TEACHER'S GUIDE | BOOK 3

BUILDING YOUR FUTURE

Expanding Responsibilities

A Student and Teacher Resource for Financial Literacy Education

The Actuarial Foundation

About This Book

Personal finance is part knowledge and part skill — and the *Building Your Future* book series gives students a foundation in both. It addresses knowledge by covering essential financial principles for establishing a foundation in Book 1, paving the road to success in Book 2, expanding responsibilities in Book 3, and accumulating wealth in Book 4. The series also addresses the mathematical skills that students need to live a financially healthy life. They will be able to see the real-world consequences of mastering your finances, which should help them understand the relevance of good mathematical skills. We hope you and your students enjoy this *Building Your Future* book series.

About The Actuarial Foundation

The Actuarial Foundation is a 501(c)(3) nonprofit organization. The mission of The Actuarial Foundation is to enhance math education and financial literacy through the talents and resources of actuaries. Please visit the Foundation's website at www.actuarialfoundation.org for additional educational materials.

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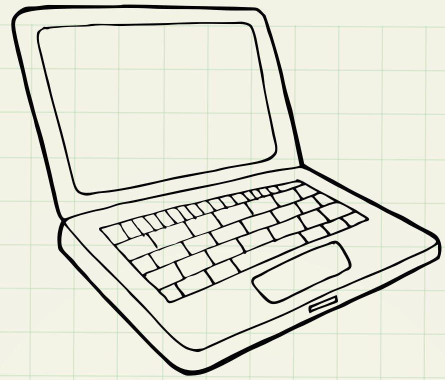

What is an Actuary?

Actuaries are the leading professionals in finding ways to manage risk. It takes a combination of strong math and analytical skills, business knowledge, and understanding of human behavior to design and manage programs that control risk. *US News and World Report*, the *Jobs Rated Almanac*, *CNN Money*, and others all agree: few other occupations offer the combination of benefits that an actuarial career can offer.
To learn more about the profession, go to www.BeAnActuary.org.

Please Note: Students who read this book in PDF on a computer can click on highlighted links to access online resources and can mouseover ***bolded terms*** *for a pop-up definition. All bolded terms are also defined at the start of each chapter in this teacher's guide.*

It is possible that some of the online resource links provided here may be renamed or removed by their hosts in the future. A quick internet search should lead to similar online resources that can be used to complete the activities.

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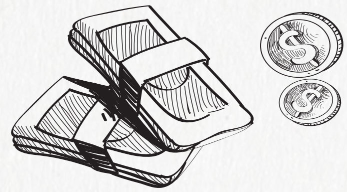
CHAPTER 1: Begin with a Budget



Overview

Living within a budget can be challenging even as income increases. It is important for students to understand that budgets change during different phases of life and can vary greatly from person to person. This chapter will reinforce earlier lessons emphasizing how to maintain a balanced budget and avoid debt.

Getting Organized

- Students will need one class period to complete the activity in this chapter.
- The activity is designed for students to complete independently using an internet-connected computer/tablet. Alternatively, the activity can be completed as a class using a projector or digital whiteboard, or it can be printed out for completion as a worksheet.

Learning Objectives

Focusing on creating a household budget and planning for emergencies, students will:

- Review definitions of key terms associated with creating a budget.
- Practice balancing a broad set of needs and wants and making budget adjustments to accommodate changes in income or emergencies.

Key Terms

- **Budget:** an itemized list of income and expenses over a given period of time
- **Certificate of Deposit (CD):** a savings account issued by a bank that has a fixed maturity date and interest rate based on this timeline; money can be accessed in an emergency, but fees are typically charged for early withdrawal
- **Needs:** basic survival necessities
- **Wants:** items a person desires that are not essential

Teaching Strategies

1. Focus student attention by discussing the *Did You Know?* factoid at the start of the chapter. Ask them if they are surprised by the ratios and have them calculate how much of the budget is left after these key expenses.
2. Introduce the chapter by asking students to explain the phrase “living within your means” and to give examples that illustrate the difference between needs and wants.
3. Review the sample budget. Discuss the questions included in the bullet points for “Income” and “Home and Living Expenses.”
4. Use techniques such as student pair/share to discuss vocabulary terms and key concepts found in the chapter.

Discussion Questions

- What are some solutions to balancing a tight budget? Discuss both ways to increase income and ways to decrease expenses. Have the class come up with a list of ideas, such as sharing meals with a neighbor and carpooling to work.
- Ask students to consider the different ways people can fund emergencies — savings, borrowing, credit, etc. How can using credit cards or other high-interest borrowing methods cause a snowball effect? What other options might be available?
- Ask students to imagine how budgets might be different for a married couple or a parent.

Follow-up Activities

Extend student learning by inviting a guest speaker from a non-profit consumer credit counseling service to come and discuss more about budgeting and steps that students can take now to budget the money they currently have. Have each student write a specific budget-related question that the speaker can address during the discussion.

Answer Key:

Activity 1

BALANCING ACT

PART 1

Student answers will vary, but the following can be used as a reasonable division of needs and wants in the sample budget.

Needs: *Mortgage/rent, Utilities, Cellphone, Groceries, Car payment, Gas/fuel, Car insurance, Repairs & maintenance, Credit card payments, Student loans, Health insurance, Medication/vitamins, etc., Laundry/dry cleaning, Salon/barber.*

Wants: *Cable TV, Internet, Dining out, Parking, Long-term savings, Retirement, Music service, Movies, Sporting events/concerts, Other activities, Life insurance, New clothing, Hair product, cosmetics, etc., Charitable donations, Gifts, Other.*

1. What percentage of this person's budget is going to needs? To wants?
   Based on the division above, 64.25% of this persons' budget goes to needs ($2,570.00) while 30.75% goes to wants ($1,230.00), with 5.0% budgeted for contingencies (Cash short/extra).
2. Based on this budget, approximately how much should this person have set aside in an emergency long-term savings account?
   An emergency savings fund of $22,800 to $45,600 would cover this person's monthly expenses for 6 to 12 months.
   By depositing $100 per month into long-term savings, how long will it take to build up that amount (excluding interest)?
   It would take this person 228 to 456 months (19-38 years) to accumulate this amount, without considering interest.
3. How much could this person go over budget each month and still not use up all their income?
   $199 (which would leave $1.00 in income unused)
   What is the benefit of having this kind of "extra" money in a budget?
   Answers will vary.

