



MONEY...

WHAT YOUNG ADULTS NEED TO KNOW



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Additional support for printing and complimentary distribution was provided by the National Council of Economic Education through funding from the United States Department of Education Office of Innovation and improvement.

Dear Reader,

There is a popular phrase that “knowledge is power.” We’ve brought together information that will help you gain that power — power to manage your credit cards, buy a car, protect yourself from identity thieves, avoid over-priced lenders and credit practices, and make your money work for you.

Visit the Web site for this insert at <http://www.ext.vt.edu/niemoney>. There you will find even more information, activities, resources and answers to puzzles and quizzes.

Use this publication to arm yourself with information to navigate today’s increasingly complex economy. Make compound interest work for you, by saving and investing, rather than against you by borrowing more than you can afford to repay. Today is the first day of the rest of your financial life. Make the most of it.

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Wheeling and Dealing: Buying Your First Car

One of the most expensive purchases people make (next to buying a home) is a car. According to the National Automobile Dealers Association (<http://www.nada.org>), the average price of a new car in 2006 was \$28,400 and the average price of a used car was \$13,900.

Decision Making: Needs versus Wants

- ◆ Consider what you need versus what you want. Think about possible features and decide whether they are something you really need or something extra that you would like to have. Extra features can greatly increase the price of your car and may not be worth the added expense. And maintenance costs may increase if your car has lots of automatic features, such as power windows, which may need repairs.



Safety Features

Safety features are important considerations when you’re buying a car. Ask yourself the following questions:

- ◆ What are the safety ratings for the car?

- ◆ Will the car have airbags? Where are the airbags located?
- ◆ Will the car have ABS (anti-lock braking system) brakes?
- ◆ What are the crash statistics on this particular car?
- ◆ Are there safety problems with this car?

Comparison Shopping for a Car

Do some homework before you decide which car to buy and where to buy it. Before you visit a dealership:

- ◆ Check publications at a library, bookstore, or on the Internet that discuss new car features and prices. These may provide information on the dealer's costs for specific models and options. For more information see <http://www.ext.vt.edu/niemoney>.
- ◆ Consider using a worksheet to help you decide what type of car you need and costs to consider. Visit the Federal Trade Commission's Web site for a sample worksheet, as part of their publication, "Buying a New Car": <http://www.ftc.gov/bcp/online/pubs/autos/newcar.htm>

How Much Car Can You Afford?

Before financing or leasing a car, make sure you have enough income to cover your current monthly living expenses. Finance purchases only when you can afford to take on a new monthly payment. The Federal Trade Commission's *Car*



Financing Worksheet, <http://www.ftc.gov/bcp/online/pubs/autos/vehfine.htm>, can help determine a payment that's affordable.

The additional debt load should not cut into the amount you've committed to save for emergencies and financial goals. Saving money for a down payment or trading in a car can reduce the amount you need to finance. In some cases, your trade-in vehicle may cover the down payment on your car.

Search the newspaper for the car of your dreams. Find an advertisement for this type of car if purchased new. Then find a classified ad or advertisement for this or a comparable car if purchased used. Calculate the difference in the cost of this car new versus used.

- ◆ The Young Adult Consumer Education Trust's Consumer Jungle, http://www.consumerjungle.org/student/cardari_downloads.htm has a worksheet, "Getting Wheels: A Personalized Plan" available to help you prepare to comparison shop for a car.
- ◆ Compare current finance rates being offered by contacting various banks, credit unions, or other lenders. Compare bank quotes and dealer quotes; there may be restrictions on the most attractive rates or terms from any credit source.
- ◆ Plan to bargain on the price. Dealers may be willing to negotiate on their profit margin. Usually, this is the difference between the manufacturer's suggested retail price (MSRP) and the invoice price. Whether you pay cash or finance your car, negotiating the price can save you money.
- ◆ Walk away if you feel uncomfortable with the situation. Do not be pressured into making a deal on the spot.

Remember to include the following costs when calculating your monthly car expenses:

- Gasoline for your car
- Maintenance costs (tires, oil changes, washing, etc.)
- Taxes (depending on where you live)
- Car insurance (which can cost as much, if not more than, monthly loan payments)
- Registration and license fees

All together, it can cost hundreds of dollars to operate a car on an annual basis.

Financing a Car

Many people need financing to buy a car. There are two ways to obtain a car. You can buy it or you can lease it. Buying a car will be discussed in this section and leasing will be discussed later.

- ◆ One way to finance buying a car is **direct lending**, where you get a loan directly from a finance company, bank, or credit union. As a buyer, you agree to pay back the amount borrowed, plus interest and other finance charges, over a period of time. Once you and a car dealership enter into a contract and you agree to a car price, you use the loan from the direct lender to pay the dealership for the car.

Use the following chart as a guide

to comparison shop for your car. The "Feature" column lists examples of features you might want. Use the "Need" and "Want" columns to check whether this feature is something you really need or something you want. The "Additional Cost" column is used to record additional costs of these features. Decide whether these features are worth the additional costs.

Feature	Need	Want	Additional Cost
Four-wheel drive			
Radio and/or CD player			
Automatic or manual features (such as locks, windows, transmission)			
Vinyl, cloth, or leather interior			
Tires: whitewalls, snow tires			
Good gas mileage			
Air conditioning			
Sun roof			
Racing stripes/special rims or wheels			
Tinted windows			
Other			

Note: Buying pre-owned cars instead of new ones can save hundreds of thousands of dollars over a person's lifetime.

- ◆ The most common type of car financing is **dealership financing**. In this arrangement, you and a dealership enter into a contract where you agree to pay back the loan, plus interest and finance charges, over a period of time. The dealership may retain the contract, but usually sells it to an assignee (such as a bank, finance company or credit union), which services the account and collects the payments.
- ◆ For more information on financing a car, visit the Web site <http://www.ext.vt.edu/niemoney>.

Once you decide which dealer offers the car and financing you want, read the invoice and the contract carefully. Check to see that all the terms of the contract reflect the agreement you made with the dealer. If they don't, get a written explanation before you sign. Once you sign the deal, it is final and cannot be changed. Careful shopping will help you choose the car options and financing that are best for you.

Should You Consider Leasing a Car?

The other way to obtain a car is to lease one for a period of time, usually three to five years. Things you should know about leasing a car:

- ◆ You do not own the car. At the end of a lease, you must return the car unless the lease lets you buy it and you agree to the purchase costs and terms.
- ◆ Monthly payments on a lease are usually lower than monthly payments to buy the same car because you are paying for the car's expected depreciation during the lease term, plus a "rent charge," interest, taxes, and fees.
- ◆ Consider beginning, middle, and end of lease costs. Compare various lease offers and terms, including mileage limits, and also consider how long you may want to keep the car.
- ◆ You need to keep the car in good condition to avoid repair charges at the end of the lease.
- ◆ If you drive more than 12,000 miles per year, you should buy a car rather than lease one, due to the mileage limits.
- ◆ You never stop making payments if you constantly switch from one lease to another.



For specific information on leasing cars, visit the Web site <http://www.ext.vt.edu/niemoney>, which has links to other Web sites on this topic.

Can You Buy a Car on Your Own?

You may need someone to sign the finance contract with you. A co-signer assumes equal responsibility for the loan, and the account history will be reflected on the co-signer's credit history as well as yours. You may need a co-signer if:

- ◆ You are under the age of 18
- ◆ You are currently not employed
- ◆ You do not have a credit history
- ◆ Your credit history is not good

Over 50% of co-signers end up paying some – or all – of a loan contract. So, a co-signer needs to be sure he or she can make the payments if necessary.

