

# **TOOLS FOR FINANCIAL SUCCESS**

**Program Produced by  
Dr. Mark McCarthy, J.D., C.P.A.,  
and  
John Colgren**

**Distributed by...**



**united learning**

A DIVISION OF DISCOVERY COMMUNICATIONS


800.323.9084 | FAX 847.328.6706 | [www.unitedlearning.com](http://www.unitedlearning.com)

This video is the exclusive property of the copyright holder. Copying, transmitting, or reproducing in any form, or by any means, without prior written permission from the copyright holder is prohibited (Title 17, U.S. Code Sections 501 and 506).

© 2004 Dr. Mark McCarthy, J.D., C.P.A., and John Colgren

## Table of Contents

Introduction of Program . . . . .	1
Links to Curriculum Standards . . . . .	1
Summary of Program . . . . .	1
Instructional Notes . . . . .	2
Pre-Test and Post-Test . . . . .	2
Student Preparation . . . . .	3
Student Objectives . . . . .	3
Discussion Questions . . . . .	4
Description of Blackline Masters . . . . .	4
Answer Key . . . . .	5
Internet Resources for Students and Teachers . . . . .	10
Script of Narration . . . . .	10

 This video is closed captioned.

The purchase of this program entitles the user to the right to reproduce or duplicate, in whole or in part, this teacher's guide and the blackline master handouts that accompany it for the purpose of teaching in conjunction with this program, **Tools For Financial Success**. This right is restricted only for use with this program. Any reproduction or duplication in whole or in part of this guide and the blackline master handouts for any purpose other than for use with this program is prohibited.

**CLASSROOM/LIBRARY  
CLEARANCE NOTICE**

This program is for instructional use. The cost of each program includes public performance rights as long as no admission charge is made. Public performance rights are defined as viewing of a video in the course of face-to-face teaching activities in a classroom, library, or similar setting devoted to instruction.

*Closed Circuit Rights* are included as a part of the public performance rights as long as closed-circuit transmission is restricted to a single campus. For multiple locations, call your United Learning representative.

*Television/Cable/Satellite Rights* are available. Call your United Learning representative for details.

*Duplication Rights* are available if requested in large quantities. Call your United Learning representative for details.

*Quantity Discounts* are available for large purchases. Call your United Learning representative for information and pricing. Discounts, and some special services, are not applicable outside the United States.

Your suggestions and recommendations are welcome. Feel free at any time to call United Learning at 1-800-323-9084.

## **TOOLS FOR FINANCIAL SUCCESS**

**Grades 9-Up**

**Viewing Time: 22 minutes**

### **INTRODUCTION OF PROGRAM**

This 22-minute program brings energetic young actors and a light-hearted style to what is often considered to be a serious subject: everyday financial organization. Viewers are exposed to a wide variety of financial tools, which, when used correctly, can simplify and enhance life. After viewing this program and participating in its supplemental activities, your students will be better prepared to handle the financial challenges that confront young adults.

### **LINKS TO CURRICULUM STANDARDS**

*Tools for Financial Success* is based on the McREL Life Work Standard 3 (manages money effectively), level IV grade: 9-12, goals #3 (uses sound buying principles for purchasing goods and services) and #4 (understands credit and uses it effectively).

### **SUMMARY OF PROGRAM**

This program discusses many of the common tools that people can use to effectively organize their finances. Emphasis is placed on being in control of your financial life and taking responsibility. *Tools for Financial Success* begins by pointing out the need to identify the important goals you may have for the future. Once goals are identified, one can formulate a plan to meet those goals. Other segments include information that:

- ▶ Emphasizes the importance of keeping good financial records.
- ▶ Demonstrates some simple tools for organizing your finances.
- ▶ Discusses the details of checking accounts.

- ▶ Explains what it means to endorse a check.
- ▶ Encourages viewers to be careful about accepting someone else's check.
- ▶ Addresses the different kinds of bank savings accounts.
- ▶ Explains basic loan terminology.

### **INSTRUCTIONAL NOTES**

Before presenting these lessons to your students, we suggest that you preview the program, review the guide, and the accompanying Blackline Master activities in order to familiarize yourself with their content.