PART 2

1. What is the difference between annual and monthly income in your budget and the sample budget?
   Annual income difference: $12,000 less;
   Monthly income difference: $1,000 less
2. What formula did you use to calculate monthly income? Monthly savings?
   Monthly income: $36,000 ÷ 12 = $3,000; Monthly savings: $3,000 x .05 = $150
3. How does the percentage of income allocated for needs and wants in your budget differ from the percentage in the sample budget? Why?
   Answers will vary.
4. Where did you reduce expenses — or cut an expense entirely — to keep your budget under your monthly income? How did you make those choices?
   Answers will vary.
5. Were you able to incorporate 5% savings into your budget? If yes, how did you do it? If no, why did you make that decision?
   Answers will vary.
6. Suppose you are in a car accident and need to pay a $500 insurance deductible to repair your car, plus $1,000 in medical bills from injuries you sustained in the accident. In addition, you miss 2 weeks of work because of your injuries, resulting in the loss of pay during that time, since you don't have any paid time off remaining for the year. All totaled, this equals one month's income. Review your budget carefully and decide where you can realistically make the cuts necessary to pay for your car repairs and medical bills and make up for lost wages over the course of one year.
   Answers will vary.

CHAPTER 2: Loans and Debt

Overview

At one time or another, most people encounter situations where they must take a loan to pay for something they need, whether it is a house, a car, or an unexpected bill. It is important for students to understand that there is always a cost associated with that borrowing. That cost can be affected by their credit history, which lenders use to determine how likely they are to repay a loan. The more of a risk they appear to be, the more they will be charged for the privilege of borrowing. Students need to understand that the terms of a loan can have a significant effect on the overall purchase price of whatever they are buying and their credit history can have a significant effect on the terms of the loan.

By learning about interest rates and loans, students can figure out:

- Why their credit history matters and how to check their credit report
- Why it takes so long to pay back a home mortgage loan
- How much money has to be paid each month on a car loan
- How to choose and use a credit card wisely

They will also learn about identity theft, including what can be done to minimize the chances of becoming a victim, as well as strategies to use if their identity is stolen.

Getting Organized

- Students will need one class period to complete each of the two activities in this chapter.
- The activities are designed for students to complete independently using an internet-connected computer/tablet. Alternatively, the activities can be completed as a class using a projector or digital whiteboard, or they can be printed out for completion as worksheets.

Learning Objectives

- Examine the importance of establishing good credit and learn the key elements of a credit score.
- Read about laws designed to protect consumers who utilize loans for purchases.
- Learn how to select reputable lenders.
- Discuss key terms associated with loans, interest, and lenders.
- Calculate interest payments on both fixed and variable interest rate loans.
- Explore the positive and negative consequences of borrowing and lending money.
- Explore the dangers of accumulating too much debt and strategies for paying off high balances.

Key Terms

- **Annual Percentage Rate (APR):** actual yearly cost of a loan, calculated by applying the annual interest rate to the loan amount plus any upfront fees to determine actual annual payment, and dividing the actual annual payment by the loan amount (e.g., $5,000 loan at 5% + $500 fees = $5,500 x 5% = $275 + $5,000 = 5.5% APR)
- **Authorized User:** an individual who is named on another person's credit card account and allowed to make purchases but is not responsible for the debt
- **Balance Transfer:** when one credit card company takes on debt originally owed to another credit card company
- **Bankruptcy:** a legal process that reduces, restructures, or eliminates debts
- **Credit Bureau:** a for-profit company that collects information about individuals' and businesses' debts and assigns a numerical value called a credit score that indicates the borrower's creditworthiness
- **Credit Counseling:** working with a non-profit organization to review one's financial situation and make a plan to pay down debt

- **Credit History:** information on a person about the number and types of credit accounts they have, how long the accounts have been open, the amounts owed on each account, the amount of available credit being used, whether bills are paid on time, the number of recent credit check inquiries, and information about bankruptcies, liens, judgments, and collections
- **Credit Rating:** a ranking typically expressed as a number or letter, based on one's credit history and used by financial institutions for loan and credit approval as well as determination of loan or credit terms
- **Credit Report:** a report detailing an individual's credit history used to determine creditworthiness
- **Debt Settlement:** working with a for-profit company to negotiate a reduced debt amount and new payment terms with one's creditors, for a fee
- **Down Payment:** a portion of the purchase price of an item that is paid up front, while taking a loan for the remainder
- **FICO Score:** a score (between 300 and 850) given to an individual based on payment history, current level of indebtedness, types of credit used, length of credit history, and new credit information, which is used to determine creditworthiness and risk
- **Fixed Interest Rate:** interest rate that stays the same over the course of the loan
- **Grace Period:** an amount of time in which no interest is charged or payments can be deferred on a loan
- **Identity Theft:** stealing someone's personal, identifying information and using it to make purchases or to get other benefits
- **Installment Loan:** a loan where the principal and interest are repaid in equal payments at fixed intervals, usually monthly
- **Loan Sharks:** individuals who charge exorbitant interest rates on loans
- **Loan:** an amount of money borrowed and repaid with interest
- **Payday Loan:** short-term, high-interest loan made using a future paycheck as collateral
- **Refinance:** renegotiate a loan to achieve lower interest or fees, often through a new lender and based on increased equity or improved credit
- **Secured Credit Card:** requires a cash deposit that becomes the credit line for that account and is returned when the account is closed
- **Statement:** a summary of financial transactions which have occurred over a given period
- **Truth in Lending Act:** requires lenders to explain how they compute loan charges and to list the loan's annual percentage rate (APR); also gives the borrower three business days to opt out of the loan
- **Variable Interest Rate:** interest rate that can change over the course of a loan

Teaching Strategies

1. Focus student attention by discussing the *Did you know?* factoid at the start of the chapter. Ask students what they know about credit scores and reports.
   - Ask if they've ever lent money to a friend and not been paid back? Would they be more or less likely to lend something to that friend again?
   - Explain that credit scores are a numbers-based way of establishing how likely someone is to pay back a debt on time.
2. Advise students that there will be times in life when they will want or need to make purchases for which they do not have the cash. In these situations, they are left with few options other than taking a loan. Ask them to make a list of situations that might warrant a loan. Explain that to make informed decisions about taking a loan, students must have a thorough understanding of what it means to take a loan in terms of responsibility and financial obligations.
3. Use techniques such as student pair/share to discuss vocabulary terms and key concepts found in the chapter.
4. Have students complete the Debt and Credit activity one part at a time, pausing to review each part as a class before students move on to the next part.
5. Discuss key concepts of the Loaded Down section of this chapter, including what students consider to be an overwhelming amount of debt, and the differences between credit counseling and debt settlement. You can list the pros and cons of each option on the board.
6. Have students complete the Managing Debt activity one section at a time, pausing to review each section as a class before students move on to the next one.

