Jane Walstedt: But anyway, let me now turn the program over to Dorothy Witherspoon who works in the Woman’s Bureau Regional Office in Kansas City to introduce our third speaker. Dorothy?

Dorothy Witherspoon: Thank you, Jane.

Jane Walstedt: Uh-huh.

Dorothy Witherspoon: And good afternoon to everyone.

Our next speaker is Nancy Nauser who’s President of the Consumer Credit Counseling Service of Missouri and Kansas.

Nancy has served in this position for more than 17 years. In addition, she has 12 years of previous experience as a banker.

She has an MBA in Finance and Bachelor’s of Business Administration from the University of Kansas City. And she is a Certified Consumer Credit Executive.

Some of her many other credentials include graduate of the Graduate School of Banking at the University of Wisconsin. She completed three American Banking Association Schools, one being the Commercial Lending Graduate School; two, the Commercial Lending School; and Compliance School.
Nancy is past Chairman of the National Foundation for Credit Counseling Education Committee and past President of the Kansas City Credit Association.

Nancy was a presenter at the first “Train the Trainer” program for teachers from all 50 states, which was sponsored by the International Credit Association.

She also co-taught a Graduate Educator’s Course on Personal Financial Management at the Kansas University Regent Center.

She is a member of the Kansas City, Missouri Task Force on Predatory Lending, and is a lifelong resident of the Kansas City area.

In addition, she has been a Wi$e Up mentor since 2004.

It is my pleasure to introduce to you, Nancy Nauser.

Nancy Nauser: Thank you so much, Dorothy.

I'm very glad to be here today talking about something that has been a part of my life for 30 years.

What I'm going to be addressing today is shopping for a loan. How do we shop for a loan?

And one of the reasons that it is important for us to do this is that, in 2001, Americans paid around $50 billion in finance charges. So it is a big part -- finance charges are a big part of our financial management.
The first step when you are thinking about shopping for a loan is you need to step back and say, “What is my current situation? Before I incur, before I go get more debt, what do I have today? And can I afford any more?”

That’s where the monthly payment debt-to-income ratio comes in.

In the WiSe Up program, there is a calculation and a section on this. The actual calculation, as WiSe Up shows, is that, first of all, you list your loan payments, now that’s your auto loan, your student loan, any furniture loans, personal loans, anything except your mortgage, and your monthly credit card payments, whether it’s - whether you usually do the minimum, which we don’t recommend, or what you normally expect to pay on those credit cards. If you pay your credit cards on a monthly basis in full, then don’t list them in this area.

What you do then after you get the total of what your monthly loan debt is, or loan payment is, you divide that by your take-home pay for that month.

So there’s an example that says, let say, all of your total debt comes up to $525 and your net income is $2,500. You divide the $525 by the $2,500, and that gives you a 21% debt-to-income ratio.

We try to and we encourage people to strive for debt-to-income ratio of less than 15%. Because once you start getting between that 15% and 20%, you start to feel a crunch with all of the other expenses that you have on a regular basis.

The second step, once you say, “Okay, my debt-to-income ratio is low enough, I can actually afford [a loan],” you can [calculate] this debt-
to-income ratio with [the loan payment taken into consideration to estimate] what that’s going to increase to, to make sure you're still under that 15% or 20%.

The second step is to say, “What type of loan do I really need to purchase whatever it is you're looking for?”

One of the types of loans certainly is an installment loan. Now, an installment loan is one that is repaid over months or years.

Generally, they're considered more long-term debts, and they include items such as mortgages, car loans, or other debt that may take a period of time [to pay off].

Certainly, one of the things to look at when you are looking at installment loans is the fact that the longer you pay on it, the more interest you are going to pay.

So the shorter the loan, whether it’s a mortgage loan, 15 years is much better than 30 years as far as how much you're going to be paying in interest over the life of the loan.

There are some key things that you can look at, and I encourage you to put this on a spreadsheet, to compare lenders when you are going for a mortgage loan, a car loan or any other kind of installment loan.

The first thing to look at is, you know, put down how much you want to borrow and then see how much the total finance charge is. So, “What is the total cost of the loan?” Therefore, you can look at, lender by lender, to make sure that you are comparing apples to apples.
Also look at the amount of the payment and when it’s due. Is the due date going to coincide with what's best for you with your cash flow? Look at the APR, the annual percentage rate, and we’ll get into a lot of detail about annual percentage rate here in a minute.

What are their late payment penalties? What’s the lender’s recourse if you don’t pay the loan back? What are they going to do? And is there any early payoff penalty?

These are some things that are all listed in the contracts and that you can ask before you sign your loan. And I recommend that you do.

Another type of loan is a short-term or maybe same as cash, you see the 90 days or the 12 months same as cash. These are paid off within a certain period of time, usually to - so that you will not have to pay interest.

