4-3: Choose the Right Loan

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Cast List

- Darryl
- Daisy Muntz – white female, 50-60; lead consumer reporter for *The Detroit Herald* newspaper and syndicated on NBS radio
- Bill Royce – young husband
- Kellie Royce – his very pregnant wife

Synopsis

- Kellie has written in because husband Bill is overspending in preparation for first child
- Daisy helps them learn about loans that may help

Location

- Baby superstore in St. Louis suburb

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A. Good Reasons to Borrow
  a. Help reach financial goals
  b. "Good" expenses (i.e., home or car)
  c. Establish credit history
B. Types of Loans
  a. Installment
    i. Consumer loans (auto, etc.)
    ii. Mortgage
    iii. Home equity
  b. Revolving
    i. Credit cards
  c. Secured and unsecured
  d. Other: payday, refund, more about those later
C. How You Are Protected
  a. Federal Truth in Lending Act (TILA)
    i. Clearly, uniformly state all finance charges
    ii. Amount financed
    iii. APR
    iv. Total payments
  b. Equal Credit Opportunity Act
    i. Race, color, religion, national origin, gender, age (provided the applicant is of legal age), or receipt of public assistance income can't be factors in denying someone a loan
    ii. Some home loans
    iii. Secured loans
    iv. Exceptions in community property state
    v. Filing complaint
    vi. Denial notice
  c. Fair Debt Collection Practices Act
  d. Fair Credit Billing Act
D. Down Payments
  a. Portion of the cost of a house or purchase
  b. Larger the down payment, smaller the loan and interest
E. Interest Rates
  a. Vary widely depending on type and length of loan
  b. May be fixed, where the interest rate is permanent and guaranteed
  c. May be variable, with the possibility of changing during the life of the loan
  d. Interest is incorporated into monthly payments
  e. The Annual Percentage Rate is an important tool to compare different loans offered to you
F. Terms and Conditions
  a. Amount, length, interest, payments
  b. Rules
  c. Understanding terms and conditions helps you minimize fees and avoid penalties

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	G. Fees and Penalties a. Annual maintenance fee b. Late fee c. Application review d. Service fee (for cash advance) e. Penalty (going over credit limit)

Theme music up

DARRYL: Welcome to this edition of the "Money Smart Podcast Network, with Darryl and Terri, but without Terri."

Cross-fade music with SFX: parking lot, cars passing, car doors closing, carts wheeling by

DARRYL: You know, banks and other financial institutions offer many types of loans, and choosing the right kind can be really important to your financial future.

We've given Terri a break – from me, maybe – but here again is our friend Daisy Muntz of "Money with Muntz." She's the lead consumer reporter for *The Detroit Herald*, but her syndicated radio show is heard here in St. Louis.

DAISY: You're sweet to give me a plug, dear.

DARRYL: Oh anytime! We're here because we got a letter from Kellie Royce. She and her husband Bill are expecting their first child, and Bill is – well, I guess I'll just read the letter.

"Dear Darryl and Terri: My husband Bill is going a little nuts about the baby. 'Nothing but the best,' he says. That's fine – but it looks like we're going to need a loan to get us through the first few years. Can you help us do it right and protect ourselves?"

DAISY: A loan for a baby! Heavens, I was number six of seven, and by the time I came along we just split the meat loaf one more way. Kellie is wise to be looking at her options now.

DARRYL: We've tracked the young couple down to the local toy store.. Let's go inside.

SFX: transition to inside busy big box store ambience. Cash registers, periodic PA announcements, hubbub.

BILL: …and look, this cloth cover is completely removable…

KELLIE: …but it's 200 dollars, Bill! Why not this one?

BILL: I don't like the looks of it. It looks cheap.

DARRYL: That's got to be them. Bill Royce?

BILL: Uh, yes, I am.

DARRYL: Hi. I'm Darryl, from the Money Smart Podcast Network. How goes it?

KELLIE: *(excited)* You got my letter!

BILL: What letter?

DAISY: Your sweetheart has been telling tales on you, Bill! *(to Kellie)* My goodness dear, when you said you were expecting we didn't know you meant this afternoon.