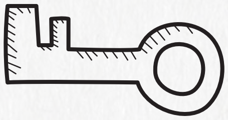
Discussion Questions

- Ask students how many of them would offer to pay the clerk at a store more than the amount due for an item they were purchasing with cash. Discuss why they feel that way. Then explain that if they were to purchase a car for $35,000 and take a six-year loan with an interest rate of 7.9%, the total cost of the car would be $44,000. Facilitate a short discussion using questions such as: If you aren't willing to pay more money for an item when you purchase it with cash, why would people be willing to pay over $9,000 more for a car when they pay using a loan?
- Use the following scenario to launch a discussion about risk and the factors that go into interest rate increases. What kind of research could students do to estimate whether the rate would go up or down?

  You need to take a one-year loan. At the moment the fixed interest rate is high at 8.75% APR. The bank offers you an adjustable rate loan that begins at 6.5% APR. The interest rate could increase or decrease by as much as 3% over the course of the loan. Which loan would you select? Why?
- After students read the Loaded Down section, ask why they think a lender might be willing to negotiate with a consumer who is struggling? Explain that credit card companies will often advertise balance transfer offers. Why are these companies willing to forgo many months of interest in order to acquire someone's debt?
- Part 1 of the Managing Debt activity sheet assumes a total of $12,000 in credit card debt. Ask students whether they think this is reasonable. What kind of purchases — and how long — might it take to build that much debt? The person in this scenario is able to dedicate $800 per month to paying down debt. Ask students to think about whether that sounds manageable for people at various income levels.

Follow-up Activities

- There are several theories for paying off credit cards — some people believe you should pay the lowest balance first, in what's called a "snowball." Some people believe you should pay off the highest-interest card first. Have students research each method and discuss the pros and cons.
- Review a sample credit report with your class (e.g., **www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf**). Review each section of the report, including personal information like address, and note how far back information is tracked.

Answer Key: 

Activity 1

DEBT AND CREDIT

PART 1

SCENARIO A

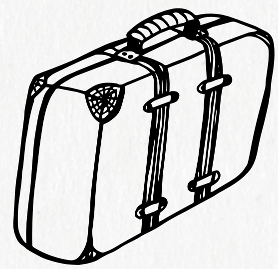
+ You have a part-time job that pays $160 per week.
− Your current expenses are a phone bill of $20 per month and car insurance that is $60 per month.
+ Last year, you borrowed $75 from your cousin and repaid it within 2 months.
− Two years ago, you missed a payment on your phone bill, but caught up and have paid all of your other bills on time for the past 3 years.

SCENARIO B

+ You have a part-time job that pays $160 per week.
− Your current expenses are a phone bill and car insurance that total $120 per month, plus a credit card with a $2,000 balance.
− Last year you borrowed $75 from your cousin and took 6 months to pay it back.
− You typically pay your bills on time, but were more than 30 days late paying your phone bill last month.

SCENARIO C

+ You have a part-time job that pays $160 per week.
+ You have no current expenses.
− You have no record of having borrowed money or repaid it.



1. In which scenario do you think your classmate would be most likely to lend the money? *Scenario A*
2. Least likely? *Scenario B*

PART 2

MONTH	BEGINNING BALANCE	TOTAL MONTHLY PAYMENT	MONTHLY INTEREST PAYMENT	ENDING BALANCE
SEPT.	$300.00	$60.00	$6.00	$246.00
OCT.	$246.00	$160.00	$4.92	$90.92
NOV.	$90.92	$80.00	$1.82	$12.74
DEC.	$12.74	$12.99	$0.25	$0.00

1. How much will you have to pay in December in order to repay the loan in full? *$12.99*
2. What was the total amount of money you had to pay your classmate by the time you repaid the loan? How much of that was interest? *Total Paid: $312.99; Total Interest: $12.99*
3. How would the cost of this loan be different if interest were calculated at the end of each month, after the month's payments had been credited? *The cost would be less — for example, the first month would be 2% of $240 instead of $300.*

PART 3

1. The loan calculator asks for an annual interest rate. At 2% per month, what is the annual interest rate for your loan? *2% x 12 = 24%*
2. According to the calculator, what is your monthly payment? *$78.79 per month*
3. What is the total amount you will pay?
   $78.79 x 4 = $315.16
   How much of that is interest? $15.16
4. Is this a good decision compared to paying as much as you can each month? Why or why not?
   Answers will vary.

PART 4

MONTH	BEGINNING BALANCE	MONTHLY INTEREST RATE	TOTAL MONTHLY PAYMENT	MONTHLY INTEREST PAYMENT	ENDING BALANCE
SEPT.	$300.00	2%	*$60.00*	*$6.00*	*$246.00*
OCT.	$246.00	3%	*$160.00*	*$7.38*	*$93.38*
NOV.	$93.38	4%	*$80.00*	*$3,74*	*$17.12*
DEC.	$17.12	5%	*$17.98*	*$0.86*	*$0.00*

1. How much will you have to pay in December in order to repay the loan in full? *$17.98*
2. What is the total amount of money you will pay to your classmate when you have repaid the loan? *$317.98*
   How much of that is interest? *$17.98*
3. How does changing the interest rate each month change the total amount you have to pay over the life of the loan?
   It increases the amount you have to pay, compared to a fixed interest rate loan.

Activity 2:

MANAGING DEBT

PART 1: WEIGHING YOUR OPTIONS

Imagine that you have two credit cards: Card A has an APR of 19.99% and a balance of $5,000. Card B has an APR of 8.99% and a balance of $7,000. You decide to set aside $800 per month to pay down the debt on both cards. What is the best way to allocate your monthly payments?

OPTION 1

- If you pay $400 per month on each card, how long will it take to pay them both off? *19 months (Card A will take 15 months; Card B will take 19 months).*
- How much interest will you pay in total? *Card A interest $653 + Card B interest $531 = $1,184 total interest*

OPTION 2

Let's say that the minimum payment for each card is $100. You decide to pay off one card at a time, while only making the minimum payment on the other. When the first card is paid off, you will put all of your monthly payments towards paying off the second. Which card should you pay off first?

