have a good credit history of repaying your other loans, you will have an easier time getting your loan request approved.”
	<ul style="list-style-type: none"> ➤ Read: “How many credit accounts do you have?” ➤ Explain: “If you never had a credit account, you may have difficulty getting approved for a loan. Having a good credit history shows a lender you can borrow money responsibly. Some lenders may let you prove this without a credit history. They might ask for proof you pay your rent and utilities on time.”
	<ul style="list-style-type: none"> ➤ Read: “Have you ever: <ul style="list-style-type: none"> • Been denied credit? • Filed for bankruptcy? • Had any outstanding judgments or property repossessed or foreclosed upon? • Made late payments?” ➤ Explain: “If you answer yes to any of these questions, you will have more difficulty getting approved for a loan. However, some lenders will ask you to explain what happened. Depending on your circumstances, a lender might be willing to approve your loan request.”

Instructor Cue	Instructions
	<p>➤ Explain: “Financial institutions use credit reports to obtain character information. You can request a copy of your credit report by contacting any of three credit reporting agencies:</p> <ul style="list-style-type: none"> • Equifax - 800-685-1111; • Experian (formerly TRW) - 888 397 3742; or • TransUnion - 800-888-4213. <p>➤ Addresses for these credit reporting agencies are in your Take Home Guide.”</p>
	<p>➤ Instructor Note: Be prepared to provide the following definitions if necessary.</p> <ul style="list-style-type: none"> • Attachment—A lien against personal property. • Bankruptcy—A legal declaration of insolvency. Bankruptcy will not fix credit record problems, and will be part of your credit history for up to 10 years. • Foreclosure—A legal proceeding initiated by a creditor to take possession of collateral that secured a defaulted loan. • Garnishment—A process granted by a court order by which a lender obtains, directly from a third party such as an employer, part of an employee’s salary to satisfy an unpaid debt. Part of the employee’s salary will be taken out in each pay period until the debt is fully paid. • Judgment—A court order placing a lien on a debtor’s property as security for debt owed to a creditor. • Lien—A creditor’s claim against property to secure repayment of a debt. • Repossession—Seizure of collateral that secured a loan in default.



Instructor Cue	Instructions
	<p>➤ State: “Turn to page 9 in your Take-Home Guide, <i>Tips Before Applying for Credit</i>. You can follow along as I read through the tips:</p> <ul style="list-style-type: none"> • Do I need this? • Do I need it now? • Can I wait until I have cash to pay for it? • Can I get credit? • How much more will I pay if I buy on credit? • Can I afford the monthly payments • What is the total cost of credit? • Are there any fees? • What is the annual percentage rate?”

Instructor Cue	Instructions
	<p>➤ State: “Turn to page 9 in your Take-Home Guide, Tips to Manage Your Credit. You can follow along as I read through the tips:</p> <ul style="list-style-type: none"> • If possible, pay off your entire bill each month. If you can’t, try to pay more than the minimum balance due. This will reduce finance charges and total interest paid. • Pay on time to avoid late fees and to protect your credit. If you cannot pay on time, call your creditor immediately to explain the situation. They may waive late fees or be willing to make different payment arrangements. • Always check your monthly statement to verify transactions. Call your creditor right away if you suspect errors in your statement. • Carefully consider offers creditors may send you to “reduce” or “skip” payments. You will still be charged finance charges during this period. • Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit: <p>Remember, if you purchase a \$500 stereo with a credit card with a 20% APR, it will cost \$1,084 and take 9 years to pay off if you only pay the \$10 minimum monthly payments.”</p>

Course Summary

Instructor Cue	Instructions
	<p>➤ Summarize the course: “Congratulations! You’ve completed the <i>Borrowing Basics</i> course. We’ve covered a lot of information today about credit including:</p> <ul style="list-style-type: none"> • What credit is • Why credit is important • Types of loans, and • The cost of credit. <p>➤ You should now be able to decide when and how to use credit.”</p>
	<p>➤ Transition: “To improve the course, we will need your feedback. The After-the-Course column on the What Do You Know form and Course Evaluation will identify changes that can make this course better.”</p>

End of Course Evaluation

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Please complete the After-the-Course column and the Course Evaluation. These forms are the last two pages of your Take-Home Guide.”
	<ul style="list-style-type: none"> ➤ Allow time for participants to complete both forms.
	<ul style="list-style-type: none"> ➤ Collect the What Do You Know and Course Evaluation forms.
	<ul style="list-style-type: none"> ➤ Conclusion: “Great job on completing the <i>Borrowing Basics</i> course! Thank you for participating.”