KELLIE: Still two weeks to go. But you're not Terri.

DAISY: Daisy Muntz, from *Money with Muntz.*

BILL: Oh – you're on the radio sometimes.

DAISY: *(slightly miffed)* Only five days a week, 8:47 to 8:50 AM. *(warming)* So – what's the baby going to be?

BILL: A little girl.

KELLIE: *(simultaneously)* A little boy.

DAISY: Oh my.

KELLIE: We don't really know. But I think it's a boy.

BILL: I'm positive it's a girl. Either way, I want to have everything we need by the time my daughter arrives.

KELLIE: Son.

DARRYL: OK! We'll leave that one up to you, Bill and Kellie. All this baby stuff doesn't come cheap.

KELLIE: Tell me about it!

DARRYL: Kellie thinks you two are going to need to do some smart borrowing. So Daisy is here to provide you and our audience with some advice about choosing the right loan.

BILL: You know, I really appreciate that.

KELLIE: So do I. I need to sit down.

DAISY: I guess so! How about over at this little table in the play area?

KELLIE: *(gratefully)* Thank you.

DARRYL: Excellent! Now, Bill… oof. *(clearly trying to squeeze himself into a chair for someone a quarter of his size)* Is it just me or do these chairs seem a little small?

BILL: I'm okay.

DAISY: So what seems to be the problem?

KELLIE: I know Bill wants the best for the baby. And we've got good jobs. But I'm going to be out for a while, and we really need to be saving up to put an addition on the house – you know, for a playroom and all.

BILL: I know I might be spending a little too much, but our little girl has to have the best. And we can just put it on our credit cards, can't we?

KELLIE: *He* deserves the best we can provide.

DAISY: I'm beginning to get the picture. Bill – there are some very good reasons to borrow money. It's the only way most of us have to buy a home, improve a house, or buy a new or used car. It can be a great way to reach your financial goals – say, by financing an education. Right, Darryl?

DARRYL: *(still trying to situate himself)* Mmph. Uh huh. Uh, this…*chair*….

DAISY: I tell people to ask themselves three questions – do you need what you're thinking of buying? Do you need it right now? Can you wait until you have enough cash on hand to buy the item? Now, Kellie, sweetie, from the way you look, you certainly need some baby things right now!

BILL: That's for sure!

DAISY: Now you say you're not a fan of borrowing, Bill, but don't you have a mortgage on your home?

BILL: Oh – of course. Honestly, though, Kellie's mom is a real estate agent. She did all the paperwork – we just make the payments.

DAISY: That's fine. But that's one type of borrowing. And those credit cards – do you pay them off every month, completely?

BILL: Sometimes. Recently not so much…. But we always make at least the minimum payment on time.

DAISY: Well, dear, that's borrowing again, whether you like to think of it that way or not. Not to worry. Borrowing responsibly – like your mortgage, and making your credit card payments on time – can actually help build your credit. That means when you need to borrow, for an emergency or otherwise, a bank will be able to see that you can be counted upon to pay the money back.

DARRYL:*(strained)* Urk. Daisy, will you take us through the main types of loans? Are these chairs bothering anybody else?

DAISY: Certainly. Most banks offer many different types of loans. One of the main differences is between "installment" and "revolving" loans.

An installment loan has a set payment every month. You borrow a certain amount of money, and then pay it back with interest over a specific period of time.

KELLIE: That's like our mortgage. Or our car payment.

DAISY: Right. Now, a revolving account is a loan where you borrow money up to the pre-approved dollar limit. As you repay the money, you can borrow it again. The balance of the loan can change, and so can the payment.

BILL: I get it. That's what a credit card is.

DAISY: In most cases. Now, installment… just a moment. *(off mic)* Ma'am! Ma'am!

KELLIE: What's she doing?

DARRYL: Oof. She can't help herself.

DAISY: *(still off mic)* You're not planning to buy that baby bather, are you? See that side hinge? It can come right off. Plop, down goes baby! *(back on mic)* Forgive me. Where was I?

DARRYL: Installment loans.

