

## **4-1: Decide Whether to Borrow**

<p><u>Cast List</u></p> <ul style="list-style-type: none"> <li>• Darryl</li> <li>• Terri</li> <li>• Daisy Muntz – white female, 50-60; lead consumer reporter for <i>The Detroit Herald</i> newspaper</li> <li>• Dante – early 20s, recently banked Hispanic male</li> </ul> <p><u>Bit Parts</u></p> <ul style="list-style-type: none"> <li>• Used Car Salesman (male, any age/ethnicity)</li> <li>• Car Shopper 1 (female, any age/ethnicity)</li> <li>• Car Shopper 2 (male, any age/ethnicity)</li> <li>• Friend of Car Shopper 2 (male, any age/ethnicity)</li> </ul> <p><u>Synopsis</u></p> <ul style="list-style-type: none"> <li>• Hosts go with Dante to look for a used car and discuss whether or not it makes sense to take out a car loan</li> <li>• Daisy helps explain how credit works</li> </ul> <p><u>Location</u></p> <ul style="list-style-type: none"> <li>• Used car dealership in or close to Detroit</li> </ul>	<ul style="list-style-type: none"> <li>A. Credit is not Extra Money             <ul style="list-style-type: none"> <li>a. Borrowing can be convenient, useful in emergency, help reach financial goals</li> <li>b. Must be paid back over time</li> <li>c. There is a cost in interest and possible fees</li> <li>d. Important to borrow for good reasons, when you are sure you can pay the money back</li> </ul> </li> <li>B. Calculate the Cost             <ul style="list-style-type: none"> <li>a. People from whom you borrow money are creditors</li> <li>b. Creditors are paid in interest – extra money you pay for the privilege of borrowing</li> <li>c. Things you buy by borrowing cost more because of the interest you pay over time</li> <li>d. You can calculate this cost.                     <ul style="list-style-type: none"> <li>i. For example, \$5K loan at 8% interest for 3 years...</li> </ul> </li> <li>e. Fees and penalties may add to this cost</li> <li>f. You should consider this total cost when deciding whether to borrow</li> </ul> </li> <li>C. Credit Cards             <ul style="list-style-type: none"> <li>a. Borrowing money from credit card company</li> <li>b. Not your money, a loan with interest – buy now, pay later</li> <li>c. Convenient</li> <li>d. Fees, penalties, and possible damage to credit with misuse</li> <li>e. Other Types of Cards                     <ul style="list-style-type: none"> <li>i. Stored-value cards (gift cards, pre-paid)</li> </ul> </li> </ul> </li> <li>D. Collateral and Repossession             <ul style="list-style-type: none"> <li>a. Many loans are "secured" by collateral</li> <li>b. The creditor may own the collateral until the loan is repaid</li> <li>c. If you don't repay on time, the creditor can repossess the collateral or take other action</li> <li>d. You may lose the collateral plus any money you have already paid</li> </ul> </li> <li>E. Avoid the Credit Trap             <ul style="list-style-type: none"> <li>a. Some people borrow more than they can afford to pay back</li> <li>b. Because of interest, the amount they owe keeps going up</li> <li>c. They may borrow more to pay loans they have already taken</li> <li>d. You can avoid this trap by understanding what you are borrowing and being sure that you can repay the loans on time.</li> </ul> </li> <li>F. Comparison Shop             <ul style="list-style-type: none"> <li>a. There are many different ways to borrow money for almost any purpose</li> <li>b. The costs and terms can be very different</li> <li>c. Some ways can save you lots of money over time.                     <ul style="list-style-type: none"> <li>i. For example, home equity line vs. credit card interest...</li> </ul> </li> <li>d. Some ways may be much safer for you</li> <li>e. It's worth it to shop for options</li> </ul> </li> <li>G. Get Advice Before You Borrow             <ul style="list-style-type: none"> <li>a. Bank loan officers                     <ul style="list-style-type: none"> <li>i. No fee for shopping</li> </ul> </li> <li>b. Credit counselors</li> <li>c. FDIC.gov</li> </ul> </li> </ul>
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*Theme music up*

**TERRI**: Welcome to this edition of the “Money Smart Podcast Network, with Terri and Darryl.”

*Cross-fade music with SFX: city exterior, car dealership (so, there will be the occasional sound of a car engine starting, doors and trunks opening and closing)*

*Music down*

**TERRI**: *(a little perplexed)* I’ve just arrived at a used car dealership in Detroit. Darryl was supposed to – but I don’t know if he’ll even be here today. He was supposed to meet me to—