Insurance

Regulations on car insurance vary from state to state. Required liability limits are often much lower than the amounts recommended by experts. The major sections of a car insurance policy include:

- ◆ **Liability:** covers legal obligations to others involved in a car crash that you cause. It covers injury to others as well as damage to other people's property
- ◆ **Collision Coverage:** pays for repairs to return your car to its pre-crash condition
- ◆ **Comprehensive Coverage:** pays for repairs needed to your car that are not related to a crash, such as storm damage, theft or fire
- ◆ **Gap Insurance:** covers the difference between the balance owed on a car loan and the amount received if a car is totaled
- ◆ **Underinsured Motorist:** covers you if the other driver is at fault in an accident and does not have enough insurance
- ◆ **Uninsured Motorist:** covers you if the other driver is at fault and does not have any insurance
- ◆ **Gap Insurance:** covers the difference between the balance owed on a car loan and the amount received if a car is totaled.

New Jersey drivers have some of the highest premiums in the country. Talk to an insurance agent to decide which type of insurance coverage best suits your needs. Don't try to figure it out on your own. Factors that affect the price of insurance premiums include:

- Age
- Gender
- Make/model/year of car
- Car safety features
- Occupation
- Mileage driven per year
- Driving record (whether you have tickets and/or accident reports)
- Driving experience
- Where you live



Web sites such as <http://www.edmunds.com> have calculators to help you determine how much insurance might cost. Many insurance companies have free quotes available through the Internet.

Purchasing a Car – Learning Extensions

1. To help you decide which type of car best suits your safety needs, visit the National Highway Traffic Safety Administration's Web site, <http://www.nhtsa.gov/NCAP>, and compare crash tests for at least three types of cars that interest you. How could these results affect the purchase price of these cars? The insurance rates on these cars?
2. Using the car you chose in Activity 1:
 - a) Find 5 advertisements for this car in the newspaper, both new and used.
 - b) Rate the advertisements based on the important features to look for when buying a car.
 - c) Which one would you choose and why?
3. Visit the Young Adult Consumer Education Trust's *Consumer Jungle* site (<http://www.consumerjungle.org>) and click on the link, "Parent Camp," which contains lots of activities to complete at home with your family.
4. Using the car dealership advertisements in the newspaper, rank at least five dealerships from lowest loan rates to highest loan rates. How do loan rates advertised by dealerships in the newspaper compare to those loan rates advertised by finance companies, banks, or credit unions? Why the large range in rates? What other services offered would help you make a decision regarding financing?

What Is the Time Value of Money?

Of course you know by now that money really doesn't grow on trees. But what you may not know is that, in addition to earning a paycheck, you can make your money work for you and grow through savings and investments.

Time value of money (TVM) is the concept used to compare and predict the value of something you own or the cost of borrowing money now or in the future. Over time, your money works **for** you, in the case of saving, or **against** you, when you owe money to creditors.

- ◆ If you put your money into a savings account, you can **earn interest** on your savings, and, eventually, interest on interest.
- ◆ When you **pay interest** on credit cards or loans, you are promising to pay money in the future and you will have less money to use.

Terms Related to the Time Value of Money

Do you know the terms that are used to discuss the time value of money?

Term	Definition
Annual Percentage Rate (APR)	The yearly interest rate paid on a loan that takes compounding into account.
Annual Percentage Yield (APY), also known as effective yield or rate of return	Annual rate of interest you receive on an account when compounding is taken into account. When comparing interest rates, this is the figure you should compare.
Compound Interest	Interest earned or paid on the principal and interest from previous periods.
Compounding	How often interest is added to your account. Interest can be compounded daily, monthly, quarterly, and yearly. The more often this happens, the more interest you earn.
Inflation	When the prices of goods and services increase due to financial conditions around the country.
Interest Rate	Price of using money for a certain period of time. You receive it if you save and you pay it if you borrow money.
Simple Interest	Interest earned only on the principal amount and not on interest.

Consider Saving Now

Start saving now by setting aside an amount each time you receive money. This way, you will be saving money on a regular basis. Before opening an account, know the rules on withdrawals, minimum balance requirements, and fees. Once you are earning a regular paycheck, you might set up automatic transfers from your checking account to a savings account or to a mutual fund.

When you receive a raise or bonus, plan to save more money from each paycheck. **Think about the following reasons to start saving now:**

- ◆ To have enough money to cover **unexpected expenses** in the future
- ◆ To **stay out of debt**
- ◆ To **reach your goals** so you won't have to use credit or so you can reduce the amount you need to borrow to pay for:
 - a car
 - furniture
 - an entertainment system
 - college
 - a vacation
 - a home

Setting Goals for Saving

Some of your goals require that you have money to pay for them. Planning ahead can help you determine how much you need to save weekly, monthly, or annually to meet your goals. The longer you have to reach your goal, the more compounding will help you. Below are some examples:

- ◆ **Short-term:** within the next year
 - school trips, birthday gifts, vacation, video games, CDs
- ◆ **Mid-term:** more than one year but less than five years
 - car, household appliances, home repairs, computer
- ◆ **Long-term:** five years or longer
 - purchase a home, attend college, plan for children

How Fast Does Your Money Grow?

- ◆ Would you like your savings to double? If you invest \$1,000 today, how many years will it take to double to \$2,000?
- ◆ The **Rule of 72** is a quick way to calculate:
 - how long it takes to double your money if you earn a given rate of interest or
 - what rate of interest you need to earn if you have a certain number of years to double your money.
- ◆ Here is how it works: Divide the interest rate your savings will earn, or the number of years you have to save, into the number 72.
- ◆ **How long will it take?** If interest is compounded at a rate of 7% per year, your money will double in 10.3 years (72/7); if the rate is 6%, it will take 12 years (72/6). If college tuition costs are rising 8% per year, the cost of a college education would double in just over nine years (72/8).
- ◆ **What rate do you need to earn?** If you need \$4,000 for a car in 3 years and you have \$2,000 to invest now, you need to find an investment that will earn 24% (72/3), which is not a realistic goal in today's market. If you have eight years until you need the car, the investment would need to earn 9% (72/8), which is more realistic but will mean accepting some risk in the stock market. You could lower the interest rate you need to earn by saving more money each month.

Note: Historically, the average return on stocks is 9.9% (1926 to 2010), compared with 5.5% for long-term government bonds and 3.6% for Treasury bills.



Using Financial Calculators Available on the World Wide Web

Many financial calculators are available on the Internet. **Financial calculators are helpful in planning for short- and long-term financial goals.** *USA Today's* financial calculators are available at <http://www.usatoday.com/money/perfi/calculators/calculator.htm>. Financial calculators can help you figure out how much interest you pay on credit card balances and loans and how much interest you might earn on savings accounts and other types of investments. They can also help you plan for college expenses.

- ◆ Using the financial calculator on *USA Today's* Web site, compute how long it will take your parents to save enough money for you to attend college for four years, assuming your parents will pay \$8,000 per year. First, enter the following information on the Web site for the “savings” category and the “cost of college education” question.

Tuition and expenses in today's dollars	\$8,000/year
Years of college	4
Years until college	4
College savings to date	0
Monthly amount you can save	\$100
Estimated rate of return on investments	4.0%
Estimated inflation rate	3%
Your federal tax rate	28%
Your state tax rate	8%

After you've entered the information, click on “results.”

- ◆ They would be paying a total of \$37,754 for your college tuition over four years allowing for inflation.
- ◆ If they save only \$100 per month they will have only \$5,041.
- ◆ To save the \$37,754 in four years, your parents will need to increase their savings from \$100 to \$749 or deposit \$29,660 today.
Of course, if they have longer than four years it would be easier to save the amount needed.
- ◆ If they use a special education account, such as a 529 college savings plan, the savings amount would be less since they wouldn't have to pay taxes on the interest earned.