As you review the materials presented in this guide, you may find it necessary to make some changes, additions, or deletions to meet the specific needs of your class. We encourage you to do so; for only by tailoring this program to your class will they obtain the maximum instructional benefits afforded by the materials.

### **PRE-TEST AND POST-TEST**

**Pre-Test** is an assessment tool intended to gauge student comprehension of the objectives prior to viewing the program. Explain that they are not expected to get all answers correct, but they are expected to try their best. You can remind them that these are key concepts that they should focus on while watching the program.

**Post-Test** is an assessment tool to be administered after viewing the program and completing additional activities. The results of this assessment can be compared to the results of the Pre-Test to determine the change in student comprehension before and after participation in this lesson.

## **STUDENT PREPARATION**

Provide students with an opportunity to familiarize themselves with key vocabulary words prior to viewing the program. Duplicate and distribute **Blackline Master 8, Vocabulary List**, and, after studying it, allow time to work on **Blackline Master 9, Use the Correct Term**. This should help prepare students to view *Tools For Financial Success*. In addition, **Blackline Master 1, Pre-Test**, can be presented to the class.

## **STUDENT OBJECTIVES**

After viewing *Tools for Financial Success* and completing the follow-up activities, students should be able to:

- Describe the disadvantages of having bad financial records and being disorganized.
- Identify some simple tools that can help you stay organized.
- Describe the basics of checking accounts.
- Define NSF checks and overdraft protection.
- Explain the importance of keeping your checkbook up to date.
- Demonstrate how to balance your checkbook.
- Define what it means to endorse a check.
- Explain the importance of knowing the person who gives you a personal check.
- Give examples of some types of bank savings accounts.
- Define some basic loan terminology.

## **DISCUSSION QUESTIONS**

These questions appear on **Blackline Masters 5-7, Discussion Questions**, which can be duplicated and distributed to the class. Following the program, you may find it helpful to discuss the key concepts as a class. You may choose to use these questions to begin a discussion prior to viewing the program. Avoid answering questions directly; ask them higher-level questions allowing them to discover the answer as a group.

You may choose from the discussion questions for small groups to research and report back to the class, or for large group discussions. Feel free to add or delete questions to suit the needs of your class. Answers are included in the answer key of this guide.

## **DESCRIPTION OF BLACKLINE MASTERS**

**Blackline Master 1, Pre-Test**, is an assessment tool intended to gauge student comprehension of the objectives prior to viewing *Tools for Financial Success*.

**Blackline Masters 2-4, Post-Test**, is an assessment tool to be administered after viewing the program and completing additional activities. The results of this assessment can be compared to the results of the Pre-Test to determine the change in student comprehension before and after participation in this lesson.

**Blackline Masters 5-7, Discussion Questions and Activities**, has questions to encourage conversation and help identify student comprehension and areas of misunderstanding. Activity #2: This assignment can be given either as a team project or as an individual student assignment. Also, you may choose to use only one portion of the assignment (i.e., either the "auto loan" portion or the "student loan" portion).

**Blackline Master 8, Vocabulary List**, is a list of relevant terms and definitions.

**Blackline Master 9, Use The Correct Term**, is an activity that can be completed by students after exposure to the vocabulary list.

**ANSWER KEY**

**Blackline Master 1, Pre-Test**

- |          |          |
|----------|----------|
| 1. False | 6. True  |
| 2. True  | 7. True  |
| 3. False | 8. False |
| 4. False | 9. False |
| 5. True  | 10. True |

**Blackline Masters 2-4, Post-Test**

- |           |       |
|-----------|-------|
| 1. False  | 11. C |
| 2. True   | 12. D |
| 3. True   | 13. B |
| 4. False  | 14. A |
| 5. False  | 15. D |
| 6. False  | 16. A |
| 7. True   | 17. B |
| 8. False  | 18. A |
| 9. True   | 19. A |
| 10. False | 20. B |

21. When you think about your short-term and long-term goals, it's easier to identify what financial resources will be needed and when they will be needed. Once goals are identified, a financial plan can be created that can help you save and work towards reaching your goals.