DAISY: Right! Like you said, Kellie, a home mortgage or an auto loan are examples of installment loans. Many banks also offer personal loans, and home equity loans.

BILL: What's a "home equity loan"?

DAISY: The difference between what you owe on your home and your home's value is called equity. If it's large enough, many banks will offer attractive loans based on that equity.

KELLIE: Bill and I have been lucky – prices in our neighborhood have really gone up.

DAISY: One more difference between certain types of loans is whether they are "secured" or "unsecured." For larger loans – like home or auto loans – banks will ask for security in the form of "collateral." You pledge something that you own, such as the car, to the lender. In the unlikely case you can't repay the loan, the lender has something of value it can take instead.

KELLIE: But Daisy, you keep talking about banks. Isn't that an expensive way to go? Is that the only place to borrow?

DAISY: Dear, watch your step. There are other places you can borrow money, but some of these outlets can be very costly. Take out a payday loan, and you may end up paying another fee to roll it over when it comes due. Do that a couple times and the fees can add up.

DARRYL: *(still strained)* Unh. Terri and I are going to do a whole podcast on Protecting Yourself While Borrowing. If I can ever stand up again.

DAISY: Car dealerships and retailers – like the superstore here – may finance purchases. But if you look closely, those loans are probably being done by banks anyway. You need to find out what the Annual Percentage Rate (APR) is. When you do business with a bank, you know you are doing business with a regulated entity and you can always contact the bank's federal regulator to file a complaint if you are unable to resolve a dispute with a bank. These regulators examine the banks for compliance with federal consumer protection laws.

BILL: That's interesting. Like what?

DAISY: An important one is the Federal Truth in Lending Act, or TILA [TEE-lah]. This law requires banks and other lenders to disclose all of the finance charges that go along with a loan clearly and uniformly. That way you can easily compare loans between different lenders.

BILL: What do they need to disclose?

DAISY: They need to specify the amount of the loan and the time you have to pay it back. For example, "5,000 dollars for one year." Then they need to list the APR, or Annual Percentage Rate. This is the most important number to look at when comparing loans. In fact, TILA generally requires that the APR be listed in large type – sixteen-point type to be exact – so that it's easy to see.

KELLIE: What's APR?

DAISY: That's the total cost of borrowing. It includes the interest rate, fees, and other services, over the period of one year. Suppose that 5,000 dollar loan had an APR of 12 percent, for example – 12 percent of 5,000 would be 600 dollars. Your total cost would be 600 dollars for borrowing that money for a year.

BILL: I get it. The APR would let you compare loans that had different amounts of interest and different kinds of fees and decide which is the best deal.

DAISY: You're catching on. The last thing anyone needs is a loan with surprises! The last thing that TILA requires on a loan application is a total of all the payments you will have to make.

KELLIE: What other laws are there?

DAISY: There's the Equal Credit Opportunity Act, or ECOA [ee-COH-ah]. It says that lenders can't ask you certain questions or discourage you from applying for a loan based on certain characteristics.

KELLIE: Like what?

DAISY: Let's see. Race, color, religion, national origin, gender, marital status, age or receipt of public assistance income. These cannot be factors in denying someone a loan. Even *asking* you about those things can be against the law.

I should note that for certain home loans, lenders must collect some information like race, gender, marital status, and age. But the only reason a lender can ask for information about a spouse or former spouse is if he or she is applying with you or if the loan is secured. And when asking about your marital status, the lender may only use the terms "married," "unmarried," and "separated." If you do not qualify on your own, lenders may require a cosigner or guarantor, but may not require that it be your spouse.

KELLIE: Are there any exceptions?

DAISY: Well, if you live in a community property state, a lender may request certain information about your spouse. Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin are community property states, as is Puerto Rico.

DARRYL: *(we might hear some vocalizations and chair movements indicating a struggle to get comfortable)* More…ECOA…

DAISY: Why, thanks, sweetie. Yes, ECOA provides some more protections. For example, the lender can't discount or refuse to consider consistent part-time income, annuities, pensions, alimony, or child support payments as part of the loan application. They also can't ask about birth control practices or intentions of having children. However, a lender may ask about the number and ages of your dependents.