Calculating Interest on a Savings Account with Compound Interest

Using the financial calculator available from the Bankrate.com Web site, http://www.bankrate.com/gooword/calc/cdc/CertDeposit.asp?nav=sav&page=calc_home, calculate the amount of interest on a certificate of deposit (CD) from a bank with different kinds of compounding.

Initial deposit	\$1,000
Months	120
Interest rate	4%
Compounding	Monthly

Click on “calculate.” If you click on “View Report” it will show you a report of how the compound interest is calculated. Then change the compounding to quarterly and recalculate. Repeat for semi-annually and annually. You should find the following information:

Type of Compound Interest	Annual Percentage Yield	Total Return
Monthly	4.074%	\$1,490.83
Quarterly	4.060%	\$1,488.96
Semi-annually	4.040%	\$1,485.95
Annually	4.000%	\$1,480.24

You will earn more interest with monthly compounding than with yearly compounding. Ten dollars does not seem like much, but check what it would be if you had \$100,000 instead of \$1,000.

How the Time Value of Money Can Work AGAINST You

Any time you pay interest on money you have borrowed through loans or from using credit cards, you will have less money to spend on things you need or want now. Go to <http://www.usatoday.com/money/calculator.htm>. Under “credit cards,” click on “what will it take to pay off my balance?”

Amount now owed	\$500
Future monthly charges	\$50
Future monthly payments	\$20
Annual rate	18%
Annual fee	0
Desired months to pay off	24
Future rate change	none

Click “Press Here to Calculate.”

- ◆ If you pay \$20 a month you will never pay off the balance, because the finance charge, plus the new purchase, is more than your monthly payment.
- ◆ If you increase your payments to \$75 and limit your new charges to less than \$50 a month, you can pay off the balance in 24 months. This means that you will have \$55 (\$75-\$20) less to spend each month on current needs and wants for the next two years.

Bottom Line: Pay your credit card balance in full, if possible, or as much as you possibly can.

Use the back button on your browser to get back to the calculator.
Change it to:

Amount now owed	\$500
Future monthly charges	0
Future nonthly payments	\$20
Annual rate	18%
Annual fee	0
Desired months to pay off	24
Future rate change	none

The report tells you:

- ◆ If you stop putting new charges on your account, you need to pay \$25 a month to pay the balance in full in 24 months.
- ◆ This still means you will have \$55 a month less to spend (\$50 that you would have put on your credit card plus the \$5 increase in payment).
- ◆ If you continue to make \$20 payments, it will take 32 months to pay the balance in full, assuming no new purchases are made.

How Loans Are Influenced by the Time Value of Money

If you decide to take out a loan (personal, school, or new home) you will pay interest on your balance. Interest can really add up over time. Using *USA Today's* financial calculator, <http://www.usatoday.com/money/perfi/calculators/calculator.htm>, for a "personal loan," calculate the payment of the following example (click on "How much will my payments be?"):

Amount borrowed	\$10,000
Interest rate	8%
Months until repaid	30
Your state and federal tax rate	23%
Future rate change	none

Click results.

- ◆ Your monthly payments will be \$369 for 30 months.
- ◆ You will pay \$1,066 in interest.
- ◆ This means the total amount you will repay is \$11,066.
- ◆ Holding the interest rate constant, the longer it takes to pay off a loan, the more interest you will pay.
- ◆ If you choose a five-year repayment period (60 months), your monthly payment will be \$203, but you will pay \$2,166 interest. The total amount repaid would be \$12,166.



Using the retail and classified advertisements in the newspaper, find at least three things that you would like to purchase. How will you buy each? How long will it take to save for each item? Will someone help you with financing? Is this something that you want or need?

Time Value of Money Learning Extensions

Jason invests \$3,000 a year for 10 years, beginning at age 21. Sarah waits 10 years, then invests \$3,000 a year for 35 years. They both earn 8% on their investment. Compare the total contributions and the total value of retirement for Jason and Sarah.

Jason

Age	Years	Contributions	Year-End Value
21	1	\$3,000	\$3,240
22	2	3,000	6,739
23	3	3,000	10,518
24	4	3,000	14,600
25	5	3,000	19,008
26	6	3,000	23,768
27	7	3,000	28,910
28	8	3,000	34,463
29	9	3,000	40,460
30	10	3,000	46,936
35	15	0	68,965
40	20	0	101,332
45	25	0	148,890
50	30	0	218,769
55	35	0	321,443
60	40	0	472,306
65	45	0	693,972

Jason's Value at Retirement _____

Less Total Contributions _____

Net Earnings _____

Sarah

Age	Years	Contributions	Year-End Value
21-30	10	0	0
31	11	\$3,000	\$3,240
32	12	3,000	6,739
33	13	3,000	10,518
34	14	3,000	14,600
35	15	3,000	19,008
36	16	3,000	23,768
37	17	3,000	28,910
38	18	3,000	34,463
39	19	3,000	40,460
40	20	3,000	46,936
45	25	15,000	87,973
50	30	15,000	148,269
55	35	15,000	236,863
60	40	15,000	367,038
65	45	15,000	558,306

Sarah's Value at Retirement _____

Less Total Contributions _____

Net Earnings _____

Credit is the use of money that you will repay some time in the future. In other words, you are borrowing someone else's money to pay for things today, with a promise to repay the lender (for example, a bank or credit union) later. There are two parts to a credit transaction: principal and interest.

- ◆ **Principal** is the amount of money that you actually borrow. An example is a \$3,000 loan to buy a car.
- ◆ **Interest** is the cost for using money. The higher the interest rate (for example, 18% versus 10%), the higher the cost of the credit. Interest rates are generally quoted as an *annual percentage rate* (APR) to indicate the cost per year to use credit.

Credit is a privilege. It is not a right. You must earn a lender's trust by borrowing only what you can afford to pay back and making payments on time.

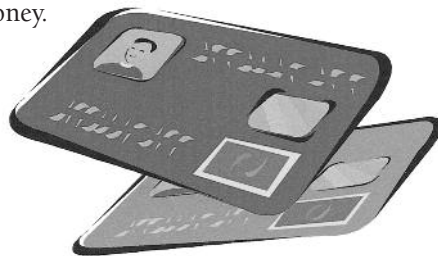
Types of Credit

There are several types of credit:

- ◆ **Installment Loans** require regular payments, usually monthly, until the principal is paid back. Examples include car loans, student loans, and *mortgages* (loans to buy a home). For example, if you borrow \$3,000 at 7% interest for two years, you would need to make 24 equal payments of \$134.32 including both principal and interest, to repay the \$3,000. If you need more money, you have to apply for a new loan.
- ◆ **Revolving Credit** includes store credit cards, bank cards such as Visa® and MasterCard®, and home equity lines of credit. You are expected to make at least the minimum payment (usually at least 3% of the outstanding balance) by the due date. Revolving credit gives you maximum flexibility because you can make the minimum payment, full payment, or any amount in between. You can reuse the money over and over again without re-applying as long as you stay within your credit limit.
- ◆ **Short-Term or Service Credit** is used for monthly utility bills, such as electric or telephone service. You set up an account, use a service, get billed by the company, and are expected to make full payment by the due date.

Credit can also be classified by whether or not the loan is guaranteed by collateral (cash or something you own that can be taken by a lender if you don't repay a loan). Often, if you borrow money for "big ticket" items such as a car, furniture, or major appliances, the lender will require that the item that is purchased be used as collateral.