**DARRYL**: *(calling over from another aisle)* Hey, Terri! What took you so long?!

*SFX: footsteps; they get louder as Darryl and Dante walk closer*

**TERRI**: What took...are you kidding me? We were supposed to come over together. I was worried about you!

**DARRYL**: Nah, no reason to be worried! Dante and I decided to come over early and get a head start.

**TERRI**: *(to Darryl)* Head start?! Darryl we talked about—

*SFX: footsteps stop as the two have joined Terri*

**TERRI**: *(to Dante)* Hi, Dante.

**DANTE**: Hi.

**DARRYL**: What?!

**TERRI**: We’ll talk about this later! Anyway *(to audience)*, audience members might remember Dante from Module 1, when Darryl and I brought this fine young man into a bank for the first time.

**DANTE**: I was in a bank before!

**DARRYL**: Wasn’t that just to get quarters for laundry?

**DANTE**: It counts....

**TERRI**: Ok, we brought him on his first trip to a bank that had nothing to do with getting rolls of coins. We gave him an introduction to the services offered by many banks and explained why banks are safe places to keep your money.

**DARRYL**: Don’t forget Module 2.

TERRI: I wasn't.

DARRYL: It sounded like you might.

TERRI: (*ignoring him; maybe she lets out a small sigh*) In Module 2, we were lucky enough to get Dante to agree to let us tag along as he opened a checking account.

DARRYL: (*a little nostalgic*) I...I feel like he's growing up so fast.

TERRI: (*overlapping a little with Dante*) He's a grown man, Darryl!

DANTE: (*overlapping a little with Terri*) I'm a grown man, Darryl!

DANTE: (*to Terri*) I'm just ignoring him.

TERRI: And a smart young man, at that.

DARRYL: Today, Dante has asked us to accompany him to a used car dealership to purchase a car.

DANTE: Whoa! As much as I'd love to drive away in one of these beauties today, I still don't have the money.

DARRYL: Well, my friend, that's what credit is for!

TERRI: (*jumping in*) Let me help Darryl rephrase – Today, Dante has asked us to accompany him to a used car dealership to discuss loans and credit – and decide whether or not taking out a car loan is something he should try to do right now.

DARRYL: Of course he should. What guy doesn't need wheels!

TERRI: Darryl!

DARRYL: (*he jumps on her line and backpedals, as he realizes his mistake*) I mean, uh, it's about *quality of life*. Dante has a two-hour commute to work that requires two buses. Then he's got a two-hour commute home. That's four hours and four buses a day!

TERRI: Thank you, Darryl, for the math lesson. Look, Dante, I'm not going to say that having a car isn't going to make life easier for you in some ways, like with your commute. Borrowing money can make certain things in life a lot more convenient.

DARRYL: And travel is even *more* convenient when it's in...a convertible!

TERRI: *Darryl!*

DARRYL: Sorry.

TERRI: To continue... borrowing money can also be useful in some emergency situations – maybe you have some medical bills you weren't expecting, for instance.

DANTE: I understand.

TERRI: Also, a loan can also be a good way to help you reach your financial goals. For example, if you're someone who dreams of owning your own home—

DANTE: —owning a home? I never thought I could do that!

TERRI: Sure! A mortgage – that's what a home loan is called – a mortgage might make sense at some point in your life.

DARRYL: Most people can't afford a home without a mortgage.

TERRI: That's right. And if a house is something you want at some point, it can make good financial sense to make monthly payments toward a place you'll own.

*SFX: faint sound of female footsteps; they get louder as Daisy walks closer*

DANTE: I'd like that....

TERRI: That's where we start talking about how loans work. Dante, we actually have a guest – oh, here she is!

*SFX: footsteps get louder still as Daisy walks closer and stop as she joins the group*

DAISY: (to Darryl, Terri) How are you, dears?!

*SFX: Darryl and Terri greet Daisy, saying "Great" "It's so good to see you again!" and so on; can be sounds of pecks on the cheek, etc.*

TERRI: (to Dante) Dante, let me introduce you to Daisy Muntz. She's a long-time friend of ours and she's the lead consumer reporter for *The Detroit Herald*.

DAISY: Hello, Dante. It's so good to meet you.

DANTE: Hi. Wait – Daisy *Muntz*? Hey, my mom reads your column all the time.

DAISY: She reads "Money with Muntz," huh?

DANTE: Yeah. She's gonna be excited I got to meet you. A long time ago she clipped out an article you wrote on...canned soup or something? It's still up on the refrigerator.

DAISY: Ah, yes. What I think you're talking about was a comparison of the quality of store brand canned vegetables among local supermarket chains.