BILL: One daughter, for us.

KELLIE: One son! Gee. I'd be afraid to make a complaint. I think the lender would deny the loan because I reported them.

DAISY: No can do. The law says lenders can't deny a loan to a customer because they file a complaint against them. If someone thinks they've been discriminated against, they should write a complaint to the lender and keep a copy. The lender may find they made an error in the application and reverse the decision. The person should also report the possible violation to the responsible government agency as soon as possible. The agency's name and address should be listed on the Denial Notice.

BILL: Denial Notice?

DAISY: A lender has to notify you in writing, within thirty days of the date of a loan application, whether you've been approved or denied for the loan. If you're denied, you should get what's called a "Denial Notice." It must contain the name and address of the lender… the name and address of the federal agency you can contact if you feel you've been discriminated against… and either a statement of the specific reasons for denial or a notice that you can ask for the specific reasons for denial.

BILL: What if you get denied because of bad credit?

DAISY: That's when the Fair Credit Reporting Act kicks in. In that instance, the Denial Notice must contain the name, address, and telephone number of the credit reporting agency that provided the credit report to the lender… a statement that the credit reporting agency did not make the decision to deny your application… a notice of your right to obtain a free copy of your credit report within 60 days of receiving the notice… and a notice of your right to dispute the information in your credit report.

DARRYL: Ow, ow, ow!

DAISY: What's the matter, dear?

DARRYL: My foot fell asleep!

BILL: I still worry about borrowing. I don't want to wind up being harassed by debt collectors.

DAISY: I'm glad you mentioned that. Under the Fair Debt Collection Practices Act, or the FDCPA, debt collectors – who must always identify themselves – can't call you with the intent to annoy, abuse, or harass you. They can't contact you at work if you've told them not to, and they can't contact you at an unusual time or place. The FDCPA also prohibits using the threat of violence or other criminal means to harm you or your property. In addition, the law protects against misleading or deceptive methods for collecting the debt.

DARRYL: *(hopping)* We've got a list of the… federal regulatory agencies you can contact if you think… the FDCPA has been violated. They're in… the… Information Booth section on the… Money Smart Podcast website.

KELLIE: So suppose you've got a loan – or even a credit card account. These are big companies. What happens if they make a mistake? Can't you get in real trouble with your credit?

DAISY: Ah, that's where the Fair Credit Billing Act comes in. It requires creditors to credit payments promptly and correct billing mistakes for open-ended accounts such as credit cards. It also allows you to withhold payments on defective goods, in certain circumstances.

KELLIE: *(in awe)* Wow. How do you remember all this stuff?!

DAISY: Just doing my job, honey. But you have to do yours: If you think there's a mistake on your credit card bill, you need to notify the creditor promptly – within sixty days. Include your name, account number, and what you think the error is.

DARRYL: Some companies put a form on the back of your statement for that.

DAISY: Right. The lender has to acknowledge your letter within thirty days of receiving it. Then, within two billing cycles – no more than ninety days – the lender either has to correct the problem or tell you why it thinks the bill is correct.

KELLIE: What if that doesn't work?

DAISY: You can write to the bank's regulator for assistance. Sometimes that means contacting the FDIC's Consumer Response Center. You can call 1-800-378-9581, complete an Electronic Customer Assistance Form online at www.fdic.gov, or mail a letter.

You'll want to state the problem briefly… explain what occurred, and how you would like to see the matter resolved. Include your full name, address, and daytime and evening telephone numbers. Put in the complete name and address of the bank, along with any employees you've contacted or worked with. List information like the account number and the kind of account you have. List all of the important dates. And send copies of any documents that help explain the problem. Keep the original documents. Then sign and date your letter, and keep a copy for your records.

KELLIE: Wow.

DARRYL: *(sense of relief)* Oh thank goodness, I still have toes! So maybe we can come back to where we started, which is choosing the right kind of loan.

DAISY: Oh, of course! Forgive me! I do get a bit passionate about protecting consumers. Speaking of which… *(off mic)* Ma'am, that may look like an innocent pacifier to you – but to me it has choking hazard written all over it. Give me that.

