

Student Take-Home Guide

Money Smart

Borrowing Basics



NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

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Money Smart

The *Money Smart* curriculum is brought to you by the National Association of Federal Credit Unions (NAFCU). *Money Smart* is adapted from a curriculum developed by the Federal Deposit Insurance Corporation (FDIC). The *Money Smart* Program includes the following courses:

- **Credit Unions: Here To Serve You**
an introduction to bank services

- **Borrowing Basics**
an introduction to credit

- **Pay Yourself First**
why you should save, save, save

Borrowing Basics

Welcome to Borrowing Basics! Sooner or later almost everyone needs to borrow money. Used wisely, credit can benefit you and your family. But first, there are some things you should know about the value of credit and its costs. This course will help you decide when and how to use credit.

What is Credit?

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.

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. A credit record that shows problems will make it harder for you to borrow money in the future.

Why is Credit Important?

- 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

Types of Loans

Consumer Installment Loans

A consumer installment loan is used to pay for personal expenses for you and your family. The following are examples of consumer loans.

- Auto loans are used for buying an automobile. The automobile you are purchasing is used as collateral for the loan. Collateral is what you promise to give to the credit union or other lender if you do not pay back the loan.
- Personal loans are unsecured loans used for short-term needs like buying a computer.

Credit Cards

Credit cards give you an ongoing ability to borrow money for household, family, or other personal expenses.

Home Loans

Home loans are secured by your home. There are three main types of home loans.

- Home purchase loans are made for the purpose of buying a house.
- Home refinancing is a process by which an existing home loan is paid off and replaced by a new loan.
- Home equity loans are secured by a residence of the borrower. The amount of equity is the value of the property minus the debt. Home equity loans generally can be used for any purpose.

Cost of Credit

When you get a loan, there are generally two costs you must pay: fees and interest.

Fees

A fee is the money charged by a financial institution to review your application for credit or to service your credit account. Examples of fees include:

- Maintenance fees
- Service Charges
- Late fees

Interest

Interest is the amount of money a financial institution charges you for letting you use its money. Interest is only part of the total cost of credit.

Interest can be either variable or fixed.

- Variable rate means the interest rate may change during any period of the loan term, as written in the contract.
- Fixed rate means the interest rate stays the same throughout the term of the loan.

When You Apply for Credit

When you apply for credit, the lender will review three main factors to decide whether you are a good credit risk and if you will be able to pay back the loan. The factors are often called the Three Cs.

Capacity

Capacity is your present and future ability to meet your payments.

Capital

Capital is your savings and other assets, which can be used as collateral for loans.

Character

Character means how you have paid your bills or debts in the past. Financial institutions use credit reports to obtain character information. You can request a copy of your credit report by contacting any of these credit reporting agencies:

Equifax, Inc.
PO Box 105873
Atlanta, GA 30348-5496
1-800-997-2493
www.equifax.com

Experian
PO Box 2002
Allen, TX 75013
1-888-397-3742
www.experian.com/consumer/index.html

TransUnion
PO Box 1000
Chester, PA 19022
1-800-888-4213
www.transunion.com

Checklist for Credit Decisions

Here are some questions you might be asked when applying for credit:

- How long have you been on your job?
- How much money do you make each month?
- What are your monthly expenses?
- How much money do you have in your checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., car)?
- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever been denied credit?
- Have you ever filed for bankruptcy?
- Have you had any outstanding judgments, or property repossessed or foreclosed upon?
- Have you ever made late payments?

Tips Before Applying for Credit

Ask yourself these questions before obtaining credit:

- 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?

Tips to Manage Your Credit

Once you get credit:

- 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.
- Remember, if you purchase a \$500 stereo with a credit card with a 15% APR, it will cost \$789.59 and take about 6 1/2 years to pay off if you only pay the \$10 minimum monthly payments.

For Further Information

The National Credit Union Administration (NCUA)
1775 Duke Street
Alexandria, VA 22314
703-518-6300
www.ncua.gov

Federal Deposit Insurance Corporation (FDIC)
Division of Compliance and Consumer Affairs
550 17th Street, NW
Washington, DC 20429
1-877-ASK-FDIC (1-877-275-3342)
www.fdic.gov

Course Evaluation – Borrowing Basics

Instructor: _____ Date: _____

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information/skill taught in the course is useful to me.	1	2	3	4
8. I am confident that I can use the information/skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

What was the least helpful part of this course?

Would you recommend this course to others?

Any comments/suggestions?

What Do You Know – Borrowing Basics

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about credit both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

I know:	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The value of credit.	1	2	3	4
2. Different types of loans.	1	2	3	4