

FINANCIAL LITERACY WORKSHOP 3

Alternative Financial Services

1 Facilitator Needed

Estimated Time: 1 hr 55 min

Things to Prepare BEFORE THE WORKSHOP

ITEM	APPENDIX #	PAGE # USED
Flip Chart 3-1	A-3-1	3-2
Flip Chart 3-2	A-3-1	3-3
Flip Chart 3-3	A-3-1	3-3
Flip Chart 3-4	A-3-2	3-4
Flip Chart 3-5	A-3-3	3-10
Handout 3-1 <i>Avoiding AFS Pamphlet</i>	A-3-4	3-8
Evaluation Form	Trainer's Section	3-12

Activity	Page	Time	Materials
Introduction <ul style="list-style-type: none"> Introduction of facilitator, participants, icebreaker Review Workshop Objectives 	3-2	15 min	<input type="checkbox"/> Flip Chart 3-1 Workshop Objectives
	3-2	5 min 20 min	
Learning Activity 1: Exploring the Alternative Financial Services Industry <ul style="list-style-type: none"> Group Discussion 	3-3	20 min	<input type="checkbox"/> Flip Chart 3-2 Primarily Used By <input type="checkbox"/> Flip Chart 3-3 Unbanked Because <input type="checkbox"/> Flip Chart 3-4 Characteristics of AFS Providers
		25 min	
Break	3-4	15 min	
Learning Activity 2: Costs and Practices <ul style="list-style-type: none"> Group Discussion 	3-5	30 min	<input type="checkbox"/> Handout 3-1 Avoiding Alternative Financial Services
		30 min	
Learning Activity 3: Sub-Prime and Predatory <ul style="list-style-type: none"> Group Discussion 	3-9	15 min	<input type="checkbox"/> Flip Chart 3-5 Predatory Loans
		15 min	
Wrap-up <ul style="list-style-type: none"> Workshop Evaluation 	3-12	10 min	<input type="checkbox"/> Evaluation Form
		10 min	

Introduction

Time: 20 Minutes

Materials: Prepared Flip Chart 3-1

Reminder: The Trainer's role is always to *educate*, not to provide *advice*.

- **Introduction of Facilitator and Participants**

- ❑ Welcome the participants and introduce yourself to the group.
- ❑ Ask the participants to introduce themselves and conduct one Icebreaker selected by the facilitator from the Icebreaker list.
- ❑ Tell the group that this session will focus on Alternative Financial Services.

- **Workshop Objectives**

- ❑ Refer to Flip Chart 3-1: Objectives and review it with the participants.
- ❑ Hang the Flip Chart so it is visible to the entire group.

Learning Activity 1: Exploring the Alternative Financial Services Industry

Time: 20 min

Materials: Flip Chart 3-3, 3-3, and 3-4

- **Group Discussion**

- Ask the group if anyone ever heard of the term “Alternative Financial Services”.

Explain that the term refers to businesses that are not banks or credit unions that provide financial services, often at a much higher cost. They are places that many low-income families go when they need to borrow money, cash checks, send money across the border and purchase money orders.

- Ask the group the following questions:
 - Who uses these services?
 - Why do people use them?
 - What are some of the features that make these services popular?
- Refer to Flip Chart 3-2-Primarily Used By
 - Alternative Financial Services are usually found in low-income neighborhoods, often neighborhoods that have large minority populations.
 - Persons unfamiliar or uncomfortable with traditional banks and credit unions, and those with credit issues are likely to users
 - Many of the users are women --female heads-of-household.
- Refer to Flip Chart 3-3-“Unbanked” Because
- Tell the group that these are the reasons why people don’t use traditional banks. Read the list to them.
- Refer to Flip Chart 3-4-“Characteristics of AFS Providers”

- Tell the group that now that they know who uses these services and some of the reasons why they don't use banks or credit unions, you will now explore some of the characteristics of the Alternative Financial Sector. Read:
 - When there is a problem, or an urgent need for immediate cash or credit, users feel comfortable going there. They know that they are likely to find fast access to the funds they need, without extensive credit checks.
 - The staff usually speaks their language and is generally helpful and friendly.
 - Users may understand that the cost of the service or loan may be higher than at banks or credit unions generally charge, but the ease of resolving the problem is often more important to them than the cost.
 - Some users do not clearly understand the costs involved.

