



Finance Leadership Program

# Loans

## Understanding the details

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## Loans: understanding the details

### Overview

- Repaying Student Loans
- Car Loans Basics
- Home Loans Basics

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## Repaying Student Loans

- **Consolidation Solution**
  - The rate will be fixed for the remaining life of the loan
  - Consolidating during the 6-month grace period allows you to have a lower rate
  - Have your lender explain all pros and cons of consolidation
  - Pick your payment schedule
- **Delay tactics:**
  - Know your cancellation options
  - Deferment
  - Forbearance



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## Big Ticket Purchase: Car

- Know your credit score (FICO)
- Purchasing options
- Which option is best for you?



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## How does FICO affect the interest rate I pay?

Factors such as salary and employment history are important, but your FICO score ultimately determines the interest rate you qualify for.

So what does this mean in dollar terms?

	Buyer A	Buyer B
FICO	720	550
Loan Amount	\$20,000	\$20,000
Term	36 mos.	36 mos.
Interest Rate	7.20%	15.10%
Monthly Payment	619.37	694.29
Monthly Difference	\$74.92	
Over life of Loan	\$2,697.12	

\*You can get one free copy of your credit report each year from the three major credit bureaus (Equifax, Experian, and TransUnion) online at [www.annualcreditreport.com](http://www.annualcreditreport.com), or by calling 877-322-8228.

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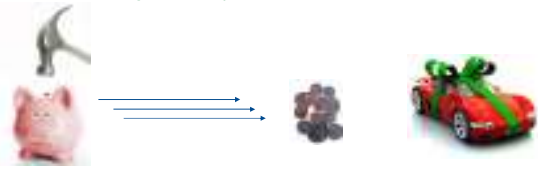
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## Purchasing Options

### 1. Cash

- Simplest of all transactions.
- You have full ownership of the car.
- You have full discretion to select any amount of insurance coverage and deductible, as long it satisfies your State's minimum.



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## Purchasing Options (cont.)

### 2. Finance

- Annual Percentage Rate (APR)
- Term
- Down Payment
- Payment schedule

#### Sources:

- Banks and credit unions
- Online lenders
- Home equity loan
- Family help
- Dealer/manufacturer



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## Purchasing Options (cont.)

### 3. Lease

- A contract granting use or occupation of property during a specified period in exchange for a specified **rent**. (The American Heritage Dictionary of the English Language, Fourth Edition.)

Need to know:

1. You must normally have very good credit to qualify for a lease.
2. Lease payments are generally lower than regular loan payments.
3. Ownership of the vehicle remains with the lessor.
  - Leasing does not allow you to build ownership value, or equity
  - However, you're free from the major expense of owning a newer car, which is depreciation.

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## Lease or Finance? Which option is best for you?

Five easy questions:

1. Do you drive more than 12,000 or 15,000 miles a year?
  - You may pay \$0.20 - \$0.60 per mile in extra mileage under a lease.
2. Do you take good care of your vehicle?
  - Parking-lot dings and fender-benders will cost you.
3. Do you foresee ever modifying your vehicle?
  - Under a lease, you don't own the vehicle.
4. Do you anticipate any lifestyle changes?
  - You'll pay through the nose to get out of a lease.
5. Do you mind always having a car payment?
  - A new car every three years means ongoing monthly payments.

If you answered YES to one or more of these questions then Leasing may not be the best option for you.

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**A home is the best big-ticket purchase you will ever make**

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## Home Ownership

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| <ul style="list-style-type: none"> <li>• <b>Advantages</b></li> <li>➢ <b>Freedom from renters' restrictions</b></li> <li>➢ <b>Financial Benefits:</b> <ul style="list-style-type: none"> <li>✓ Good return on your money</li> <li>✓ Build equity (in a stable market)</li> <li>✓ Interest may be tax-deductible (consult with tax advisor)</li> <li>✓ Stability of homeownership: knowing what your monthly costs will be</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• <b>Something to Consider:</b></li> <li>✓ <b>Long-term financial commitment</b></li> <li>✓ <b>Property value fluctuations</b></li> <li>✓ <b>Moving can be complicated</b></li> <li>✓ <b>Homeowners Association Dues</b></li> <li>✓ <b>Annual Property Taxes</b></li> <li>✓ <b>Repair/Maintenance Costs</b></li> <li>✓ <b>Utilities Expense</b></li> </ul> |
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## Two Basic Types of Home Loans