- ◆ **Secured Credit** is guaranteed by some type of *collateral*, such as car loans, mortgages, and home equity loans. Secured credit cards are also available, and they require you to deposit the amount of credit limit (e.g., \$500) with the card issuer.
- ◆ **Unsecured Credit** is not guaranteed by collateral, such as bank cards (except those that are secured), store credit cards, and personal loans. If you don't repay the money, the lender must go to court to try to get the money.



Credit Advantages

- ◆ You can "buy now and pay later"
- ◆ You have money for emergencies (for example, car repair)
- ◆ Easy to use (for example, charging travel expenses or concert tickets to a credit card)
- ◆ You have rights in arguments with companies
- ◆ Usually, no interest is charged when credit card bills are paid in full by the due date
- ◆ Safety – not having to carry around large amounts of money (for example, at college or on trips)
- ◆ Makes costly items, such as a car or appliances, affordable
- ◆ Some credit cards offer "bonuses" such as cash back or frequent flyer miles
- ◆ Record of spending in one place for easy budget analysis

Credit Disadvantages

- ◆ Interest costs can be high, especially on long-term loans with high interest rates
- ◆ Making only minimum payments can stretch credit card bills out for many years
- ◆ Can lead to overspending and high debt balances
- ◆ Future buying power is lower because earnings are already owed to others
- ◆ Fewer dollars are available to save or invest

Credit Reports

A *credit report* is your credit "report card." It describes your past uses of credit, such as being on time in paying back debt, types of credit accounts opened, number of loans applied for, and amount of outstanding balances. Your *credit history*, as described in your credit report, is used by lenders when deciding if they will lend you money.

Companies called *credit bureaus* gather information about you and give it, for a fee, to lenders. The three major credit bureaus are:

- ◆ Equifax (www.equifax.com), 1-800-685-1111
- ◆ Experian (www.experian.com), 1-800-682-7654
- ◆ Trans Union Corporation (www.transunion.com), 1-800-916-8800

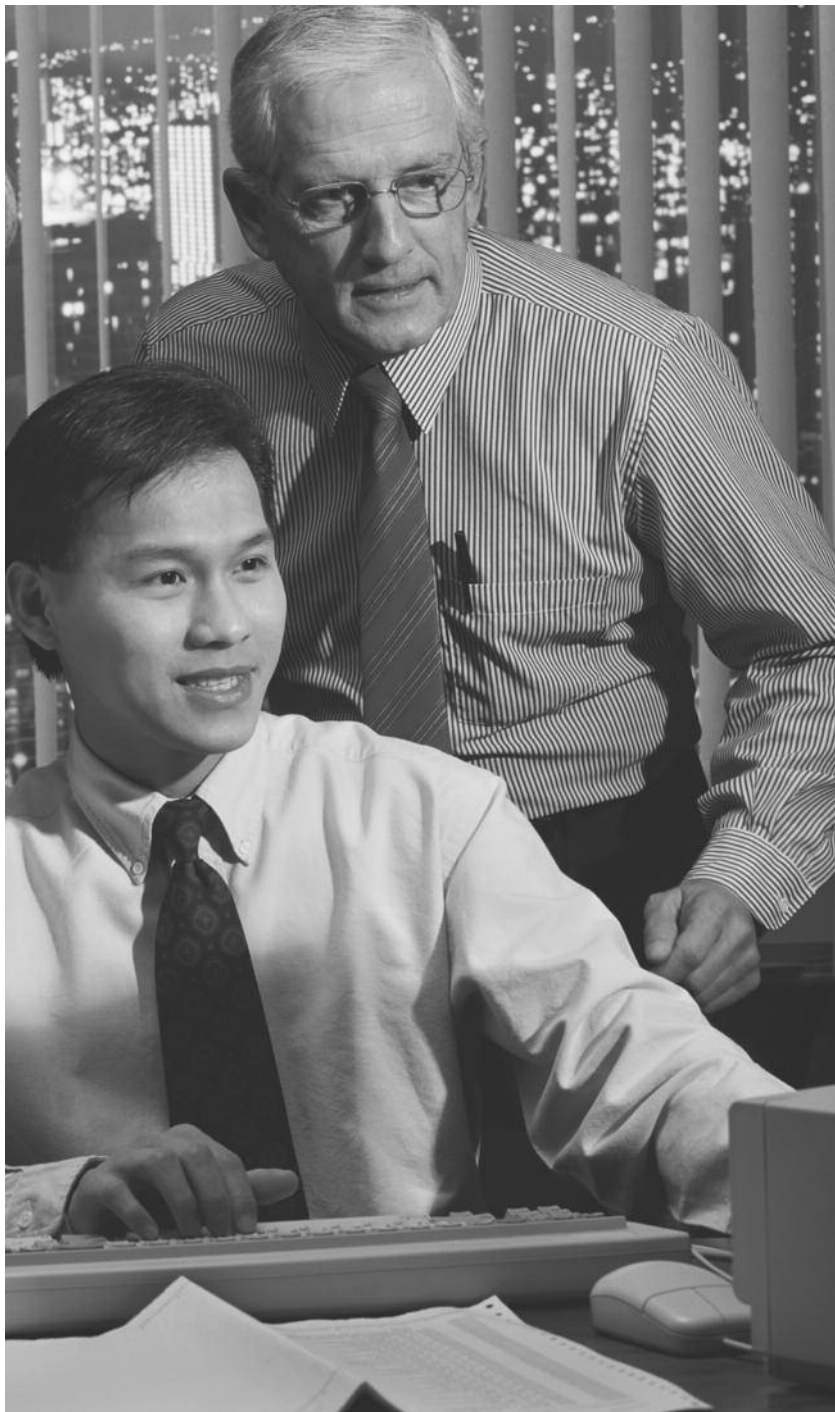
It is a good idea to order your credit report once a year to check for errors or evidence of identity theft (see page 13). Errors can be fixed at no cost by following the directions that come with the report. Credit bureaus usually have 30 days to look at your complaint and answer it.

Credit Scores

A *credit score* is a three-digit number from the 300s (low) to the 800s (high) that is used to predict future bill-paying behavior. Lenders use this tool to evaluate borrowers. Credit scores are figured using the following:

- ◆ Previous payment history
- ◆ Amount of money owed
- ◆ Number of recent credit inquiries
- ◆ Length of credit history

They are sometimes referred to as *FICO scores*. *FICO* is an acronym for *Fair, Isaac Company*, which developed a widely used credit scoring system.



The higher your credit score, the more likely you are to be approved for a loan.

Credit scores influence two things:

- ◆ Whether or not you get credit
- ◆ What interest rate you'll pay if you get a loan or credit card

Generally, if you have a high credit score (720+) you will get the lowest interest rates. Over time, the difference in cost between high- and low-interest loans can amount to hundreds, even thousands, of dollars. Therefore, it is very important to start and keep a good credit history and take steps, if needed, to improve your credit score.

Credit reports – and sometime credit scores – are used by landlords (to rent apartments), employers (especially for high-security jobs), and insurance companies (to set your insurance rates).

Calculating Interest

When you save money, **compound interest** (earning interest on interest) is on your side. When you borrow money and do not pay it back quickly, compounding works against you. Two key factors that determine the amount of interest paid on a loan or credit card:

- ◆ The length of time money is borrowed
- ◆ The APR (Annual Percentage Rate)

The longer you take to pay back a loan and the higher the interest rate, the more the credit will cost. Small amounts matter, like the example below of a \$2,000 installment loan. The table shows the total interest cost of each option. Note that there is a \$808 difference between a two-year loan at 5% and an eight-year loan at 10%. This difference may not seem like a lot, but imagine the differences for a \$20,000 loan (for a car) or a \$200,000 loan (for a house).