22. Keeping your financial information organized takes very little time, but it prevents huge headaches later on. Recording and organizing things as they occur means you won't have to try to recall something that happened six months or a year ago.

23. Your balance in your checkbook is up to date except for some items in the bank statement of which you may not yet be aware, such as a monthly fee imposed by the bank. The bank statement balance is up to date as of the statement date, which might have been issued five to seven days ago. It does not

reflect things that have happened since that date, such as outstanding checks or recent deposits.

24. Outstanding checks are checks you've written that have not yet "cleared" the bank, and therefore, are not reflected in the bank statement for your checking account. When balancing your checkbook, outstanding checks should be subtracted from the balance in the bank statement to work towards the correct balance.

25. An NSF (non-sufficient funds or "rubber") check occurs when you have written a check that exceeds your account balance. Rubber checks will "bounce," which means your bank will refuse to pay it, and then you will have to deal with the very upset person to whom you wrote the check.

26. The clerk required Julia to endorse each check. By doing so, Julia has agreed to accept responsibility for each check. If any one of them bounces, Julia has authorized her bank to reduce her account balance for the "rubber" check.

27. If the person who gave you the check doesn't have sufficient funds in his account, the check will bounce and you will have to pay your bank for the full amount. You will probably also be charged a service charge by your bank.

28. Joe should not take it personally. Not knowing Joe, the store is just trying to protect itself against being stuck with a "rubber" check. A cashier's check gives the store confidence that it won't bounce.

29. Bank "money market" accounts allow you to write only a small number (often, three) of checks each month, so this type of account wouldn't work well as your "everyday" checking account, but can be useful to pay for an occasional large, unexpected expense.

30. Accrued interest is interest that has been built up but has not yet been paid. It will have to be paid, along with any interest that will "accrue" in the future, on the date agreed to by the lender and borrower.

31. Lou's plan is a bad idea for a number of reasons. It will buy him very little time, a few days perhaps, but it will greatly increase his problems. His bank will charge a substantial fee for each bounced check. If he gives a store a rubber check, it will probably add on its own fee as well. Writing rubber checks can also harm your credit rating, making it difficult in the future to get a loan. A bad credit rating can also cause difficulties when trying to rent an apartment or when looking for a job. Finally, if you make a habit of writing bad checks, you can even wind up in jail for fraud.

Lou should contact the people he owes to try to work out an agreement for payment. Perhaps they would agree to a payment plan that relieves some of the pressure on Lou. This would certainly be better than the "head in the sand" plan Lou is considering.

32. When interest compounds, the accrued interest is added to the principal amount and future interest charges will be based on this new higher balance. So Stan's true interest rate is actually a little higher than Laura's, because for Stan, the first month's interest will be added to the \$4,000 when calculating the second month's interest. The total interest charge each will pay is calculated as follows:

Laura

$$\begin{aligned} \text{Total interest} &= \text{Principal} \times \text{Rate} \times \text{Time} \\ I &= \$4,000 \times .18 \times 2/12 \\ I &= \$120 \end{aligned}$$

Stan

$$\begin{aligned} \text{First month's interest} &= \$4,000 \times .18 \times 1/12 \\ &= \$60 \\ \text{Second month's interest} &= \$4,060 \times .18 \times 1/12 \\ &= \$60.90 \\ \text{Total interest} &= \$60 + \$60.90 = \$120.90 \end{aligned}$$

**Blackline Masters 5-7, Discussion Questions and Activities**

1. Stan's checkbook register should be updated for the \$5 checking account fee revealed in the bank statement. So the correct balance in Stan's checkbook register is  $\$360.00 - \$5.00 = \$355.60$ . The checkbook balancing form should look as follows.