	Pay Off Card A First	Pay Off Card B First
How many months will it take to pay off the first card, if you pay $700/month?	*8 months*	*11 months*
How much interest will you have paid on the first card?	*$368.89*	*$303.95*
What will the balance on the second card be at that time, if you've continued to pay $100 a month? (Assume interest is compounded monthly.)	*$6,378.30**	*$4,404.06**
How much interest will you have paid on the second card?	*$409.40*	*$900.09*
How many more months will it take to pay off the second card at that point?	*9 months*	*6 months*
How much additional interest will you have paid?	*$223.60*	*$254.53*
TOTAL MONTHS:	*17 months*	*17 months*
TOTAL INTEREST:	*$1,001.89*	*$1,458.57*

*Remind students that the last monthly payment to each card will likely be a partial payment. In the case of the last payment to the first card you choose to pay off, you will be able to make a larger payment to the second card for that month, and then continue to pay the full $800 to the second card. This will affect students' final numbers.

- Which card would you pay off first and why? *Card A because it has a higher interest rate.*

OPTION 3

Now suppose that you receive a balance transfer offer from another credit card company that you can use to pay off both of your current credit cards. The terms are:

- Transfer fee of 3% or $25 for each transfer, whichever is higher
- No interest for 9 months
- After that, an annual interest rate of 9.99%

1. What would the transfer fee be for each card? *Card A: $150; Card B: $210*
2. What would be the balance on this new card be if you transfer the balances from both of your current cards plus the combined transfer fees? *New balance: $12,360*
3. If you continue to pay $800 per month toward paying off your credit card debt, how long will it take to pay off this new card? *16 months (After 9 months, the remaining balance will be $5,160. Have students use the credit card payoff calculator to determine how long it will take to pay off that debt at a rate of $800 per month.)*
4. What is the total amount you would pay in interest and fees? *$166.50 interest + $360 fees = $526.50*
5. Comparing these three options, which do you think is the most financially responsible plan of action? Why? *Option 3 would save you almost $500 in interest, assuming you continue to pay $800 per month and you don't charge*

PART 2: LOAN CONSOLIDATION

Now imagine that you have two loans in addition to the credit card debt described in Part 1. You pay $320 per month toward an auto loan, which has a current balance of $15,000 and an interest rate of 7%. You also pay $100 per month toward a furniture purchase that you financed at an interest rate of 1.9%, which has an unpaid balance of $1,000.

1. What is your total debt, including credit card debt? *$28,000*
2. What are your total monthly debt payments, assuming that you chose Option 1 above to manage your credit card debt? *$1,220*
3. If your net monthly income is $4,000, what percentage of this income is going toward monthly debt payments? *30.5%*

You apply for a consolidation loan to help pay off your debt. The new loan, for $28,000, has an annual interest rate of 6% and your new monthly payment is $350. Answer the questions below using the loan consolidation calculator at **www.bankrate.com/calculators/credit-cards/credit-card-loan-consolidation-calculator.aspx**.

4. How long will it take you to pay off the loan? *102 months (8.5 years)*
5. What is the total amount you will pay on the loan, including principal and interest? *$35,846.64 (of which $7,846.64 will be interest)*
6. How much less will you spend each month on debt payments? *$1,220 - $350 = $870 less per month*
7. Assume that you put this extra money each month into a retirement fund earning 5% interest per year. What is your investment by the time you pay off the loan? Use the calculator at **www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator** to find out. *$100,978.08 (assumes starting with an $870 intial investment)*
8. Was the consolidation loan a smart financial decision? Why or why not? *Answers will vary.*

CHAPTER 3: Purchasing a Car

Overview

Given the potentially significant costs, it is important to consider a wide range of factors when selecting a vehicle and determining how to pay for it. By learning about concepts such as trade-in and book value and knowing how to analyze dealer incentives, students will be able to determine whether leasing or purchasing is a more cost-efficient method of obtaining a car.

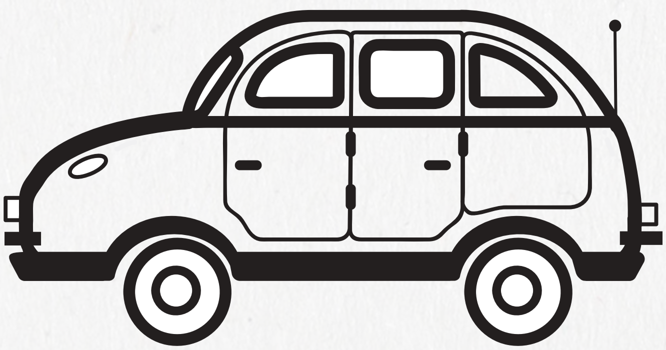
Getting Organized

- Students will need one class period to complete each of the two activities in this chapter.
- The activities are designed for students to complete independently using an internet-connected computer/tablet. Alternatively, the activities can be completed as a class using a projector or digital whiteboard, or they can be printed out for completion as worksheets.

Learning Objectives

As students learn about the basics of auto loans, they will:

- Discuss key terms associated with car loans.
- Consider whether to buy a new or pre-owned vehicle.
- Apply the pros and cons between leasing and purchasing a vehicle.
- Calculate auto loan and lease payments by utilizing online calculators.
- Make decisions about auto financing options based on data related to individual needs and financial situations.



Key Terms

- **Book Value (BV):** how much a particular car is worth based on its condition, mileage, and other factors
- **Down Payment:** a portion of the purchase price of an item that is paid up front, while taking a loan for the remainder
- **Incentives:** factors such as special finance rates, rebates, or other offers designed to encourage buyers to purchase a vehicle
- **Lease:** paying only a portion of the vehicle's sales price and returning it to the dealer at the end of the specified time
- **Purchase:** paying the vehicle's full sales price and keeping it as long as one wants
- **Trade-in Value:** the amount of credit that a dealer is willing to offer toward the purchase price of a new or used vehicle in exchange for ownership of the vehicle being traded in

Teaching Strategies

1. Focus student attention by discussing the *Did you know?* factoid at the start of the chapter. Have students calculate the average monthly cost of car ownership in the U.S. How many in the class would be able to pay that cost?
2. As you review the Lease vs. Purchasing pros and cons chart, invite students to add their own pros and cons based on their own or their family's experience with leased and purchased vehicles.
3. Have students complete the Auto Loans and Leases activity one part at a time, pausing to review each part as a class before students move on to the next part.
4. After they complete the Your First Car activity, have students share and explain their answers. How did they calculate the cost of the vehicles? How did they estimate additional costs? What percentage of the car buyer's income will be spent on the purchase option the student selected plus additional costs? Discuss reasons why young buyers may be able to spend more of their income on cars than their parents can.
5. Use techniques such as student pair/share to discuss vocabulary terms and key concepts found in the chapter.