-----15 min BREAK-----

Learning Activity 2: Costs and Practices

Time: 30 min

Material: Handout 3-1

- **Group Discussion**

- Tell the group that you will be exploring some of the costs and practices often associated with the Alternative Financial Service industry. Then you'll discuss money-saving alternatives.
- Rent-to-Own – explain:
 - Furniture, large appliances like washers and dryers and home electronics are offered.
 - Users make weekly or monthly payments that can be applied towards owning the merchandise.
 - Leased merchandise is excessively priced at 2 – 3 times the standard price.
 - If you plan to buy the merchandise but miss a payment towards the end of the contract, you lose all the money that was applied to it.
- Secured Credit Cards – explain:
 - These are cards that are marketed to customers who would not likely qualify for a regular bank credit card.
 - Users are required to put up cash as collateral to be able to obtain credit.
 - An example is an offer for a \$400 line of credit for which, an unsuspecting consumer agrees to pay a variety of fees totaling \$369.
 - People with less understanding of financial practices and have the fewest credit options are likely users.

- Check Cashing Outlets (*Casas de Cambio*) - explain:
 - Average fees run 1.5% to 3% of the check amount for payroll or government checks, but can be much higher for personal checks (as much as 20%).
 - If you were paid \$400 per week, you would be charged \$6.00 if the fee was 1.5% (\$312.00 per year) or \$12.00 if the fee was 3% (a whopping \$624 per year).
 - At the time of this writing, Wal-Mart is charging \$3.00 to cash payroll checks. If you were paid weekly, this would amount to \$156 per year. You could save these fees if you had a regular savings account at a bank or credit union. You would also be more likely to save some portion of your check.

- Payday Loans - explain:
 - These lenders make small loans, usually from \$100 to \$300. A traditional lender does not usually make this size loan.
 - Payday lenders often charge 15% interest per two-week period – adding up to about 400% per year!
 - Although the fast, easy cash is tempting to someone who has an unexpected emergency, borrowers often take a large risk since they are pledging their next paycheck and could wind up in a worse situation if they cannot pay the loan back as agreed.
 - Some families that use payday loans get trapped into a cycle of borrowing and rolling over or refinancing the debt.

- It is very difficult to break that cycle and easy to incur permanent debt when using payday loans.
 - Some payday lenders charge high rollover fees. Each time the loan is rolled over a fee is charged and added to the loan balance.
 - Some lenders make it hard for borrowers to understand the actual costs and terms of the loan.
- Pawnshops - explain:
- Generally charge high interest rates to make small loans against personal property such as jewelry, electronics, silver, etc.
 - If the loan is not repaid by the specified date, the property is lost.
 - Interest rates are high (up to 25% a month or 300% a year). In some states, pawnshops are allowed to lease back the merchandise or roll over the original agreement, adding even more fees and interest.
- Auto Title Loans - explain:
- Not unlike pawnshops, auto title lenders loan money against car titles.
 - Users must have clear title and can borrow a percentage of the vehicle's value.
 - Interest rates are high and additional fees are often added.
- Income Tax Refund Anticipation Loans - explain:
- Taxpayers that want fast refunds often accept a short-term loan from the company that prepared their income tax returns. These loans are secured by the taxpayer's refund, which often includes the Earned Income Tax Refund.

- Many unsuspecting taxpayers pay large fees to have their tax prepared and filed electronically, and pay yet another fee for the Refund Anticipation Loan.
 - The consumer receives the refund minus the loan fee, the tax preparation fee and the electronic filing fee. The total amount of the three fees can range from \$129 to \$429.
- Distribute Handout 3-1-Avoiding Alternative Financial Services-Saving Money and ask a volunteer to read the information out loud to the group.
- Tell the group that this information is for their reference and consists of cost-saving alternatives instead of using alternative financial services.