CHECKBOOK BALANCING FORM

1. Write in the ending balance shown on the bank statement. \$448.10
2. List deposits not shown on bank statement.  
Add total to line 1. \$235.00
- TOTAL     + \$235.00
3. List outstanding checks and other subtractions not shown on bank statement.  
Subtract total from line 1.
- \$150.00  
\$ 37.50  
\$ 75.00  
\$ 65.00  
\_\_\_\_\_
- TOTAL     - \$327.50
4. After you figure in all the additions and subtractions, this amount should match the current balance in your checkbook. =\$355.60

**NOTES**

- Some students may ask why the \$5 checking account fee is not subtracted on line 3 of the checkbook balancing form. The reason is that the fee has already been subtracted from the ending balance shown on the bank statement (line 1).
- Some students may wonder why Stan's first check was #1001 (rather than #1). Banks frequently advise their customers to do

this with new checking accounts to disguise the fact that the accounts have been recently established. Some people might be reluctant to accept a personal check from an account that appears to have been recently established, out of fear that the check is more likely to be a rubber (non-sufficient funds) check.

#### 2A. Auto loan research:

Some of the things students are likely to report are:

- Auto loan terms typically are 3, 4, 5, or 6 years in length. As a general rule, the longer the term, the higher the interest rate.
- Auto loans are always "secured" loans.
- If a payment is late, a penalty will likely be imposed. If payments are missed, the car can be repossessed. The loan agreement will specify the borrower's rights in these circumstances.
- Auto loan can typically be paid off early. However, often a special formula is used to determine the pay-off amount. The result can mean that a higher than expected amount of the payments that have been made are counted as interest, with less counted as principal. This can mean a higher pay-off amount than one might get without the special formula.

#### 2B. Student loan research:

There are a number of student loan programs available. Eligibility for some are closely tied to a student's family financial situation, while others are generally open to all students. Terms and interest rates can vary dramatically depending on the program. For some programs, interest does not have to be paid or even accrue while you are in school. For others, interest doesn't have to be paid but does accrue while in school. Still others require actual payment of interest during the school years. All programs will specify the date for payments to begin. Some programs will allow for required payments to be postponed under certain circumstances (e.g. continuation of schooling).

#### **Blackline Master 9, Use the Correct Term**

- |                      |                           |
|----------------------|---------------------------|
| 1. Secured Loan      | 6. Overdraft Protection   |
| 2. Endorse a Check   | 7. Certificate of Deposit |
| 3. Outstanding Check | 8. Accrued Interest       |
| 4. Safe Deposit Box  | 9. Term                   |
| 5. Direct Deposit    | 10. Unsecured Loan        |

## **INTERNET RESOURCES FOR STUDENTS AND TEACHERS**

The following websites are interesting and informative resources which students and teachers can use to conduct additional exploration and research on financial matters.

[www.creditfederal.com](http://www.creditfederal.com)

This site includes "How to read a bank checking account statement" and "How to balance a checkbook."

[www.bankone.com](http://www.bankone.com)

Interesting savings calculators, including how to save for a vehicle, home, or college education.

[www.bankrate.com](http://www.bankrate.com)

This "all purpose" loan site deals with all types of loans. Includes some interesting calculators.

[www.jumpstart.org](http://www.jumpstart.org)

Dedicated to promoting personal financial literacy for students.

## **SCRIPT OF NARRATION**

### **A Plan**

One of the first things you should do when looking at your financial situation is to establish a plan.

You wouldn't go on a vacation without consulting maps and determining a careful plan.

Without a plan, a nice leisurely car trip out west could turn into a nightmare. That's why it's important to plan for financial success.

You can begin by determining your short-term goals, which are things you would like to accomplish in the next few years. Long-term goals might cover the next five or ten years. For instance, you may have a short-term goal of getting a degree from a college or university.

Or maybe you have a long-term goal to purchase a home in the next few years.

Possibly you are planning to get married and would like to raise a family.

All of these goals require a large financial investment. To accomplish this, you should create a financial plan that can help you to work and save towards reaching your goals.

Take a piece of paper and list some short- and long-term goals about which you have been thinking. What will it take to accomplish those goals? What kind of financial investment do they represent? How do you expect to benefit by attaining your goals?

For instance, you will probably have to take out student loans to get that college degree, but it'll pay off in the long run because a college degree will increase your future earning potential.