Discussion Questions

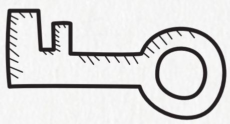
- Ask students, What are the hidden costs of owning a car that people sometimes overlook? Record their answers on the board or overhead. Discuss briefly why these costs should be considered as part of the car buying process. Some items that should be included are:
  - Insurance
  - Maintenance (oil changes, tires, etc.)
  - Sales tax (at time of purchase)
  - Property tax (annually, if applicable)
  - Inspection and licensing fees (annual, if applicable)
  - Gasoline
  - Parking

Once students have completed the Lease Option part of Activity 1, ask what type of person is better suited to leasing than to buying? What kind of lifestyle do they have, what kind of work might they do, and what are their financial goals? What about people who are better suited to buying?

Follow-up Activities

To extend student learning, use newspapers or the internet and review current "sales" and "specials" on cars. Have students determine whether or not these "deals" are truly money savers for potential buyers.

Answer Key:

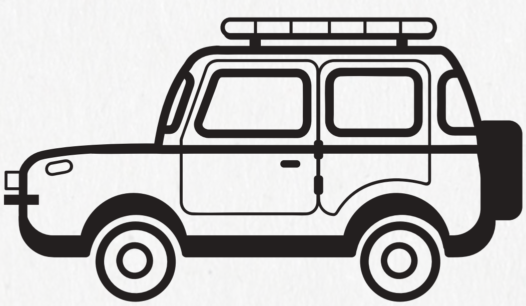


Activity 1

AUTO LOANS AND LEASES

PART 1: AUTO LOAN BASICS

1. What is the total cost of the car after your down payment and trade-in?
   Option 1: $12,000; Option 2: $7,500
2. What is your monthly payment?
   Option 1: $343; Option 2: $230
3. Which incentive is the better choice? Why?
   Option 2 is the better choice because, even though you pay a higher rate of interest, the total cost and monthly payment are both lower.



PART 2: TOTAL COSTS

PRICE	
Vehicle price	*$25,000.00*
Sales tax	*+ $1,875.00*
Down payment	*- $2,000.00*
Incentives	*- $6,500.00*
Purchase price/Loan amount	*$18,375.00*
PAYMENTS	
Annual loan payment	$435.76 x 12 = $5,229.12
Annual insurance premium	$56.00 x 12 = $672.00
Annual registration fee	$25.00
Annual property tax	$480.00
Total annual cost	$6,406.12

1. What is the total cost of the car over four years?
   Annual cost: $6,406.12 x 4 = $25,624.48
2. After you have repaid the loan, what will you pay annually for taxes, insurance, and fees? *$1,177*
3. If you keep the car for seven years, how much will it have cost you? *$31,155.48*

PART 3: LEASE OPTION

ONE-TIME COSTS	
• Security deposit	$500.00
• Paperwork fee	$250.00
ANNUAL COSTS	
• Annual lease payment	$383.00 x 12 = $4,596.00
• Annual insurance premium	$68.00 x 12 = $816.00
• Annual registration fee	$25.00
Total annual cost	$5,437.00
PENALTIES AND FEES	
• Mileage fee over 12,000 miles per year	$0.25 per mile
• Early termination fee	$1,500.00
• Excessive wear and tear fee	$500.00

1. What is the total cost of the car over four years, including your one-time costs?
   One-time costs: $750 + (Annual cost: $5,437 x 4) = $22,498

2. You are in a car accident during the fourth year of the lease and the car is a total loss, thus ending the lease early. How will this affect you?
   Your insurance should cover the buyout cost of the lease, but if your coverage is less than the buyout cost, you will owe the difference. This may sound like a consequence-free solution, but it may impact your insurance rates or coverage in the future. You may also have to pay $1,500 for early lease termination.

3. At the end of your lease, you go to the dealer to return the car and lease another one. The dealer notices that the car's odometer reads 59,825 miles. What will happen?
   You will have to pay a mileage overage fee of $2,956.25 because you exceeded the 48,000 miles you were allowed by 11,825 miles. (59,825 miles - 48,000 miles = 11,825 miles x $0.25 per mile = $2,956.25)

4. When you return the car, you decide you like it and want to purchase it. How much will it cost you?
   The car is worth $14,000 at the end of your lease, but when your $500 security deposit is refunded, the purchase price is $13,500. Your cost will depend on available financing.

Now, weigh the options in Parts 2 and 3 and decide which you think you would choose. Why?
Answers will vary.

Activity 2

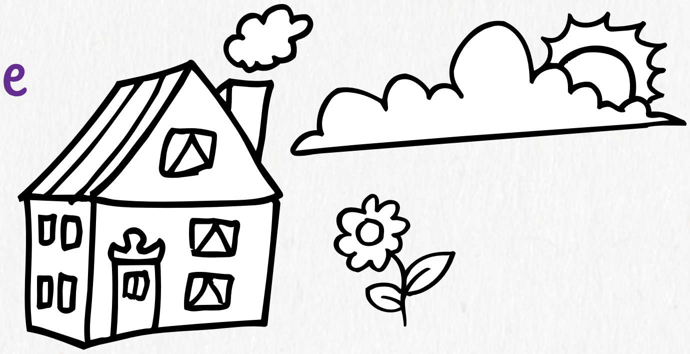
YOUR FIRST CAR

1. Determine the monthly and annual financing cost for each option.
   Car A with incentive 1: Monthly cost: $284.58; Annual cost: $3,414.96
   Car A with incentive 2: Monthly cost: $257.20; Annual cost: $3,086.40
   Car B: Monthly cost: $179.60; Annual cost: $2,155.20

2. What additional costs can you anticipate for each option? How do these costs factor into your decision?
   Answers will vary, but insurance costs will likely be higher for Car A, maintenance costs higher for Car B.

3. Which car will you purchase? Why?
   Answers will vary.

CHAPTER 4: Purchasing a Home



Overview

Purchasing a home is one of the biggest investments a person will ever make. A home is also an important asset to include when determining one's financial health. There are many factors to consider when purchasing a home, such as down payments, interest rates, and the terms of the loan. These factors affect the overall price paid for the home. This chapter looks at all the things that need to be considered when it comes to financing a home.

Getting Organized

- Students will need one class period to complete each of the three activities in this chapter.
- The activities are designed for students to complete independently using an internet-connected computer/tablet. Alternatively, the activities can be completed as a class using a projector or digital whiteboard, or they can be printed out for completion as worksheets.