Learning Activity 3: Sub-Prime and Predatory Lending

Time: 15 min

Materials: Prepared Flip Chart 3-5

- **Group Discussion**

- Tell the group:

- Sub-prime loans refer to loans made to people with credit problems.
 - Consumers are charged higher interest rates because the risk to the lender is assumed to be greater than for loans made to people with perfect credit.
 - Sub-prime loans offer credit opportunities to those who would otherwise be denied.
 - Predatory lending targets low-income communities or minority neighborhoods – people who often have difficulty obtaining credit.
 - Lenders aggressively market loan products in these areas even though individual loan applicants might qualify for loans from banks or credit unions.
 - Prime market loans – loans with lower interest and fees, are loans made to people with good credit.
 - Predatory lenders take advantage of those who are less likely to understand the finance industry and those who have fewer credit options.
 - Property owners must be especially careful since predatory lenders often try to finance home improvements or refinance existing loans. Some of their unfair practices can lead to the loss of one's home.

- Refer to Flip Chart 3-5-Predatory Loans and read:

- Most of us understand that the higher the interest rate and fees, the more we will spend for the loan.
- Let's talk about some of the items on the Flip Chart that may be new. For example, prepayment penalties are fees charged to the borrower for paying off the loan early. They can be so high that it is too difficult for the borrower to refinance the high interest loan for one with better terms.
- Balloon payments refer to loans that still have a balance due by the end of the loan term. If you cannot pay in full the large amount of the balloon payment, you would need to refinance the loan. Predatory lenders often refinance the loan at even less favorable interest rates than the borrower originally had, and add additional loan fees to the balance. Since most borrowers do not have the money to pay the balloon payment they are trapped into refinancing the loan or face losing their home.
- One-time payment for credit life insurance refers to predatory lenders that add additional costs to the loan by requiring insurance that would pay off the loan in case the borrower dies, becomes unemployed or disabled. Instead of paying the insurance premium each month, the premium is paid at the time of closing and financed into the loan, making the total loan amount even higher. Borrowers not only pay the cost of the insurance, but interest on it as well. Some borrowers don't know or don't remember that they have this coverage. Sometimes the insurance is not for the entire term of the loan, but the borrower continues paying the interest for the entire term of the loan.
- Flipping or refinancing the loan several times is another way predatory lenders strip equity from unsuspecting borrowers. Each time the loan is refinanced, additional fees are added and the interest rate may be raised. Borrowers often wind up owing more than their home is worth, making it impossible for them to refinance the property in the traditional or prime market. Refinancing is often offered to borrowers who are having difficulties or who need credit. Equity, the amount of money you could

convert to cash if you sell your home, is reduced each time the loan is flipped or refinanced.

- Sub-prime lenders make loans to borrowers with less than perfect credit, but at higher interest rates. Not all sub-prime lenders are predatory lenders. Remember, predatory lenders usually focus on low-income or minority neighborhoods, find many ways to attract unsuspecting consumers to use their services or loans, include loan terms that can be unfair and harmful to the borrower and mislead borrowers by things they say or fail to say.

WRAP UP

Time: 10 Minutes

Materials: Evaluation Form

- **Workshop Evaluation**

- Distribute Evaluation Form.
- Tell the group to please take time to fill the Evaluation Form with their comments.
- Let them know that their comments are important to us to further improve the module.
- Thank them for taking the time to attend this module and ask them if they have any questions.
- If you cannot answer a particular question, write it down along with the contact information for the person who asked the question. Contact them later with an answer.