However, a goal of owning the fanciest sports car on your block may not be very practical because a purchase like that often decreases in value as soon as you drive it off the car lot. Usually, it is not an investment that will increase in value during the time you own it, and it could easily put a terrific strain on your financial well-being. Make choices carefully and consider the overall long-term consequences for each financial choice you make.

### **Personal Recordkeeping**

Sgt. Thursday: "There are a million stories out there in the big city. Actually, every year there are a million stories throughout the entire U.S. Stories that are all different and yet surprisingly similar. Yes, the stories of bankruptcy and poor financial planning. I'm Sgt. Thursday and this is Detective February and these are the stories of poor money management."

"It started with a frantic phone call and a hysterical voice. Someone was in trouble and big trouble."

"We rushed over to the corner of Despair and Confusion. She was easy to spot. Nervous, anxious, and very perplexed. We established that she was in trouble, deep."

Sgt. Thursday: "Well ma'am, what seems to be the problem?"

Lady: "I'm in trouble deep! I'm really confused. I can't even remember what I own. I can't even remember if I ever bought that house in the suburbs."

Sgt. Thursday: "Well let me see your financial records."

Lady: "What financial records?"

(voice over- WILL) "It took only a quick glance to see her problem. She hadn't kept good records. She forgot to keep her financial information in an organized manner. Just a few extra minutes would have saved all this confusion and anxiety."

Sgt. Thursday: "Well ma'am, your problem is a common one. You neglected to keep good records. You need to keep your financial information in an organized manner."

Lady: "Thanks I don't know how else to thank you."

Sgt. Thursday: "That's okay. It's just another day in the big city."

It is a good idea to be organized about your money matters. Now this is not difficult. Gather a few folders and label them to include the following things. One folder should be for credit card receipts. You should have another one for paycheck stubs, medical bills, and insurance information. One for cancelled checks and bank statements. Any other insurance policies you may have should be included in another. And finally, be sure to have your tax information for each year. Information such as your W2 form which would be sent by your employer or your 1099 forms for interest and dividends should all be included in that folder. It's a good idea to keep it all together in case you need to access your financial information for times like tax time.

After submitting your tax return, keep all pertinent papers and copies of these papers in a folder labeled by each year. And you'll want to keep this information for at least seven years.

Now there are some other papers and documents that you're going to want to keep organized in folders. These should include credit card statements, bank statements and canceled checks, any home improvement records, household bills, investment statements, pension plan statements, and any insurance policies you may have.

Later on, you may consider renting a safe deposit box at your bank for very important documents. Stock certificates, copies of your will, deeds and mortgages for real estate, auto titles, and a listing and receipts for expensive possessions and property. Many people will also include photographs of their possessions in their safety deposit boxes.

You might want to take a few minutes one day and walk around your house and take pictures of your valuable possessions. Now you'll want to keep these and maybe any receipts you have in case they're lost or stolen, destroyed in a natural disaster like a tornado or flood. And take them and store them in a safe place like a safety deposit box at your bank. Or if you don't have a safe deposit box, then leave them with a friend or relative outside of your house.

### **Checking Accounts**

A checking account is an account you establish at a bank. You deposit money into the account and you write checks to pay for things. Of course, you can only write checks for amounts that have already been deposited in the account, or you run the risk of "bouncing" checks.

If you write a check that exceeds your account balance it will bounce. This is known as a "non sufficient funds" check, or NSF, or a rubber check. It's a really bad idea to write rubber checks. For one thing, there will be lots of penalties, such as bank fees and fees from merchants, or you can even wind up in jail for fraud if you make a habit of bouncing checks.

When you sign up for a checking account your bank usually offers you what is called "overdraft protection." This protects you in case you accidentally write a rubber check. If it is offered to you, it is a good idea to sign up for this. If you write a rubber check without overdraft protection, the bank will charge you substantially for any check you "bounce." But with overdraft protection, the bank will cover that amount until you are able to deposit enough money into your checking account. But don't abuse the privilege of an overdraft protection.

