ProjectProsper
Empowering recent immigrants through loans,
savings, mentoring and financial education

Loans and Predatory Lending– Outline

> **Always encourage your students to take notes. Also, remember to leave yourself 5 minutes before the end of class to go over the post-test and collect them!**

Conversation Starter

➢ **Making a connection to students | 2 minutes**
  1. Introduce yourself: Name, employment or volunteer work, and why this topic is important.

➢ **Begin class: | 5 minutes**
Write the word **Loan** on the board and ask students if they or someone they know have ever borrowed money and/or applied for a loan. For those who respond yes, ask them what for and why they or their friend borrowed money. Write their answers on the board. If none have, ask students to define **loan** in their own words and why people take a loan.

> ➢ **Instruct students to open their book on page #2**

I.   Loans | 35 minutes
  1. **The Basics**
     A. Ask for a volunteer to read letters A & B aloud under The Basics.

Reading

     B. First, you read aloud the names of the types of loans described in the table, one at a time, and then have students repeat the words after you. After students say the terms aloud, ask for a volunteer to read their corresponding definition.
        - When it comes to **Pay Day Loan**, you read the definition or explain it in your own words. Then ask the students why they should avoid this particular type of loan whenever possible.

> ➢ **Instruct students to turn to page # 3**

     C. **Interest Rates-**
        - Write the term **Interest Rates** on the board and ask the class what this term means. After a few responses (or no responses) have a volunteer read the paragraph and bullet # 1 under **Interest Rates** aloud. Emphasize that interest rates vary from lender to lender and that's why they always need to research more than one lending institution.

Reading

        - Write the terms **Fixed Interests Rate** and **Variable Interests Rate** on the board and explain the differences between these two types of interest rates.
        - Ask the students why it is important to understand these differences and if they have any questions so far.
     D. **Things to Remember-**

Summarize

        - Provide students with a summary of this section and as you do that remember to write the bolded words **Terms** and **Installments** on the board and have students to repeat them after you.
        - Make sure student understand the differences between borrowing money from a credit card than from a loan.

Conversation Starter

2. Choosing a lender the smart way:
- Ask students what they can do to find a lender they can trust and/or if someone has or had a loan ask the person to share how they decided to go with that specific lender. If no one has an experience, you might one to share your own experience finding a lending company.
- Ask for volunteers to read aloud the bullet points under choosing a lender.

Reading

➢ **Instruct Students to turn the page to # 4**

3. What is predatory lending?
- Write the word **Predatory** on the board and tell the class to look at the picture of the shark on the top of page # 4. Then ask them to define the word predatory in their own words. Take a few responses and if students don't know the word you may want to use the following comparison.
    - i. Sharks are considered predators because they take advantage of smaller fish. Similarly, some lenders try to take advantage of people seeking for a loan by lying to them.
- Tell the students that in this section they will learn what to look for and what to do to protect themselves from **predatory lending**.
- Read or summarize numbers 1 and 2 under predatory lending.
- Have a volunteer read number 3 aloud.

4. Here are some warning signs of a Predatory Lender
- This section presents a very comprehensive list of predatory lending practices and many, if not all of them, might be new to your students.
- Ask the class to read along with you the headings for each predatory practice or warning signs.
- After reading the heading, you summarize or read aloud the key ideas for each warning sign. Then you may want to ask for a volunteer to read one bullet point that you want to emphasize. For example, under heading **A. Encouragement to include false information or signing incomplete loan documents,** after your explanation, ask for a volunteer to read aloud bullet # 3 about credit insurance.
- Follow similar procedure to go over each of the seven warning signs (A to G) and make sure students understand the terms that are bolded and underlined (e.g., **Credit Insurance, Rate Teasers).**

Summarize

Conversation Starter

- Ask the class if they or someone they know have been a victim of predatory lending. If some have, ask them if they feel comfortable sharing their experience. If no one has, ask the class if they have any questions about any of these predatory practices.

➢ **Instruct students to turn to page # 6**

Activity

5. Predatory Lending Exercise: Is this a good deal?
- Ask for various volunteers to take turns reading the letter aloud and ask the rest of the class to follow along. Or if time is limited or students' English proficiency is limited you might want to read the letter aloud.
- Ask students if they have any questions about the content of the letter.
- Give students 2 minutes to work with a partner and answer the questions on page # 7.
- Ask for volunteers to share their responses.