DARRYL: *(to Kellie and Bill)* She's a trip, isn't she?

DAISY: *(back on mic)* Some people need to spend a little more time on my weekly column, "Products That Should be Recalled but Haven't Been Yet." Now—

DARRYL: —choosing the right loan?

DAISY: Yes! Thank you. Choosing the right loan. Basically, there are four aspects to most consumer installment loans that you should evaluate – down payments, interest rates, terms and conditions, and fees and penalties.

DARRYL: That sounds like more than four to me!

BILL: Can we take those one at a time?

DAISY: Of course, dear. The down payment is a portion of the price of the item you want to purchase with the help of a loan. You pay some money of your own – that is, you put it "down" – at the time the loan is made.

KELLIE: Oh, that's like when we had to put down twenty percent of the cost of our house. And 2,500 dollars when we bought the car.

DAISY: Right! Now it might seem best to make the down payment as low as possible –

BILL: Kellie, I still don't know why your mother insisted we put down 20% on the house. They were willing to take less.

DAISY: There are two very good reasons why your mother-in-law deserves flowers for that. Remember, the less you put down at the beginning, the bigger the loan will be, and the more interest you'll pay over time. Second, sometimes a bigger down payment will get you a better interest rate on the money you're borrowing.

BILL: That makes sense, actually.

DAISY: She also deserves flowers because, from experience, I know that mothers-in-law tend to get a bad rap. But that's a different kind of podcast!

KELLIE: Daisy, I have a general sense what "interest" means… but… tell me again.

DAISY: Sure. Interest is the amount of money a financial institution charges for letting you use its money. Interest rates can vary widely, depending on the type and length of the loan. And this is important – interest rates can be "fixed" or "variable."

DARRYL: I wish they would "fix" these chairs.

DAISY: A "fixed rate" means the interest rate stays the same throughout the term of the loan. A "variable rate" means the interest rate might change during the loan term.

KELLIE: Change? I can see taking out a loan like that if the rates were guaranteed to go down. But could they go up?

DAISY: Yes, certainly. Variable interest rates can go down or up. Some loans are even structured so that they have a low initial payment and then step up after a certain period of time.

KELLIE: Why would anybody want to agree to that?

DAISY: Well, they can help you afford something that might otherwise be out of reach. For example, if you are certain that you will be able to pay off your car loan before your variable rate loan payment increases, it might be a good move. However, it's critical that you clearly understand the circumstances under which your variable rate may increase, and make sure that you won't get into difficulty if the rate goes up. Always remember to look at the annual percentage rate, or APR – that's the best way to compare lending options.

KELLIE: You said the third thing was "terms and conditions," I think.

DAISY: That's right. The terms and conditions include the amount, loan length, interest rate, the payments, and the rules that apply to the loan. You need to know what those terms and conditions are. Know why?

BILL: I'll take a guess – those "fees and penalties" you mentioned.

DAISY: Very good, sweetie. Fees are charged by financial institutions to cover work they do on your loan. These can be activities such as reviewing your loan application and servicing the account through the life of the loan. Penalties might apply if you don't make your payment on time. Generally, terms and conditions apply to all types of loans: whether you are borrowing to buy a car with a consumer installment loan, taking out a home buyer's loan, or applying for a credit card to borrow using plastic, you'll need to be familiar with APR, finance charges, interest rates, total monthly payments, and loan length. Are you *nuts*?!

BILL: I beg your pardon?

DAISY: Not you, honey. That couple over there is looking at a stroller that can catch on fire and burn like a roman candle. I should run over there. But from what you've said, I think you might want to consider whether a home equity loan might be right for you if you need to borrow. What do you think, Darryl?

DARRYL: Yeah, I think that – uhh…

SFX: thump

DAISY: Oh dear.

BILL: He's out cold.

KELLIE: I guess he stood up too fast after being cramped in that chair, and fainted.

Theme music up

DAISY: Well, I guess I'll have to do the honors –

DAISY: This has been the "Money Smart Podcast Network, with Darryl and Terri and, well, Daisy!"

Music fades