TERRI: Didn't that article put some store out of business?

DAISY: Almost. (*proudly*) I was singlehandedly responsible for the city-wide canned okra recall of 1996.

TERRI: Impressive!

DAISY: So, Dante, I'm told we're here because you're considering a car loan.

DANTE: Yeah.

DAISY: And from what I just overheard, it sounds like you, Darryl, and Terri were just getting into the details of borrowing money.

DARRYL: Yes, that's right

DAISY: So, Dante, in general, unless you're borrowing money for a *very* short time period – and from a *very* good friend (*chuckles a little*) – there are certain realities you need to consider carefully.

DANTE: Ok.

DAISY: So, when you borrow money – whether it's for a car or for anything else – you need to understand that it's not “extra money.” You're required to pay back every penny of that loan over time. It can be a big commitment – sometimes you'll be paying back a loan over a period of years. I always want to make sure to tell people that it's important to borrow money for good reasons, and when you're sure you can pay the money back.

DANTE: Hmm. Alright.

DAISY: (*to Darryl, Terri*) Darryl, Terri! Oh, my! I didn't mean to just take over like that.

TERRI: That's why we asked you here!

DARRYL: Please continue!

DAISY: Forgive me. Sometimes I have a way of taking over a situation. (*to Dante*) So, Dante, another important thing to keep in mind about borrowing money is that you'll not only be repaying the lender the amount you borrowed.

DANTE: There's more?

DAISY: Sure. Lending money is a service. So in addition to repaying the loan, you'll be asked to pay the creditor – that's a fancy word for “lender”—

TERRI: —the creditor for a loan is usually a bank—

DAISY: —right. So you’ll be asked to pay the bank the money you borrowed, plus an additional amount of money for the service itself. That’s called “interest.”

TERRI: There may also be some additional fees....

DARRYL: Sometimes it seems like there are additional fees for everything!

DAISY: I don’t know if that’s true of everything, Darryl! But, Dante, I always want to make sure to tell people that it’s important to borrow money for good reasons, and when you’re sure you can pay the money back.

TERRI: I agree.

DAISY: When making a decision will affect your bills every month for what could be years, you owe it to yourself to consider all of the extras and how the payments will impact you as time goes on.

DANTE: Oh.

DAISY: I’m just saying that taking out a loan is a big commitment with consequences that can last for a significant amount of time. So make sure it’s worth it to you.

DANTE: I think I get it.

*SFX: over next few lines, background sounds of a salesperson and woman looking at a nearby car; maybe we hear a car door closing or a window going down; some muffled voices*

DAISY: Good! So, let’s use an example and think through some of the steps. Let’s say you borrow \$5,000 for a car. The creditor has specified you’re to pay the loan back in monthly installments over the next three years.

DANTE: What’s the interest rate for this loan?

DAISY: Aha! Good for you for asking!

*SFX: some muffled voices continue; their conversation then becomes clear...*

USED CAR SALESMAN: (to Car Shopper 1) Ma’am, you cannot go wrong with this car!

DAISY: (to Dante, Darryl, Terri) Will you three please forgive me for a moment? (to Car Shopper 1, who is looking at a nearby car) Sweetheart, before you buy this car...

CAR SHOPPER 1: Huh?

DAISY: Do you see how the bottom half of the fabric on the seats is darker than the top half?

CAR SHOPPER 1: Uh...yeah?

DAISY: I think that car was in a flood.

CAR SHOPPER 1: (*appalled*) No!

USED CAR SALESMAN: No, no! That's nothing. It's a design element. The previous owner was an architect. Had to customize everything—

DAISY: (*to Car Shopper 1*) —if the trunk has rust in it, walk away, sweetie.

*SFX over the next few lines: we hear the faint sound of a trunk opening and slamming shut; Car Shopper 1 and Used Car Salesman have words (although we cannot hear what they say) and we hear female footsteps marching away*

DAISY: (*chuckling*) A car should *never* have a “high tide” line. (*back with Dante, Darryl, and Terri*) Oh. Where were we?

DANTE: Interest on a three-year, five thousand dollar loan.

DAISY: Right. Let's say the bank is charging eight percent interest.

DARRYL: So, with interest, your payments would be one hundred and fifty-seven dollars per month for three years.

DAISY: That's assuming there are no fees, like an application fee.

TERRI: And assuming there are no penalties, which you'd get if you missed a payment.

DANTE: That's a lot of money for three whole years.

DARRYL: And you'll want to put money into it for racing stripes.

TERRI: Uh, let's say you'll have regular maintenance and probably a few normal repairs.