Learning Objectives

As students learn about home loans and how to select a home loan that best suits their needs, they will:

- Discuss key terms associated with home loans and the Truth in Lending Act.
- Practice using calculations to compare fixed and variable interest rate loans of varying terms.
- Analyze information about the overall costs of various home loan options and select the loan that best suits their needs and their ability to repay the loan.
- Examine various types of loan interest options and the effect they have on the home's overall price.
- Consider other costs associated with obtaining home loans.
- Read about refinancing options and how to prevent foreclosure on a home loan.

Key Terms

- **Adjustable Rate:** interest rate that can change over the course of a loan
- **Amortization Schedule:** a timetable for repaying a loan
- **Closing Costs:** fees paid in addition to the cost of the home
- **Credit Rating:** a ranking typically expressed as a number or letter, based on one's credit history and used by financial institutions for loan and credit approval as well as determination of loan and credit terms.
- **Delinquent:** past due on a scheduled loan payment
- **Down Payment:** a portion of the purchase price of an item that is paid up front, while taking a loan on the remainder
- **Equity:** the amount of value a person "owns" in their home, measured by subtracting the amount owed on the mortgage from the total home value
- **Escrow:** property or money held by a third party until the terms of a contract are met; a down payment for a home is held in escrow while all of the other activities associated with buying a home are completed
- **Federal Housing Authority (FHA):** government agency that sets standards for construction and financing and which, in certain circumstances, will provide mortgage insurance and financial support for first-time homeowners who can only make a small down payment
- **Fixed Interest Rate:** interest rate that stays the same over the course of the loan
- **Foreclosure:** legal process that allows a lender to seize property if the mortgage loan is not paid; typically, the lender sells the property and applies the proceeds to the outstanding debt
- **Interest:** money that is paid to the lender by the borrower for the use of the lender's money
- **Interest Rate:** percentage paid to the lender for the privilege of borrowing the money
- **Lifetime Cap:** a limit on how much the interest rate of a variable-rate loan can increase

- **Mortgage:** a loan used to purchase a home
- **Mortgage Insurance:** insurance that protects the mortgage lender in the event that a homeowner is unable to repay their loan; required when the down payment is less than 20% of the home's purchase price
- **Prepayment Penalties:** fees designed to keep the borrower from paying the loan off early
- **Principal:** the original borrowed amount
- **Refinance:** replace or renegotiate a loan to achieve lower interest or fees, often through a new lender and based on increased equity or improved credit
- **Truth in Lending Act:** requires lenders to explain how they compute loan charges and to list the loan's annual percentage rate (APR); also gives the borrower three business days to opt out of the loan
- **Workout:** a formal repayment or loan forgiveness arrangement between a borrower and lender

Teaching Strategies

1. Focus student attention by discussing the *Did you know?* factoid at the start of the chapter. Ask students if they think it is important to own a home and why. At what age do they think/predict they may own a home?
2. Use techniques such as student pair/share to discuss vocabulary terms and key concepts found in the chapter.

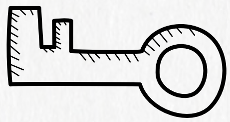
Discussion

Have students brainstorm a list of specific things they can do, even at a young age, to establish and maintain a good credit history. Record the items on the board/overhead.

Follow-up Activities

- Have students research current and historical interest rates and collect articles about market trends in real estate. Use these to launch a discussion of the economic factors that cause interest rates and home prices to go up and down.
- This chapter focuses on the mortgage, but there are many other costs involved in buying a home, including taxes and different types of insurance. Have students research these items and make a list together as a class. Discuss the factors that affect each item.
- To give students a better understanding of the loan process and the importance of a good credit rating, have them begin a mortgage application to discover the types of documentation and information a home buyer must provide to the lender to secure a home loan. You can download a sample mortgage application at **www.fanniemae.com/content/guide_form/1003rev.pdf**.
- Invite a lender in to speak about the mortgage loan process and the importance of good credit.

Answer Key:



Activity 1

SET A HOME-BUYING BUDGET

FAMILY	ANNUAL INCOME	DOWN PAYMENT	MONTHLY DEBT	CREDIT SCORE	HOME PRICE
A	$100,000	$50,000	$1,500	725	*$293,495*
B	$100,000	$50,000	$500	725	*$462,686*
C	$100,000	$50,000	$1,500	675	*$278,045*
D	$80,000	$50,000	$500	725	*$361,171*
E	$80,000	$30,000	$500	725	*$345,288*
F	$80,000	$30,000	$1,500	675	*$166,827*

Answers will vary depending on your location; this chart is based on the 60173 zip code (Schaumburg, IL), and interest rates in April 2019.

1. Families A, B, and C all have the same annual income, but their monthly debt and credit scores vary. Where did you see the biggest difference in the home price they can afford — between A and B, A and C, or B and C? What factor seems most responsible for this difference?
   The biggest difference is between B and C. Their monthly debt seems to be most responsible for this difference; compare C and A to see the smaller impact of a lower credit score when monthly debt is the same.

2. Families B and D have different incomes, but the same monthly debt and credit score. How does their income difference affect the home price each can afford?
   Family B with the higher income can afford the more expensive home.

3. Compare the home prices for families A and D. What does the difference suggest about the relative importance of income and debt for determining a home-buying budget?
   Monthly debt seems to be a more significant factor than income.

4. Families D and E are identical except for having different down payments. How important is down payment as a factor in determining how much one can afford to pay for a home?
   A lower down payment reduces the amount one can afford to pay for a home, despite low monthly debt and a high credit score.

5. Families D and F have the same income, but their down payment, monthly debt, and credit scores are very different. How do these three factors seem to affect how much they can afford to pay for a home?
   Despite identical incomes, the combination of a lower down payment, a higher monthly debt, and a lower credit score severely reduces the amount Family F can afford to pay for a home compared to family D.

6. Based on your analysis of these examples, what advice would you give someone who is planning to shop for a home?
   Answers will vary, but students should notice that down payment and monthly debt are the most significant factors in determining a home-buying budget.

Activity 2

UNDERSTANDING AMORTIZATION

The Chen family has decided to purchase a home for $150,000. They currently have $30,000 in savings, but they are only willing to make a down payment of $25,000. In order for them to buy the home, a bank must agree to give the Chens a loan for $125,000.

1. What percentage of the home's purchase price does their down payment represent?
   16.67%

2. Do you think it is a good idea for the Chens to make this size down payment? Why or why not?
   Answers will vary, but students should understand that the more money a buyer can put down, the less their mortgage will be. And anything under 20% will likely require mortgage insurance, which is an additional cost that provides no equity. On the other hand, it would be risky to leave their savings account empty, particularly for a new homeowner, as there are often unexpected house repairs and costs.