Predatory Lending Exercise Questions:

1. Which of the predatory lending warning signs do you see here? **"No Credit? No Problem!"** **Advertisements AND "Bait and switch"/ Teaser Rates Sales Tactics.**
2. Is this deal too good to be true? **Yes, it TOO good to be true which mean it is probably a dishonest deal.**
3. How important is your credit history for this offer? **It is not important – This is a warning sign. Having a good credit history is important and majority of serious lender will ask for it.**
4. What should you do with this offer? **Ignore it and shred the document.**

II. Loan Application Process

1. What Are My First Steps?

Conversation Starter

- Present the students the following scenario (or one you create on your own): *Sergio has a new job, with a better salary. However, he it would be easier for him if he had a car. He has been saving money for a down payment for a used car and now he is looking for a good auto loan. What kind of information would be important for Sergio to understand well when he meets with potential auto loan lenders?*
- Write some of the students' answers on the board.
- Instruct students to look at the table on the middle of page # 7 and ask for a volunteer to read aloud the questions people should ask to potential lenders. Have the students compare their answers with the ones provided in the table.
- Emphasize the point that it is always a good idea to meet with at least three different lenders before making a decision.

Summarize

- Read aloud the bullet point on the bottom of page # 7 and the top of page # 8. And write the words **prequalification and preapproval** on the board. Then briefly summarize the information in the table on the top of page # 8 about Pre-qualification and Preapproval.
- Ask for a volunteer to read the bullet point below the prequalification and preapproval table.
- **Comparing the Terms and Interest Rates-** Read or explain in your own words the paragraph about the two factors that determine the cost of a loan: The terms and the % rate.

Activity

- **TRUE OR FALSE exercise (NOT in the students guide books).** Go over the information presented on both terms and interests rate comparison tables. Then ask the class the following True or False statements (or you can create your own):
    1. According to the term table, the loan with the lower monthly payments and longer term (49 months) will cost more than the one with a higher monthly payment, but shorter term (25 months). **TRUE**. Ask students why?
    2. According to the interests rate table, what makes a difference between loans for equal amount (10,000) and same terms (5 years) is the interests rate? **TRUE**. Ask students why?
- If you feel that you need to emphasize how terms and interests rate work, ask for various volunteers to read bullets **i to iii** on page #8.

Summarize

- **Complete the application –** Briefly summarize this section and most importantly emphasize point **v.** and remind students to make sure they research and trust the lender before giving away any private information.

➢ **Instruct students to turn to page # 10**

B. **What Do I Do If the Lender Says No -**

Reading

- Tell the students to look at the pictures on the top of page # 10 and write the word "**denied**" on the board. Ask them what this word means.
- After a few responses, ask the class why a lender might deny a loan application and write their responses on the board.
- The table on page # 10 reviews the most common reasons for the denial of a loan.
- Ask different volunteers to read aloud each of the provided reasons and the first sentence of each reason presented on the right column. Expand on each reason only if necessary.

Conversation Starter

- Ask students if someone feels comfortable sharing an experience when their loan application was denied and what they learned as a result of this experience. If no one is comfortable sharing, you might want to briefly share your own experience if you have one.

C. **Steps they can take…**

- Remind students that everything can be a learning opportunity even when their loan application is denied.
- Read aloud letter C.

Reading

- Ask for volunteers to read numbers 1 through 6 aloud. Make sure students understand what a **co-signer** is and when and why having one can be an option.
- Emphasize that they should not take the denial of their loan personally; however, they should always understand why their application was denied so they can take the necessary steps to be in a better financial position next time they decide to apply for one.

Summarize

- Summarize the information about the **Equal Credit Opportunity Act** and point out in their books the website **www.consumerfinance.gov** where they can report unfair credit practices.

POST TEST

Now the class is almost finished. Have the students turn to the last page of the book and complete the Post Test Survey. Read the questions aloud and read through the answers. When the students are finished have them tear off the sheet and hand it in to you. Then place them and the sign in sheet into the class folder.