DANTE: Hmm...well, what if I skipped the loan and put the five thousand dollars on a credit card instead?

DAISY: (*overlapping Terri, Darryl*) No, sweetie, no!

TERRI: (*overlapping Daisy, Darryl*) Please don't!

DARRYL: (*overlapping Daisy, Terri*) Whoa, not a good idea, man!

DANTE: Wow! Why is that such a bad idea?

TERRI: Most people don't think of it this way, but a credit card is also a loan. You're supposed to pay back the money you charge at the end of every monthly billing cycle. If you don't, you have to pay—

DAISY: —interest which can be costly. Instead of the hypothetical eight percent figure we used for your bank loan, you could pay between twelve percent and twenty percent...

DARRYL: And fees.

DAISY: It can keep you in debt for a long time, and it could also hurt your chance to get loans in the future if you don't manage your debt well. Credit cards are very convenient, but it's generally best to use them only for items you can pay back each month.

DANTE: Ok, ok, ok! Got it. So whatever I borrow money for, I know I have to be able to afford the payments and all.

DARRYL: That's the best way to do it.

DANTE: But when a bank looks at my credit, don't they look at what kind of payments I can handle? Isn't that part of why they check a person's credit?

DAISY: That's one thing they assess. You're right, they probably won't give you a loan if they don't think you can handle paying them back. *But* they also don't know what your expenses are and your priorities, or plans.

TERRI: So, just because someone is willing to lend you money, doesn't mean you should take it.

DAISY: Look, sweetie, I'm not going to say that having a car isn't going to make life easier for you in some ways. But if you take on more debt than you can handle, life's going to start getting a lot harder.

*SFX: sound of a nearby car engine starting; some muffled conversation is heard in the background*

TERRI: In fact, when it comes to big purchases, like a house or a car, creditors often require collateral.

DANTE: Collater-what?

*SFX: some muffled voices continue; their conversation then becomes clear...*

CAR SHOPPER 2: Man, the exhaust from that thing *stinks*.

USED CAR SALESMAN: No worries! That's from a special additive we put into the gas tank to make the car run cleaner.

FRIEND OF CAR SHOPPER 2: Cleaner? The exhaust is *black*.

USED CAR SALESMAN: It runs one thousand times better now. The exhaust will work itself out. Trust me.



DAISY: Dante, hold that thought! *(to Car Shopper 2 and Friend, who are looking at a nearby car)* Boys, the only thing that car will do is stall out on the freeway. The catalytic converter is about to go and you *do not* want to be the owner when that happens.

*SFX: car engine stops abruptly*

CAR SHOPPER 2: We're outta here.

*SFX: Car Shopper 2, Friend, and Used Car Salesman have words (although we cannot hear what they say) and we hear angry footsteps leaving*

DAISY: *(back with Dante, Terri, and Darryl)* Forgive me! So—

DANTE: Collater-something.

TERRI: It's something of value that you promise to give the lender if you can't pay back your loan. A lot of times you're "securing" the loan with the item you're getting the loan for, like a house or car.

DAISY: Right. When you take out a loan to buy a car, most times the lender actually owns the car and is letting you drive it. So long as you make all the payments, the car then will be all yours. If you can't pay back the loan, the lender will "repossess" the car – that means they'll take it and sell it to cover their loss.

DARRYL: *(to Dante)* So, which car are you driving home in today?!

DANTE: I have a headache....

DAISY: Dante, sweetheart, I didn't mean to scare you. These are just some of the realities you need to consider. You should have control over your money – including your debt – so that it *enhances* your life and makes it easier. Don't let it get *in the way* of your life.

TERRI: Right. A home, education, car, an unexpected emergency. Just think about a loan's possible effects – good and bad. Only borrow what you can afford to pay back, so you don't get trapped by overwhelming debt. And when it comes to credit cards, pay off balances as soon as you're able, and definitely more than the minimum each month.

DAISY: And remember that you can – and should – comparison shop for loans. I suggest you talk to loan officers at FDIC-insured banks. Talking to them is free and it's not uncommon to find better rates by working with the bank directly!

DANTE: Ok. I think I've got it. I'm...going to take a little more time to figure out when – and if – I should take out a car loan.

DARRYL: Well, I'm disappointed you won't be driving home today, but when you're ready, I'll be glad to come back and help you pick out a car.

*Theme music in*

DANTE: Are you kidding me?! When I come back, I'm bringing *Daisy*!

USED CAR SALESMAN: You are not bringing her back to *this* lot!

*Theme music up*

TERRI: This has been the "Money Smart Podcast Network, with Terri and Darryl."

*Music fades*