3. What happens to the interest and principal amounts over the course of the mortgage?
   Interest goes down, and principal goes up.

4. What is the total cost of the home after the mortgage has been paid off? Don't forget to include the $25,000 down payment in the total cost.
   $355,194.06

5. What do you think would happen to this total cost if the Chens paid an extra $100 each month to reduce the principal? Why? *The total cost would go down, because the Chens would pay their mortgage off faster and pay less interest.*
6. What would happen if the Chens took a 30-year adjustable rate mortgage with a 4% interest rate that increases by .25% each year after the first year, with expected subsequent increases of .25% per year up to a maximum interest rate of 8%.
   a. What happens to the monthly payments over the course of the adjustable rate mortgage? *The mortgage payments start out lower than those for the fixed rate mortgage but gradually increase over time.*
   b. What is the total cost of the home after the adjustable rate mortgage has been paid? *$288,691.55 total principal and interest + $25,000 down payment = $313,691.55*
7. If you had the choice, would you select a fixed rate or adjustable rate mortgage? Why?
   Answers will vary. Students should recognize that the choice depends on the terms of the adjustable rate mortgage and the risk involved. In this example, the adjustable rate mortgage interest will never go higher than the fixed rate mortgage, so it will ultimately be less expensive. But if the cap was not set at 8%, or the interest rate changed based on the market, then that might not be the case. Nonetheless, having a lower payment to start off with might be attractive for buyers who expect to increase their income over time.
8. Now suppose that the Chens decide to refinance their fixed rate mortgage after 5 years. Their new 30-year mortgage has a 6.5% fixed interest rate, with closing costs of $2,000.
   a. What is the Chens' monthly mortgage payment after refinancing? *$751.13*
   b. What will be their total savings after their new mortgage has been paid off?
   (Using data from the calculator) Total monthly payments before refinancing: $77,045.28 - Total monthly payments after refinancing: $63,095.15 = $13,950.13 - Remaining loan balance: $ 2,620.25 - Closing costs for refinancing: $2,000 = $9,329.88

Activity 3

A HOME OF YOUR OWN

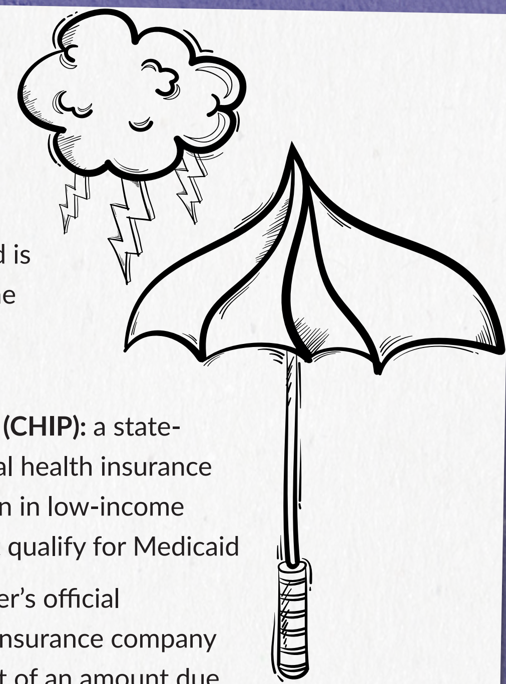
You are buying your first home and want to select the best possible mortgage. Compare a 30-year fixed rate mortgage with a 5.5% interest rate, and a 30-year adjustable rate mortgage with a 3.25% interest rate that increases by .25% each year after the first year, up to a maximum interest rate of 9.25%. Assume that you are purchasing a $200,000 home with a 20% down payment.

1. What is your monthly payment with each mortgage?

   Fixed rate mortgage: $908.46 per month

   Adjustable rate mortgage: $696.33 per month
2. What is the total cost of your home after you have paid off each mortgage?
   Total home cost with fixed rate mortgage: $367,047.79
   Total home cost with adjustable rate mortgage: $380,181.85
   (Remind students to include the $40,000 down payment.)
3. Which mortgage seems the better choice for you? Why? *Answers will vary. Although the fixed rate mortgage offers a lower overall cost, the adjustable rate mortgage, with its lower monthly payments, puts less pressure on monthly income.*
4. What financial risks do you face by selecting this mortgage?
   Answers will vary.
5. What are the financial benefits of your choice?
   Answers will vary.

CHAPTER 5: Insurance Protection



Overview

Insurance of all types is important in preventing financial ruin due to illness, injury, property loss, and even death. By learning about the types of insurance, students will be able to minimize their financial risk through purchasing and utilizing insurance policies that meet their financial needs and goals.

Getting Organized

- Students will need one class period to complete each of the three activities in this chapter.
- The activities are designed for students to complete independently using an internet-connected computer/ tablet. Alternatively, the activities can be completed as a class using a projector or digital whiteboard, or they can be printed out for completion as worksheets.

Learning Objectives

As students learn about the basics of insurance, they will:

- Discuss key terms associated with health, auto, homeowner's/renter's, and life insurance.
- Learn what types of insurance are required by law and why they are required.
- Describe the specific needs addressed by each type of insurance and the cost factors for each type of policy.
- Weigh the cost of insurance premiums against the risks associated with not carrying various types of insurance.
- Discover ways to save money on insurance premiums with discounts, bundling incentives, and selecting cost-saving options.
- Make decisions on purchasing various insurance policies based on cost and individual needs.

Key Terms

- **Auto Insurance:** a means of protecting drivers and others in the event of an accident, theft, etc.
- **Beneficiary:** the person(s) who will receive an insurance payout
- **Benefits:** specific services the insured is entitled to under the policy
- **Children's Health Insurance Program (CHIP):** a state-administered federal health insurance program for children in low-income families that do not qualify for Medicaid
- **Claim:** a policyholder's official notification to the insurance company requesting payment of an amount due for a covered loss
- **COBRA:** a law that allows a person to continue to be covered under a company's health insurance plan after termination from the company as long as the person pays for that coverage
- **Coinsurance:** a form of cost-sharing that requires the insured to pay a set percentage of medical expenses after the deductible has been met
- **Co-pay:** a form of cost-sharing that requires the insured to pay a fixed dollar amount for a medical service or prescription
- **Coverage:** what the insurance company includes as part of the insurance policy
- **Deductible:** a dollar amount a policyholder pays before the insurer starts to make payments for a covered loss
- **Estate:** wealth and possessions left by someone to be divided after they die
- **Flexible Spending Account (FSA):** a tax-advantaged account set up by an employer where the employee can deposit a fixed amount of wages to pay for uncovered medical expenses; all but $500 saved in the FSA must be used in the year the money is deposited
- **Health Insurance:** protection from monetary losses associated with illness or bodily injury
- **Health Reimbursement Account (HRA):** an employer-funded savings account that employees can use to pay for medical expenses their health plan does not cover