FLIP CHART 3-1: Workshop Objectives

WORKSHOP OBJECTIVES

LEARN ABOUT:

Alternative Financial Services Industry

Lower Priced Alternatives

Avoiding Predatory Lending

FLIP CHART 3-2: Primarily Used By

Primarily Used By:

Low-income households

Working poor or others with unreliable income

Minorities

People with heavy debt or poor credit

(second flip chart page)

Those with inability to manage credit

Female heads-of-household

Unbanked – those who don't have bank accounts

FLIP CHART 3-3: “Unbanked” Because

“Unbanked” Because:

Don't trust banks

Not physically close to banks

Unfamiliar with banking services

(second flip chart page)

Can't meet minimum balance requirements

Fear of bouncing checks due to high cost

Want more privacy

Lack tangible assets to pledge as collateral

FLIP CHART 3-4: Characteristics of AFS Providers

Characteristics of AFS Providers

Meet immediate needs

Provide easy access to cash or credit

Conveniently located

Friendly, helpful staff

(second flip chart page)

No standard credit check

Charge excessive fees for services

FLIP CHART 3-5: Predatory Loans

Predatory Loans

High interest rates

Rates not based on credit worthiness

High-priced unnecessary loan fees

Large prepayment penalties

(second flip chart page)

Balloon payments

One-time payment – credit insurance

Repeated refinancing or flipping

COST-SAVING ALTERNATIVES cont.

INSTEAD OF

PAYDAY LOANS; AUTO TITLE LOANS; PAWNSHOPS:

- Open a Savings Account!
- Saving your own money to meet unexpected emergencies is the most efficient way to obtain needed cash quickly.
- You will also save money on interest and fees. If you need to use your savings, withdraw only the amount you need.
- Keep the account open and continue your regular savings pattern.
- By “paying yourself back” you will have money saved for the next emergency. And, you won’t have to worry about losing your car or other items you have pledged as collateral.



INSTEAD OF

REFUND ANTICIPATION LOANS:

- Go to a Volunteer Income Tax Preparation (VITA) site. In many communities, free tax preparation is available through the VITA program.
- Many of these sites offer electronic filing where you can expect to receive your refund in approximately 10 to 14 days.
- Using volunteer preparers and waiting for your refund will put extra dollars in your pocket that you can save for emergencies or use any way you wish.
- Volunteer preparers can also tell you about the Earned Income Tax Credit (EITC), an added financial benefit for low-income working households delivered through the federal tax system.



Avoiding Alternative Financial Services

SAVING MONEY



HANDOUT 3-1
A-3-4

COST-SAVING ALTERNATIVES

INSTEAD OF

CHECK CASHING SERVICES:

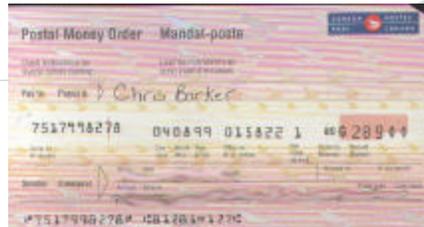
- Open a savings account.
- When you receive your income tax return or have accumulated enough to meet minimum savings requirements, open a savings account at a credit union or bank.
- Cash your payroll checks there only. Prior to cashing your check, decide upon an amount that you will save, even if only a small amount.
- Try to save at least the amount you were spending before at check cashing services.



INSTEAD OF

MONEY ORDERS:

- Open a checking account.
- Write checks to those you were formerly sending money orders.
- If you need help learning how to use the checking account, look for financial literacy classes that are available in your area. These may be offered by credit unions, banks, consumer credit counseling services and other nonprofit organizations.



- Using a checking account will help you keep track of your expenses.
- If you send out a check and the vendor does not receive it or there is a dispute, it is easier and faster to obtain signed copies of checks.

INSTEAD OF

RENT-TO-OWN:

- Look for the make and model that meets your needs.
- Compare prices. Place the item on lay-away if the merchant offers a lay-away plan that you can afford.
- You could also save a determined amount of money each month until you have enough to buy the item cash.
- Finally, use your income tax refund to buy the item cash. This may mean postponing the purchase of the item, but it will save you a large amount of money.