Be careful with these. They are good - they can be a good thing to stretch out the total loan, but be careful because some lenders try to trick you and say, “Oh, only pay a certain amount”- that will not amortize over that period of time.

So just - you be the one to be very careful on what you are sending and make sure that you pay it off, because if you don’t pay it off in the certain length of time, they will probably be charging you interest from the first - the transaction date. So you'll be paying interest for that 90 days or 12 months.

Another type of credit that we were talking about - that Diahann was talking about - is credit cards. That’s revolving debt, and that is on your credit report also.
Credit cards certainly can be paid off monthly, which we certainly encourage people to do. Or it can be paid off over time.

An example of credit cards is if you, let’s say, you buy a treadmill for $2,000 at 18% annual percentage rate. If you make only a 4% minimum payment, which is common now, you'll be paying on that for 9-1/2 years and pay over a thousand dollars in interest.

However - because there is a declining balance that you are paying 4% on. Now if you decide “I really want to pay this off in two years,” if you pay a hundred dollars a month, you will pay it off in two years, and only be spending a $395 in interest.

So those are - think about the total that you're paying, not just the [monthly] payment.

As you are shopping for a credit card, one of the first things you need to look at is, how do you expect to pay your - are you going to be paying your bill in full each month? Are you going to sometimes carry over a balance? Are you going to use cash advances?

Depending on your answers to those questions, you will want to look to see what is the best term and rate for a card.

There are different types of annual percentage rates. [Editor’s note: The annual percentage rate (APR) is the fixed or variable interest rate you will be charged if you carry a balance on your credit card or loan.] One of them, one card may have a different APR for purchases, another for cash advances, and yet another one for transfer balances.
Some of the credit cards have tiered APRs depending on your outstanding balance.

Most contracts of credit cards have a universal default, which means that if you're late on payments, you carry too high a balance on your other debts, if your bill paying habits are late, if you default on another loan, they can increase your interest rate. They can also decrease your limit.

Many credit cards have introductory APRs. And some of them have delayed APRs that will change after a certain date. Be sure and look to see what the grace period is, if they are going to give you a grace period if you pay your bill off every month. [Note: According to the Wi$e Up curriculum, the grace period is the time between the billing date and when finance charges will begin to accrue. Grace periods now range from 15 to 25 days. Under most credit card plans, the grace period applies only if you pay your balance in full each month. The grace period does not apply if you carry a balance forward, nor does it apply to cash advances.]

Finance charges are calculated several different ways. One is - one way they do [it] is over one or two billing cycles. Another one is adjusted balances, average daily balances, or on the previous balance, and some of them include or exclude new purchases. [Editor’s note: The average daily balance method totals the unpaid balance for each day in a billing period and divides it by the number of days in the billing period. The finance charge is figured on this average balance. Cash advances and new purchases are usually included in figuring the daily unpaid balance. The two-cycle average daily balance method uses two months of credit transactions. An average daily balance is calculated for the current billing period and the previous billing period,
with the total being divided by the total number of days in both billing periods. This method is the least advantageous to consumers and results in a much higher finance charge. To avoid paying finance charges, you must pay off your balance for at least two months. The *adjusted balance* method takes the balance at the beginning of the current billing period and subtracts any payments and credits received during the current billing period. The resulting total is used to compute any finance charges. This method is less common but is the most advantageous to consumers.]

The point here is you really have to read the contract very, very closely to understand what they are going to - how they are going to be charging you, and how they are going to calculate that charge.

Also, to find out what kind of fees they have -- do they have an annual fee? Is there a cash advance fee if you are planning on using cash advances? What is their late payment fee? Over limit? Set up? Return? Do they charge you just for contacting them and answering questions? Or do they charge you for reporting to the credit bureaus?

These are some of the things you need to make sure that you look at.

Also, are there benefits that you want, such as frequent flyer miles, or rebates, or car rental insurance?

Before you sign up for any of these features, make sure that you are getting the features that you are going to be using.

Another type of loan is predatory lending. We really need to make sure that we can spot those. Ways to spot them are if there are balloon payments, high interest rates, monthly payments you can’t afford,
penalties for early pay off of the loan, unauthorized refinancing.

[Editor’s note: According to Bankrate.com’s financial glossary, a balloon payment is a loan installment that is larger than the other, periodic payments and pays off the remaining principal.]

The ways to avoid predatory loans are to shop around. Ask questions. If you don’t understand the loan terms, talk to someone that you trust. Be very careful if they say, “no credit, no problem,” because there could be a problem.

Ignore high pressure sales tactics. Never sign a blank document or anything that a lender promises to fill in later.

These are some ideas of how to shop for a loan. And be very careful when you are looking at borrowing money.

Thank you very much.

Jane Walstedt: Thank you, Nancy. I wish I’d heard your presentation before I signed my mortgage.