To avoid writing bad checks, always keep your checkbook up to date. This is very easy. Whenever you write a check, make a deposit, or incur any service charges, take a few minutes to record all the information. You may also withdraw money from your checking account by using an automated teller card; make sure to record all the information, including any bank fees!

Now when you're writing a check, don't forget to write the date, the check number, who you are writing the check to, and the amount of the check. Also, you'll want to subtract the amount of the check from the balance. This will save you some headaches and avoid any confusion later on.

### **Balancing a Checkbook**

Some people would rather have a root canal than balance their checkbook. But actually, it is really very easy and well worth the ten to fifteen minutes a month that it takes. Let's look at an example.

Now you have just received your bank statement and it shows a balance of \$600, whereas your checkbook reflects a balance of \$750. Now don't panic and run off to the dentist. The difference is timing.

Your checkbook reflects all activity right up to today's date, whereas your bank statement date may have been issued a week ago. So the difference between your checkbook and the bank statement could be a week's time. So balancing your checkbook involves adjusting your bank statement to reflect all the activity that has happened in your checkbook since that time of being issued.

Now often, banks will send a simple form along with your statement that can help with this process.

Or you can even find a calculator on the bank website that will help you calculate. But a piece of paper will simply do the job.

So when you compare the bank statement with your checkbook, you notice two things. You did a deposit of two hundred fifty dollars a few days ago. The second thing you notice is that you wrote two checks for seventy-five dollars and twenty-five dollars. Those were also written a few days ago and which aren't reflected on the bank statement either.

So when balancing your checkbook, you take the bank statement amount of \$600. First you add the deposit amount from a few days ago of \$250 and that gets us up to \$850. Still not right yet. So now if you remember the \$75 check plus the \$25 check would be a \$100. So you take that \$100 that was recorded in your checkbook a few days ago, you subtract it from our new balance of \$850 and you get the correct balance of \$750. So your bank statement now matches your checkbook. Now sometimes the amounts won't agree, which means you're going to have to go back and figure out why. It's rare that a bank statement will contain incorrect information, so that's why it's so important to record all activity right away. So what you'll need to do is go back in time and look at your statements and find what you forgot to record. It's easier to record right away than going back in time and playing checking account detective.

### **Endorsing a Check**

When someone gives you her check, typically you will deposit it in one of your accounts at your own bank. The bank will require you to sign the back of the check, or "endorse" the check.

Yeah, what's the deal with that?

Here's the deal. When you endorse a check, you are promising to cover the full amount of the check if it turns out to be a "rubber" check.

In other words, if the person who gave you the check doesn't have sufficient funds in her checking account, then the check will bounce and you will have to pay your bank the full amount of the check. You will probably also be charged a service charge. Probably somewhere around \$25.

That's why it's so important to know who is giving you the check.

(Student testimonial) “Yeah I was at dinner with a group of people last fall. I didn't know all of them but I knew some of them. There was this guy and he said to me ‘Hey, I don't really have any money right now, but if you pay for me, I'll write you a check.’ And I said ok. So I go to my bank and I try to cash the check, but it bounces. So not only did I pay for some dinner for some guy that I didn't but the bank charged me \$20 for a bounced check. Now do you think I have any hope of collecting from some guy that I don't even know?”

### **Related Checking Issues**

Most banks encourage what is called direct deposit. Usually this involves your paycheck from work. With direct deposit, your employer sends your pay directly to your checking account at the bank. This eliminates the need for a paper check, a trip to the bank, or problems of lost or stolen paychecks. It's a great convenience.

Sometimes you need to refer back to a check you wrote some time ago. Now different banks handle this in different ways. Some will send you the actual cancelled check and you'll want to keep these in a safe place, consider putting them in a labeled shoebox or folder for some time and put it away so nobody can find it.

Now other banks might store your checks electronically. So if you need to go back for a record, usually you can request it at no other charge.

There are certain situations where someone won't want to take your personal check because they don't know you. They may require a cashier's check or a money order. These can be pur-

chased at any bank and many other institutions. They give the person receiving the cashier's check or money order confidence that it won't bounce.