Cost to Borrow Money at Three Different Interest Rates and Loan Terms

\$2,000 Installment Loan

Time Period of Loan	5% Interest	8% Interest	10% Interest
2 years	\$2,106	\$2,171	\$2,215
5 years	\$2,265	\$2,434	\$2,550
8 years	\$2,431	\$2,715	\$2,914

Long-term loans, like a home mortgage, cost more. For example, a \$100,000, 30-year mortgage at 6% requires monthly payments of \$599.56 and would cost a total of \$215,842 (\$599.56 x 360 payments) to repay. The interest, \$115,842 (\$215,842 - \$100,000), is more than the amount borrowed. It's like you borrowed money for one house and paid for two.

Always look at information from at least three lenders before signing a credit application or loan contract. Shopping around for the best credit terms can save you hundreds, even thousands, of dollars over time. Five good ways to lower borrowing costs are to:

- ◆ Seek and use loans and credit cards with a low interest rate
- ◆ Call existing creditors and request a lower interest rate
- ◆ Refinance existing debts, such as a mortgage or car loan, when interest rates go down
- ◆ Try to pay credit card balances in full to avoid interest charges
- ◆ Borrow money for the shortest time possible (for example, a three-year loan instead of a five-year loan)

Effective February 2010, young adults under age 21 must have a co-signer or prove that they have available income to repay credit card debt. There are also limits on the amount that they can charge. For further information about credit card rules for young adults, see http://www.extension.org/pages/Credit_Card_Rules_for_Young_Adults.

Credit Card Balance Calculation Methods

Determine how a credit card company figures the balance on which interest is charged. Four common ways are listed below. Suppose you receive a statement on July 1 that says:

- Balance as of June 1 – \$300
 - Payment (on June 15) – \$200
 - Purchase (on June 15) – \$100
 - Annual percentage rate (APR) of 18% a year (1.5% per month)
- ◆ Using *average daily balance without new purchases*, a lender would charge **\$3.00** - 1.5% (.015) times the average daily balance, (which was \$300 for the first half of the month and \$100 for the last half), for an average daily balance of \$200. You would owe \$103 this month.
 - ◆ Using *average daily balance including new purchases*, the charge would be **\$3.75** - 1.5% (.015) times the average daily balance, (which was \$300 for the first half of the month and \$200 for the second half), or \$250 overall. You would owe \$103.75.

The Minimum Payment Trap

If you don't pay your credit card balance off each month, it can cost you a lot of money. Many credit card companies charge a minimum monthly payment equal to 3% of the outstanding balance. Low payments increase the time needed to pay off the balance and this increases interest costs significantly.

Bottom Line: Low monthly payments = High credit card costs, as shown in the table below:

Beginning Balance	APR	Monthly Payment	Total Interest Paid	Years to Pay Off
\$2,000	18%	3%	\$ 1,654	11 years
\$2,000	18%	4%	\$ 1,051	8 years
\$2,000	18%	6%	\$ 612	5 years

Source: *Credit Card Smarts* (2006). Boston, MA: Advantages Publications

Of all the credit card traps that are out there (e.g., late fees, over-the-limit fees, transaction fees), minimum payments are the most dangerous and costly. Why? Minimum payments provide a false sense of security. Card users think everything is “fine” with their credit as long as minimum payments are being made. In reality, though, they could be taking on more debt than they can afford. At some point, making even minimum payments will become difficult. In addition, items purchased on credit cards where only minimum payments are made can end up costing hundreds, even thousands, of dollars more than their original cost.

Like home mortgages, debt that takes decades to repay will cost 2 to 3 times the amount borrowed. Many people have no idea how much they pay out in interest because they make small amounts over long periods of time. Ideally, credit card bills should be paid in full to avoid interest charges. In reality, however, about 55% of American credit card users are “revolvers” who carry forward (revolve) an outstanding balance. Within this group are those (an estimated 11% of card users) who routinely make just minimum payments.

In the past, many people had no idea how much minimum payments were costing them over time because they focused only on the monthly minimum. Effective in February 2010, the CARD Act (2009 credit card law) requires credit card issuers to include a “payoff statement” to disclose to consumers the period of time and total interest it will take to pay off a card balance if only monthly minimum payments are made.

Credit Card Fees and Traps

Here are some other things to consider. Even though you plan to pay in full every month, you should be aware of fees and their costs.

- ◆ **Annual Fee** – A yearly fee, often \$60 to \$75, charged for having a credit card available to use.
- ◆ **Balance Transfer Fee** – Fee charged to transfer a balance from one credit card to another. A \$1,000 transfer with a 3% fee would cost \$30 (\$1000 x .03).
- ◆ **Cash Advance Fee** – Fee charged when a *cash advance* (i.e., a cash loan from a credit card) is made. For example, a \$1,000 advance with a 4% fee would cost \$40 (\$1,000 x .04). In addition, interest starts the day you borrow the money (i.e., there is no grace period).
- ◆ **Grace Period** – The time, usually 20 to 25 days, before interest is due on a new purchase. You lose your grace period and start paying interest on new charges if you do not pay your bill in full each month.
- ◆ **Late Fee** – A fee, usually \$25 to \$35, made when monthly payments are received after the due date.
- ◆ **Over-the-Limit Fee** – A fee, usually \$25 to \$35 when charged by a creditor, for each month that your balance goes over your credit limit. Under the CARD Act, credit card issuers are required to give cardholders the option to opt-in to over-the-limit fees. If a cardholder opts out, a pending credit card transaction should be denied.
- ◆ **Penalty APRs** – High, punitive annual percentage rates, often over 20%, that can be triggered by various infractions such as late payments and over-the-limit balances as allowed by the CARD Act.
- ◆ **Skip-A-Month Offers** – Offers that allow you to skip a month's payment without penalty. Of course, there is “no free lunch” and interest charges continue to accrue.



Credit Card Disclosures

Credit card applications have valuable information for comparing lenders. Some information on credit card applications is provided only for marketing purposes and other information is required by law. The latter is found in a disclosure chart known as a “Schumer Box” (named for the sponsor of the legislation).

Marketing Information

- ◆ **Introductory or promotional APR** – “0 percent interest for six months.”
- ◆ **Advertised credit line** – “Credit line from \$5,000 to \$100,000”
- ◆ **Special services and privileges** – “Year-end summary of charges”

Required Information

Required Disclosure	Example
Actual APR after introductory rate expires	“7.9% rate for six months. Thereafter, 17.9% ”
APR formula if the interest rate is variable	“Rate determined by adding 9.99% to the Prime Rate”
Penalty rate	“APR will adjust to 24.9% if your payments are 10 days late two times within a 6-month period.”
Length of grace period	“20 days for purchases if full balance paid by due date”
Amount of annual fee, if any	“First year fee-free. Then an annual fee of \$55”
Minimum finance charge	“\$0.50”
Transaction fees	“3% of the amount of cash advance but not less than \$5”
Method of computing balance for billing	“Average daily balance including new purchases”
Late fee	“\$25 on balances up to \$1,000 and \$35 on balances of \$1,000 or over”
Over-the-limit (credit-line) fee	“\$29.00”

Money-Saving Credit Tips

- ◆ Compare at least three competing credit card offers. Look for credit cards with a regular (not introductory) APR of 15% or less, a grace period of 25 days, late and over-the-limit fees of \$25 to \$30, no (or a low) annual fee, and low transaction fees.
- ◆ Don’t use credit cards to increase your income. If you spend more than you make, you are going to go into debt and it will catch up with you.
- ◆ Match credit cards to your bill-paying habits.
 - If you make payments in full, look for no annual fee and a grace period
 - If you carry a balance, look for a low interest rate
 - Ask for a due date that matches your pay schedule
- ◆ Limit how much debt you have. Keep monthly credit payments (such as credit cards, car loan payments, student loans) to no more than 15% to 20% of your take-home pay (your pay minus taxes, etc.).
- ◆ If you are penalized with a late fee or other “nuisance” charge, complain to the lender. They may reverse the charge at least once, upon request, to keep you as a customer.