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| <ul style="list-style-type: none"> <li>• <b>Fixed Loan</b></li> <li>• Fixed interest rate over the loan term</li> <li>• Higher interest rates than initial rates on adjustable-rate loans</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Adjustable Loan</b></li> <li>• Flexible, floating loan, or ARM - adjustable rate mortgage</li> <li>• Lower initial interest rate than on a fixed rate loan ("initial fixed period")</li> <li>• Initially minimizes monthly payments and increases buying power</li> <li>• Lifetime or periodic interest-rate caps help protect you from soaring rates</li> </ul> |
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## Hybrid Mortgages

- **Combines fixed and adjustable rate mortgages**
- **Initial interest rate:**
  - fixed for a period of 3 - 10 yrs
  - lower than the one on a 30 yr fixed-rate mortgage
  - a little bit higher than the rate offered on a pure ARM that starts to adjust after just 1 year
- **Adjusts to ARM after the fixed period**
- **Can be a good deal for first-time home buyers**



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## Loan Assessment Basics

- **Your down payment amount**
- **Source of your down payment**
- **Loan to Value Ratio** =  $\frac{\text{Principal Amount of Loan}}{\text{Appraised Value of the Property (or Property's Purchase Price)}}$
- **Your debt-income ratio**
- **Your FICO score**
- **High FICO score + Low LTV ratio → more favorable rates**

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## Two Types of Mortgage Costs

- **Non-Recurring Costs**
  - **Lender Fees**  
(loan origination, appraisal and processing, underwriting, wire transfer fees)
  - **Title and Escrow Fees**
  - **Discount Points**
  - **Recording Fees, Transfer Tax, Prepaid Property Taxes**
- **Recurring Costs**
  - **Monthly Mortgage Payment**  
Principal plus Interest
  - **Annual Property Taxes**
  - **Private Mortgage Insurance**



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## Questions & Answers



## Appendix

## Useful Online Tools

- Student Loan Paperwork (in case you are missing it):
  - [www.StudentClearingHouse.org](http://www.StudentClearingHouse.org) – Student Loan Verifications
  - The National Student Loan Data System: [www.nslds.ed.gov](http://www.nslds.ed.gov)
- Consolidating Student Loans:
  - Sallie Mae: [www.salliemae.com](http://www.salliemae.com)
  - Department of Education: <http://loanconsolidation.ed.gov>
- Mortgage Calculators
  - [www.Bankrate.com/brm/mortgage-calculator.asp](http://www.Bankrate.com/brm/mortgage-calculator.asp)

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## Home Loans Glossary

- **APR (Annual Percentage Rate)** – the yearly interest rate on the loan that includes all additional fees you pay to borrow money
- **Closing costs** – the fees associated with completing a home purchase and are normally paid by the buyer.
- **Conditional commitment letter** – a letter from the lender saying they will lend you the money, once you fulfill certain conditions.
- **Credit history** – your track record of debt repayment
- **Down payment** – the money you contribute up front toward your home purchase; usually ranges from 3% to 20%+ of the purchase price. The difference between your down payment and the price of the home determines the amount of the loan you need.
- **Interest rate** – a percentage charged by the lender, paid by the person borrowing the money
- **Interest rate buy down** – an amount paid by the buyer, seller, or builder to lower interest rate for the first few years of the loan. Also called “discount points” where each point charged is equal to 1% of the loan amount.
- **Interest rate lock** – an interest rate is “locked in” when it is guaranteed not to rise until a certain date
- **Loan term** – the number of years you have to repay your loan
- **Property appraisal** – a written report that determines what your property is worth.
- **Prepayment penalty** – fee sometimes charged by the lender when a borrower pays off the loan early
- **Principal** – the amount borrowed, not continuing interest
- **Verification application information** – lender might require proof of income, assets, and employment

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## Shopping for a Mortgage

- **Know how much you can afford**
- **Obtain information from several lenders**
- **Fully understand the terms and costs of the loan:**
  - Loan amount
  - Loan term
  - Whether interest rate and mortgage amounts may change
  - Whether you will pay a prepayment fee or not
  - The total compensation you will pay to the broker for their services (Good Faith Estimate)
- **Negotiate the best deal!**

**Shop – Understand – Compare – Negotiate**

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### Effective Ways to Manage Your Credit Card Debt

- Improve your FICO score
- Negotiate a better deal with your existing creditor
- Shop around for lower interest rate offers
- Consider a balance transfer
- Hold the right cards (the longest grace period and reasonable billing cycle)

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### Effective Ways to Manage Your Credit Card Debt

- Pay more than just a minimum amount required



Minimum payments only

17% interest rate



Today: **\$900**

When debt is paid off: **\$2,700**

- Be punctual on your monthly payments
- Work with a credit counseling service if you are overwhelmed with the amount of debt

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