Paying for College and Cars

FDIC Money Smart for Young Adults
Objectives

• Differentiate between secured and unsecured installment loans
• Identify the factors lenders use to make loan decisions
• Identify the questions to ask when purchasing a car
• Describe various types of college loan programs
MAN, I REALLY NEED TO DO WELL IN THIS CLASS TO KEEP UP MY GRADES... I NEED SOME SCHOLARSHIPS FOR COLLEGE!

YEAH... I'M GLAD I HAVE A SOCCER SCHOLARSHIP NEXT YEAR AND DON'T HAVE THAT PRESSURE RIGHT NOW.

YEAH, YOU'RE LUCKY! COLLEGE COSTS SO MUCH THESE DAYS. I GUESS I'LL NEED TO TAKE OUT A LOAN OR SOMETHING.
Installment Loans

• Money you borrow and repay:
  – In fixed monthly payments or installments
  – Over a set period of time, usually several years
Types of Installment Loans

• **Secured loan:** you offer collateral to the lender if the loan is not paid back as agreed
  – Collateral: an asset you own (e.g., your car) and give to the lender if you cannot repay the loan

• **Unsecured loan:** not secured by collateral
Complete Activity 1 in your Participant Guide

- Read the scenarios
- Identify the term being described
Cost Terms Related to Installment Loans

- Annual percentage rate (APR)
- Fixed-rate loan
- Variable-rate loan
- Finance charge
The Four Cs

- Capacity
- Collateral
- Character
- Capital
Activity 2: Loan Approval

Complete Activity 2 in your Participant Guide

Apply for a loan and see if the loan officer will approve you:

– What is the loan for?
– How much is the loan?
– How do you qualify?
Car Loans

• Where to get information?
  – Federal Trade Commission (FTC) publications

• You must:
  – Be at least 18
  – Have sufficient income to pay the loan
Car Loans versus Car Leases

- Ownership potential
- Wear and tear
- Monthly payments
- Mileage limitations
- Auto insurance
- Cost
Activity 3: Car Loans versus Car Leases

Complete Activity 3 in your Participant Guide

- Review difference between car loans and car leases
- Perform financing and leasing role plays
  - Car Salesman
  - Teen who wants to buy a car
  - Parent/Guardian
Financing a Car

“Getting a car loan” = “Financing a car”

- Car is collateral for the loan
- Lender holds the car title
- Amount you pay depends on the price of the car, the APR, and the length of loan
Total Cost of a Car

$225.00 Monthly payment
x 60 Number of payments
$13,500.00 Total of payments

$13,500.00 Total of payments
$2,500.00 Down payment
+$575.00 Tax and registration fee

$16,575.00 Total cost of the car
Where to Obtain Car Loans

- Banks/thrifts
- Credit unions
- Finance companies
- Car dealerships
Financing Through Banks and Credit Unions

- Start with financial institution where you already have an account
- Shop around
- Get pre-approval
  - Usually a free service
  - Not required to accept loan
Financing Through a Car Dealer

• To get lowest advertised rates you may have to:
  – Make a large down payment
  – Agree to a short loan term, usually 3 years or less
  – Have an excellent credit history
  – Pay a participation fee
Activity 4: Beware of Dealer-Lender Relationships

Complete Activity 4 in your Participant Guide

– Read the scenario carefully
– Write down some things that Sam could have done differently
– Be prepared to explain your answers
Activity 5: Beware of Car Title Loans

Complete Activity 5 in your Participant Guide

– Read the scenario
– Answer the question
Financial Aid Overview

• Federal Student Aid (FSA) programs include:
  – Pell grants
  – Student loans
  – College work-study program

• Complete the Free Application for Federal Student Aid (FAFSA℠)

• FAFSA is used to calculate your Expected Family Contribution (EFC)
Tips to Getting Aid

- Apply early
- Read the instructions
- File electronically
- Complete tax returns
- Complete any additional forms
Scholarships

• Money for college that you will not be expected to repay
• Designated for students who fit a particular profile
• Avoid scholarships scams by visiting the FTC’s website
Potential Grant Programs

• Federal Pell Grants
• Federal Supplemental Educational Opportunity Grant (FSEOG)
• Teacher Education Assistance for College and Higher Education Grant (TEACH Grant)
• Iraq and Afghanistan Service Grant
• Institutional grants
Federal Loan Programs

• Do your homework
• Ask questions
• Compare loans
• Complete the FAFSA
Federal Loan Programs

• Federal loans include:
  – Federal Perkins Loan
  – Direct Stafford Loans (Direct Loans<sup>SM</sup>)
    • Direct Subsidized Loans
    • Direct Unsubsidized Loans
    • Direct PLUS Loans
    • Direct Consolidation Loans
Repaying Your Federal Loan

• After you graduate, leave school, or drop below half-time enrollment you have a “grace period” before you must repay your loan:
  – Federal Perkins Loan: 9 months
  – Federal Direct Stafford Loan: 6 months
  – Direct PLUS Loan: no grace period
Managing Your Student Loan Payments

• Choose a repayment plan
• Research the pros and cons before applying for a student loan consolidation
• Visit the United States (U.S.) Department of Education’s National Student Loan Data System (NSLDS\textsuperscript{SM}) at www.nslds.ed.gov
Nonfederal Loans

• A private student loan is issued by a lender (e.g., a bank or credit union).
  – They often have higher interest rates and loan fees.
  – They usually require a credit check.
  – They do not provide the benefits of federal student loans.
Complete Activity 6 in your Participant Guide

- Read each scenario
- Determine whether each student may be eligible for a:
  - Scholarship
  - Grant, and/or
  - Federal student loan
Federal Work-Study Program

• Provides part-time jobs for undergraduate and graduate students who need financial assistance

• Jobs: usually with your school; may be with private nonprofit organization or a public agency
College Costs

- Tuition
- Books
- Fees
- Housing

- Use the “Cost of College Calculator”
I was talking with my parents last night and they say that college costs a lot more than just tuition.

Yeah, you gotta think about food, housing, going out with friends, books...

My scholarship doesn’t pay for all that! I might need to take out loans even though I’m on an athletic scholarship!
Module Summary

Congratulations! You learned about:

• Secured and unsecured loans
• The Four Cs of loan decisions
• Car loans and auto financing
• Some of the ways to finance a college education