Credit Learning Extensions

1. Find and read newspaper articles about credit-related topics (such as mortgage interest rates, Federal Reserve actions, credit card use). Prepare a one-paragraph summary.
2. Collect credit card applications and compare their APRs, features, and fees. Rank the credit card offers from best to worst and explain why.
3. Cut out all the examples of percentages that you can find in today’s edition of your newspaper. What things other than credit interest are recorded as percentages? Convert each percentage to a decimal.
4. Using the Business Section of your newspaper, cut out any articles pertaining to credit or credit cards. Highlight the following words if they appear in your articles:

interest rate
APR
annual fees
grace period

late fee
payment
over-the-limit fee
collateral

secured
balance method
penalty rate

Can you define each of these words?

Crime Scene Investigation: Has Someone Stolen Your Identity?

Identity theft is a serious crime. Thieves steal personal information and use it against you so that they can get credit cards, loans, cell phone contracts, etc., in your name. When it is time to pay the bills, identity thieves run away, leaving you deep in debt and your credit history ruined. There have been cases of victims filing for bankruptcy or being arrested for crimes because of an identity thief.



- ◆ Identity theft is the fastest-growing consumer complaint made to the Federal Trade Commission (FTC).
- ◆ With just a few important numbers – name, birth date, Social Security number – identity thieves can make your life difficult.
- ◆ If someone steals your identity, you could spend about 175 hours trying to fix your credit history and almost \$1,000 for photocopying, phone calls, postage, and other costs.

There are many ways that identity thieves can steal personal information. One way is to look through trash to find credit card receipts, bills, and other kinds of papers that may show your name, address, and your Social Security number. Identity thieves can also steal information about you by phone or the Internet.

Guarding Personal Information

Keeping Receipts

- ◆ When you buy something, keep your credit card receipts. Thieves often go through the trash looking for receipts to steal credit card numbers so they can buy something in your name.
- ◆ Write down your account numbers and put them in a safe place. Do not keep passwords in your wallet or purse since someone could steal these and use the passwords to access your accounts. Do not leave receipts or monthly bank statements out on a counter or desk where a guest, family member, or maintenance worker may see them.
- ◆ Keep receipts when you buy something in case you need to return it, but don't keep them in your purse or wallet. Keep receipts in a file drawer where others cannot see your credit card numbers, bank account numbers, etc.



Discarding Receipts

- ◆ Do not put papers that show your personal information in the trash. Shred any papers that show your Social Security number, phone number, or your mailing address.

Keeping Others From Getting to Your Personal Information

Sharing Personal Information by Phone

Never give personal information over the phone unless you make the phone call. Thieves can try to get to your credit card and bank accounts by telling you they are checking your accounts. Then they ask for your account numbers so that they can steal your identity.

Sharing Personal Information by Internet

If you shop on the Internet, make sure the Web site is secure before giving any personal information or credit card numbers. There are three ways to check if a Web site is secure:

- ◆ A closed padlock that shows up on the World Wide Web browser window
- ◆ Some browsers use a special window that pops up to show that the site is secure. Then it will ask you to move to the next step.
- ◆ A URL address that begins with HTTPS://

See the Web site <http://www.ext.vt.edu/niemoney> for more information on how to make sure a Web site is secure.

Mailing Credit Card Payments and Other Bill Payments

- ◆ Mail payments from a Post Office or Post Office collection box. Personal checks can be stolen from your home mailbox.
- ◆ Limit the number of credit card offers you get in the mail by calling 1-888-5-OPTOUT (1-888-567-8688).

Changing Personal Identification Numbers

- ◆ Contact your employer or health insurance company about changing your health insurance identification number from your Social Security number to a different identification number.
- ◆ Remove your Social Security number from personal checks. Do not carry any identification card (insurance, student identification card) that has a Social Security number (SSN). Instead, make a copy of the card and white out the SSN. Keep the original in a secure place.

Setting Up Automatic Deposits

If you have a job, use direct deposit for your paycheck. This lowers the chance of someone stealing your check and trying to cash it. If you are a college student, check if direct deposit can be used for your student accounts, such as loans and financial aid.

Online Banking

- ◆ Many banks and credit unions offer online banking. Depending on the bank or credit union, you may be able to move money between accounts, set up monthly payments for bills, and pay your credit card bill electronically.
- ◆ When you check your accounts and move money online, be sure to log out from your computer to keep others from getting access to your accounts. Use a different password than your email account password. Also, if you are worried about the security of online transactions, talk to your bank to make sure they protect your bank accounts.

Sharing Personal Identification Numbers or Account Numbers with Others

When using a personal identification number (PIN) to place long-distance phone calls or access an ATM, make sure that no one else can see the numbers you press. Never give your PIN number to someone on the phone.

How to Check for Identity Theft

Credit Reports

Check your credit report with each of the three major credit bureaus at least once a year. These agencies are Equifax, Experian, and Trans Union (contact information appears on page 8). Mistakes in your report might make it hard for you to open new credit accounts.

- ◆ By checking your credit reports, you can check for any strange activity with your accounts. Most identity theft victims do not know it until they check their credit reports or begin getting phone calls from creditors for things or services they never bought.
- ◆ A federal law called FACTA enables consumers nationwide to receive one free credit-report annually from each credit bureau. The big three credit reporting agencies – Experian, Equifax, and TransUnion – are required to provide one free annual credit report to consumers upon request.

You can order your free credit report one of three ways:

- 1) The Internet: www.annualcreditreport.com
- 2) By phone, at 877-322-8228
- 3) By mail, at the following address:
Annual Credit Report Request Services, P.O. Box 105281,
Atlanta, GA 30348-5281

- ◆ Free reports are also available for people without jobs, those receiving welfare benefits, and people who think that they are victims of identity theft.

- ◆ Ask credit-reporting agencies not to give your personal information to credit card companies for pre-screened offers. Credit card companies get lists from credit-reporting agencies to be able to make these kinds of offers. Many credit card companies send pre-approved offers in the mail, making it easy for someone to steal these offers from your mailbox if it is unlocked.



- ◆ Limit the number of credit cards you have. Know when your monthly bills are due. If you stop getting bills, someone may have stolen your account number(s) and changed the mailing address.