Some people like to use traveler's checks when they travel. These work just like cash and can be purchased at your bank. Advantages are that they are recognized and accepted worldwide, and you won't have to exchange them for local currency, and the bank can replace them if they are lost or stolen. The disadvantage is that there is a fee for purchasing them.

### **Savings Accounts**

In addition to having a checking account, you may also want to have a separate bank savings account. The reason is that a checking account may not pay you interest while a savings account will. Interest is money that your bank pays you, based on your account balance.

There are many different types of savings accounts. Some banks still offer what are called pass book accounts. The bank gives you a small booklet and all interest, withdrawals, and deposits are recorded directly into the passbook.

Many banks no longer offer passbook accounts. Instead they offer what are called "statement savings accounts." Once a month, a statement is sent to you that lists all interests, withdrawals, and deposits associated with your account.

One variation of this is what's called a "money market account." These accounts offer a higher interest rate than a simple statement savings account but you have to maintain a substantially higher balance in order to obtain that interest rate. Also, they allow you check writing privileges for a small number of checks each month. This account won't replace your everyday checking account, but it can help to pay for any occasional unexpected large expense.

Another type of bank account is a "certificate of deposit" or a "cd." The advantage of a cd is the higher interest rate than from other bank accounts. The disadvantage is that you are investing your money for a certain time period, such as six months,

a year, or more. If you want access to your money before that time period has elapsed, you can get it but you will be charged a substantial penalty fee.

### **Loan Terminology Basics**

In our modern world, just about everyone will borrow money at some point. It may be a home loan, student loan, or even a car loan.

Certain common terminology applies to all loans. "Principal" is the amount you borrow when you first take out the loan.

"Interest" is the fee the lender charges you because they are willing to give you the loan and wait for payment. The correct, legitimate way for the lender to state the applicable interest rate is called the "annual percentage rate" or apr. The "term" of the loan is the length of time you are given to repay the loan. You can calculate the amount of interest you'll pay over the term of the loan by multiplying the principal times the rate times the term. For example: Let's say you borrow \$2,000 at 18% apr for three months. The interest you'll pay would be \$2,000 times 18% times 3/12 for a total of \$90.

Accrued interest is interest that has built up but has not yet been paid. In the previous example where we had ninety dollars of interest over three months, what would be the accrued interest after two months?

It's zero because the loan isn't due for another month. (WRONG SOUND)

That would be 2/3 of ninety dollars or sixty dollars. (CORRECT SOUND)

Yes, that's right. The built-up interest after two months on a three-month loan would be 2/3rds of \$90 or \$60.

I won.

Any time you take out a loan, you'll need to know how often the interest compounds. When interest compounds, the accrued in-

terest is added to the principle amount and future interest charges will be based on this new higher balance.

So the more frequently a loan compounds, the higher is the true interest rate on the loan. So 10% compounded monthly is a higher interest rate than 10% compounded annually.

Let's return to our original example. In that example, the \$90 of interest was calculated on the basis of a single interest calculation made at the end of three months. If there had been monthly compounding instead, then the interest would have been \$91.81, or \$1.81 higher. When you apply for a loan, make sure you understand how your interest will be calculated!

Some loans are secured loans. Some loans are unsecured loans. With a secured loan, the lender can take certain property from you if you fail to make the payments. Examples of secured loans are house loans, or car loans, or boat loans.

In an unsecured loan, the lender is relying only on your general credit rating to predict whether you'll make the payments. Examples are student loans and credit cards.

### **Summary**

In this program, we discussed tools for establishing financial success.

One important tool is to have a plan. Identify your short- and long-term goals so you know for what you are working and saving.

Keep good records. They'll save you a lot of headaches later on.

Checking accounts are a good financial tool. But remember, you must keep up-to-date, complete records in your checkbook.

Most people have a bank savings account as part of their total financial plan.

Almost everyone will someday be a borrower. Make sure you understand the terms and conditions of your loan before you commit to something. Don't be intimidated by a lot of fancy words.

If you do a good job using all of these financial tools, you will be on the road to financial success.