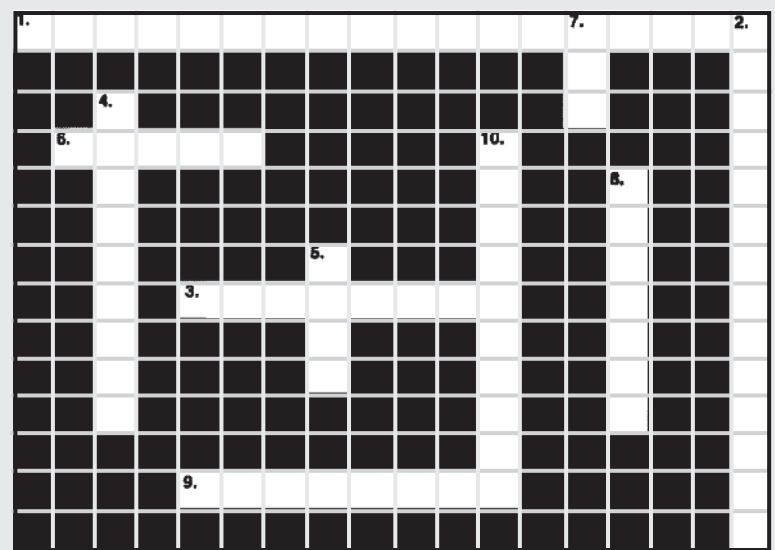
What to Do if You Are a Victim

- ◆ Get in touch with banks or credit unions to close your accounts. Use the form at <http://www.ftc.gov/bcp/online/pubs/credit/affidavit.pdf> — most banks or credit unions and creditors will take this form.
- ◆ Call your local police to file a police report so you have proof.
- ◆ Finally, contact the National Fraud Information Center (1-800-876-7060 or <http://www.fraud.org>) to tell them what has happened.



Identity Theft Learning Extensions

1. Look through newspapers or the Internet and see if you can find articles about identity theft, such as articles about crimes or personal information that is misused.
2. Using the Web sites listed on <http://www.ext.vt.edu/niemoney>, go on a scavenger hunt for more information on identity theft and privacy issues.



2. Crossword puzzle

1. You should not carry your _____ in your wallet.
2. Ask the Motor Vehicle Commission not to put your Social Security number on your _____.
3. Hold on to all of your _____.
4. Never share your _____ with anyone.
5. Request a credit report every _____.
6. If you have been denied credit, you can receive a free credit report within _____ days.
7. Never share information over the phone or Internet unless _____ initiate the transaction.

The three credit-reporting agencies are:

8. _____
9. _____
10. _____

Reality Check: Lending Rip-Offs

What Is Predatory Lending?

Most lenders are reputable and community-minded and charge a fair price for the use of borrowed money. Unfortunately, there are also a rather small group of lenders, called predatory lenders, who take advantage of others.

- ◆ **Predatory lenders** market to vulnerable populations, such as the elderly, minorities, and people with poor credit histories, and they charge extremely high interest rates and fees.
- ◆ Predatory lending has recently become an increasing problem nationwide. Predatory lenders include both mortgage lenders that prey on homeowners and non-mortgage lenders that offer both secured and unsecured loans.
- ◆ Predatory lenders make money, regardless of whether loans are repaid. Either they
 - receive loan payments from borrowers, charging high interest rates and up-front fees, or collect high fees from the borrowers and sell the loan, often collecting another fee from the loan purchaser, or
 - foreclose on a borrower's home or seize any other property pledged as security (e.g., repossessing a car with a car title loan).
- ◆ **Foreclosure** is a legal process by which a home is taken by a lender for non-payment of a mortgage.

How to Identify Predatory Lenders

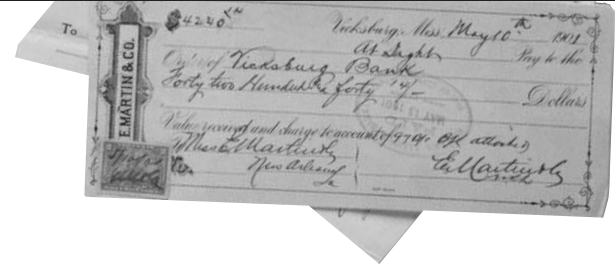
Predatory lenders can take advantage of you, which can often result in the loss of your home and life savings.

- ◆ You are often lent more than you can afford to pay back.
- ◆ Interest rates and fees are well above what is needed to pay the lender for the risk and earn a good profit.
- ◆ Six characteristics of predatory loans, applicable to mortgage loans, include:
 - **High interest rates** (e.g., 20% + interest plus the financing of loan insurance)
 - **Outrageous fees** (one lender charged 25 points; i.e., 25% of loan amount)
 - **High pressure salespeople** (e.g., claims that a loan rate won't last long)
 - **Unaffordable repayment terms** (lenders know that borrowers can't repay)
 - **Harassing collection tactics** (e.g., punitive late fees, abusive callers, etc.)
 - **Deceptive advertisements and practices** (e.g., intentionally overstating a borrower's income)

High-Cost Borrowing Practices

Here are some of the most expensive ways to borrow money.

Payday loans (also called paycheck loans, cash-advance loans, fast check loans, or deferred deposit loans)	You write a postdated check (a check with a future date on it) and pay a high fee to a lender to get cash immediately. The check is held by the lender until the future date and then it is cashed or deposited.
Pawnshop loans	You get immediate cash by giving items (such as jewelry and watches) to pawnbrokers to hold as security for a loan. Pawnbrokers keep the item 30 to 45 days. If you do not pay back the loan plus interest, they can sell your items.
Car title loans	High-interest loans in exchange for possession of your car title. If you don't repay the loan, the car can be repossessed (taken).
Check-cashing store	You pay a fee to cash a check. Sometimes these fees can be high.
Advanced fee loan scams	A person or company "guarantees" you'll qualify for a loan if you pay an up-front fee (e.g., \$100 or more). Instead, they take your money and you don't get the loan. This is fraud.
Rent-to-own plans	You rent new or used items (e.g., furniture, appliances) by the week or month. After the item has been rented for a specified period, you own the item.



Payday Loans

- ◆ Small, short-term, high-rate loans (usually made for a 14-day loan period).
- ◆ Fees can be very expensive. Fees are usually calculated by charging a certain amount per face value of the loan, such as \$20 on a \$100 check, which means you pay \$120 to get \$100.
- ◆ If you don't have enough money in your checking account at the end of the loan period, the lender will charge another fee.
- ◆ Payday lenders try to avoid state usury laws that limit the amount of interest a lender can charge for a loan. They do this by calling their charges "fees" instead of "interest." They avoid these limits by starting their company in a state without usury laws.

Check-Cashing Stores

Check-cashing stores are similar to payday lenders. They charge fees to cash checks. This can be an expensive alternative for getting cash, especially if you must cash checks on a regular basis, such as payroll checks. Try not to use check cashers, but if you have to, shop around for the lowest fees.

Alternatives to Check-Cashing Stores

There are reasonable alternatives to check-cashing stores:

- ◆ **Banks** – In New Jersey, Consumer Checking accounts allow low balances with low fees.
- ◆ **Credit Unions** – Credit unions are non-profit financial institutions that serve a group of people with something in common, such as the same employer or church affiliation.
- ◆ **Electronic Transfer Accounts (ETAs)** – This is an account that allows you to receive federal government payments electronically through direct deposit for a cost of \$3 per month or less.
- ◆ **Supermarkets** – Some supermarkets will cash your check for free with a check-cashing card, if you buy a certain amount of groceries.

Rent-to-Own Agreements

Before you can take a rent-to-own item out of the store, the store will require you to sign a rent-to-own agreement. This is a contract where you need to read the terms (or guidelines). Consider the following items before signing a rent-to-own agreement:

- ◆ This method of ownership is expensive.
- ◆ Agreements usually consist of a rental contract that is renewed on a weekly or monthly basis.
- ◆ Usually, the terms are for 78 weeks or 18 months.
- ◆ At the end of the agreement, the customer may own the item or need to return it to the store.

Alternatives to Rent-to-Own

There are less expensive options than rent-to-own. When looking at different purchase options, you can:

- ◆ Save up and then buy with cash
- ◆ Buy with a credit card (if available). If you pay less than the full amount due when the bill comes, you will also pay interest. The total amount you pay will depend on the annual percentage rate (APR) of the credit card and how many billing periods it takes to pay off the purchase.

- ◆ Buy through a store layaway plan. Many retail stores will allow you to make regular payments on an item. The store keeps the item in storage while you make these payments. Usually, you pay a certain up-front fee (depending on the store's policy) and make regular payments for a limited amount of time. At the end of the payment period, you can pick up the item at the store. The store may charge an additional handling fee, but this is still less expensive than rent-to-own.
- ◆ Save money for a month to put down on an item, and then put it on layaway or buy on credit.
- ◆ Consider buying a used item from a second-hand store or yard sale.
- ◆ Before you buy anything, ask yourself "Do I really need this item now?" Unfortunately in our culture today, many wants are being marketed as if they are needs and we are encouraged to have now and pay later. You might not need it or you might be able to wait until you save the money to purchase it with cash.

Compare the Costs of Buying Options

There are many ways to buy large items, such as electronics, appliances, or furniture. Use the following list and chart to help you decide which purchase option is best for you before you buy:

- ◆ Make sure you are comparing the same item, make, and model in advertisements and local retail stores. For example, in the case of an HD-TV (high definition television), there are many different makes and models to choose from, and these will have a wide range of prices, depending on the features available.
- ◆ Using the chart below, look at the second row, "Time to pay off." This is how to work out what goes in each column:
 - **Rent-to-Own** – the number of rental payments until the item is owned.
 - **Credit** – the number of payments until the credit is paid off.
 - **Layaway** – the number of payments until the item is paid off. Some stores add a service fee and some do not.
 - **Cash** – zero, since there are no payments.
- ◆ In the third row, look for the "Initial payment required" by the "Rent-to-own contract" or the "Layaway" plan. Some stores add service fees to the initial payment.
- ◆ For the "Total paid," multiply the "payment" by the "Time to pay off" and then add the "Initial payment required."
 - For "Cash (Local Retail Store)," use the cash price.
- ◆ For "Amount above cash price," subtract the "Cash price" from "Total paid" for each option. This will tell you how much more you are paying above the original cash price of the item.

Item: Tower of Power Mini Stereo System with CD Player	Rent-to-Own	Credit	Layaway	Cash (Local Retail Store)
Cash price	\$521.56	\$330.00	\$330.00	\$330.00
Time to pay off	22 months	20 months	3 months	0 months
Initial payment required	\$11.99	\$20.00	\$35.00 (a \$5.00 service fee is required)	\$330.00
Weekly/monthly payment	\$47.96/month	\$20.00/month	\$100.00/month	\$0
Total to be paid	\$1,039.00	\$381.99	\$335.00	\$330.00
Amount above original cash price	\$517.44	\$51.99	\$5.00	\$0

(Rent-to-Own APR=100%; Credit APR=18%)

How to Avoid Rip-Offs

- ◆ Find out how much a loan will cost you over time. Compare at least three lenders before making a decision.
- ◆ Always check out a lender before signing loan documents, especially if he/she contacted you first and they are not located in the city or county where you live.
- ◆ Check out lenders by asking friends, relatives, and co-workers. They may have had experience with a particular lender or know someone else who has.
- ◆ Call the Better Business Bureau (BBB). To get the name of the Better Business Bureau closest to you, visit www.bbb.org.
- ◆ Local or state consumer protection agencies can provide information about any complaints about a particular lender.
- ◆ Ask lots of questions and be suspicious of anyone who threatens to withdraw the loan if you don't keep quiet.

Remember, if a loan sounds too good to be true, it probably is. Trustworthy lenders do not go door-to-door or lend more than borrowers can afford to repay.



Predatory Lending Learning Extensions

1. Search the newspaper for the familiar phrase, "Buy now, pay later!" There are usually a number of advertisements for furniture, electronics, automobiles, and mobile homes that use this phrase. Why does it appeal to a large segment of our population? What interest rates and service fees are listed in each ad? How could you make the best out of a buy now, pay later option?

2. Quiz.

- Fees charged for payday loans are a certain _____ of the face value of the loan.
- Another name for payday loans _____
- How long is the usual payday loan period? _____
- If you have a payday loan, you do not want it to _____
- Payday loans may avoid which state law? _____

3. Choose an item, such as a television or DVD player, that rent-to-own stores typically have. Search through the newspaper to find advertisements for rent-to-own plans or visit a rent-to-own site on the Web. Fill out the following chart to compare the costs of the available options. For the credit option use 18%, use the same time period as it will take for the rent-to-own, and one of the financial calculators on pages 6 & 7 to figure the payment. (Review the example on this page.) You may have to call a store to check on layaway options and fees.

Item: Television or DVD player	Rent-to-Own	Credit	Layaway	Cash (Local Retail Store)
Cash price				
Time to pay off				
Initial payment required				
Weekly/monthly payment				
Total to be paid				
Amount above original cash price				

About the **NJ Coalition for Financial Education**

The goal of the New Jersey Coalition for Financial Education is to improve the personal financial literacy of New Jersey's citizens by promoting the teaching of personal finance to people of all ages. The Coalition believes that all citizens of New Jersey must have the financial literacy necessary to make informed financial decisions. The New Jersey Coalition for Financial Education Web site is www.njcfef.org.

The Coalition meets every other month and consists of about 100 representatives of government agencies, schools, businesses, and non-profit organizations that provide financial education and related services. The Coalition is a 501(c)(3) tax-exempt organization operated by an elected board of directors and conducts an annual audit of its finances. From 2002 through 2012, the NJ Coalition for Financial Education has received almost \$500,000 in external grant funding.

Members of the New Jersey Coalition for Financial Education include the following public and private organizations:

Allies, Inc.	www.alliesnj.org
American Credit Alliance, Inc.	www.501plan.org
BNY Mortgage	www.bnyreverse.com
Centers for Financial Education, a division of MMI	www.crediteducation.org
Citigroup	www.financialed.citigroup.com
Consumer Credit Counseling Service of Delaware Valley	www.cccsdv.org
Cuban American National Council	www.cnc.org
Federal Deposit Insurance Corporation	www.fdic.org
Federal Reserve Bank of Philadelphia	www.phil.frb.org/education/index.html
Federal Reserve System	www.federalreserveeducation.org
Felt Financial Group	www.feltfinancial.com
Financial Planning Association of New Jersey (FPA-NJ)	www.fpanj.org
Housing Partnership of Morris County	www.housingpartnershipmorris.org
Investors Saving Bank	www.isbnj.com
Junior Achievement of New Jersey	http://nj.ja.org
Lighthouse Credit Foundation	www.lighthousecredit.org
Members United Corporate Federal Credit Union	www.membersunited.org
Money Management International (MMI)	www.moneymangement.org
NJ Association of Family and Consumer Sciences	www.njfamilyandconsumersciences.org
NJ Department of Banking and Insurance	www.state.nj.us/dobi
NJ Department of Community Affairs	www.state.nj.us/dca/der
NJ Department of Education	www.state.nj.us/education
NJ Department of Pensions and Benefits	www.state.nj.us/treasury/pensions
NJ Education Association	www.njea.org
NJ Higher Education Assistance Authority	www.hesaa.org
NJ League of Community Bankers	www.njleague.com
NJ School-Age Care Coalition	www.njsacc.org
NJ Society of Certified Public Accountants	www.moneymattersnj.com
Novadebt	www.novadebt.org
Retirement Solution Foundation	www.retirement-solutions.org
Rutgers Cooperative Extension	http://njaes.rutgers.edu/money2000/
Susquehanna Patriot Bank	www.susquehanna.net
The Provident Bank	www.ProvidentBanknj.com
Youth Consultation Services	www.ycs.org



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