- **Health Savings Account (HSA):** a tax-advantaged account set up by individuals who are covered under high-deductible health plans to save for medical expenses their health plans do not cover
- **High-Deductible Health Plan (HDHP):** a health insurance plan with lower premiums and higher deductibles than a traditional health plan; currently (2019) defined by the Internal Revenue Service as any plan with a deductible of at least $1,350 for an individual or $2,700 for a family, with total yearly out-of-pocket expenses (including deductibles, copayments, and coinsurance) less than $6,650 for an individual or $13,300 for a family
- **Homeowner's Insurance:** protection from financial loss if a home is damaged or destroyed, a theft occurs, or the homeowner faces certain types of medical or liability claims
- **In-Network:** healthcare providers who have a signed contract with an insurance company to provide services at a predetermined rate; insurers can negotiate lower costs in exchange for giving the healthcare provider a potentially greater number of customers
- **Insurance:** promised payment for specific future losses should they occur in exchange for a payment called a premium
- **Insurance Policy:** a written contract between an insurer and a customer (the policyholder) describing the term of the insurance, what is covered, the cost of the premium, and the deductible amount
- **Insurer:** a company that pays to compensate the policyholder for losses or damages as described in an insurance policy as long as the premium is paid
- **Life Insurance:** money paid to a designated beneficiary when the insured person dies
- **Marketplace:** the federal website www.healthcare.gov where individuals and small businesses can shop for and purchase health insurance
- **Medicaid:** a government-provided health insurance program for individuals with limited income and resources
- **Medicare:** a government-provided health insurance program for individuals over age 65 and some younger people with disabilities
- **Out-of-Network:** healthcare providers who have not signed a contract to charge negotiated rates with an insurance company
- **Out-of-Pocket Maximum:** the maximum amount one must pay for medical expenses; costs above the maximum are covered by the health insurer
- **Policyholder:** the owner(s) of an insurance policy
- **Premium:** the periodic payment for an insurance policy
- **Renter's Insurance:** protects one from financial loss if personal property is damaged, destroyed, or stolen
- **Risk:** the probability that something negative may happen

Teaching Strategies

1. Open the chapter by discussing the concepts of risk and liability. Ask students to list some types of risk and different ways they protect themselves in daily life. Examples might include wearing sunscreen and bug spray, helmets when biking, etc. Connect that to insurance by explaining that spending money for insurance is a way of transferring risk to the company, who will then pay the potentially higher costs associated with illness, injury, etc. Ask students if they are covered by any insurance already.
2. Use techniques such as student pair/share to discuss vocabulary terms and key concepts found in the chapter.
3. Divide the class into four small groups and assign each group to one of the four types of insurance discussed in the chapter: health, auto, homeowner's/renter's, and life insurance. Provide the groups with 15-20 minutes of class time to read and discuss their section of the chapter and research more specific details. In addition, each group should devise a concise way of reinforcing key concepts for classmates — for example, they could create a poster, present a skit, or make up a song to represent what they learned about their type of insurance and help classmates remember key concepts. Provide five minutes for each group to make its presentation, then explore each type of insurance using the discussion questions below.
4. So that students can apply what they have learned and practice their consumer decision-making skills, assign the Planning for Protection activity as homework. Follow-up with a class discussion:
   - Poll students to find out how many were able to afford all four types of insurance coverage. Ask these students, "What did you have to do in order to be able to meet your $2,000 budget and still get health, auto, homeowner's/renter's, and life insurance?" Encourage students to talk about taking higher deductibles, having good health habits, and "bundling" policies with the same insurance provider in order to get lower rates.
   - Poll students who did not opt for all four types of coverage to determine which types of coverage were most often eliminated. Discuss students' reasons for their choices and the possible consequences they could face.

Discussion Questions

- Why do you think the cost of health insurance is so high?
- Do you think it's fair that everyone does not pay the same amount of money for life, health, auto, and homeowner's/renter's insurance? Why?
- If insurance is important, what can you do now so you will have access to all types of coverage when you are living on your own? (maintaining a safe driving record, shopping around for rates, etc.)
- What other types of insurance are there and when might they be important?

Extension Activity

- Review this chart listing minimum car insurance requirements in each state: www.thebalance.com/understanding-minimum-car-insurance-requirements-2645473. Ask students to discuss what factors might account for the variations.
- There are many, many types of insurance not covered in this chapter: dental, vision, mortgage, title, boat, and pet, among them, as well as specialized insurances for businesses operating in various industries (e.g., worker's compensation, special liabilities for childcare centers and schools, etc.). Have students choose an industry or niche consumer market and research the insurance needs for that group.
- To extend student learning, use newspapers or the internet to monitor insurance-related issues in your city, state, and the country. Encourage students to bring in examples of stories that illustrate the importance of the various types of insurance discussed and share them with the class. Post these stories on an insurance awareness bulletin board for others to see.
- Invite an insurance broker to speak with students about the main types of insurance and to answer questions about making sound financial decisions when it comes to purchasing insurance.

Answer Key:

Activity 1

COMPARING HEALTH PLANS

Scenario 1

1. You don't take any regular medications, and besides your routine annual check-ups, rarely visit the doctor. Which plan would you choose? Why?
Answers will vary, but students should note that Plan A has fewer upfront costs.

2. You take medication that costs $28 per month without insurance. How much would you expect to pay over the course of one year under each plan?
Plan A: $20 per month x 12 months = $240; Plan B: $28 per month x 20% copay x 12 months = $67.20

3. Imagine you fall ill and have $4,000 in medical bills this year for in-network, non-emergency room medical services. Approximately how much could you expect to pay for healthcare this year under each plan? (Remember to include your premiums.)
Plan A: ($70.44 x 12) + ($1,500 - $750) = $1,595.28;
Plan B: ($209.26 x 12) = $2,511.12

Scenario 2

4. How much will the premium for each plan cost you per year?
Plan A: $5,671.32; Plan B: $11,351.76

5. Last year, your spouse needed surgery that would have cost $30,000 if it were not covered by insurance. How much would you have paid for this surgery under each plan if the medical providers were all in-network?
Plan A: $1,500 deductible; Plan B: $0

6. Your child has a medical condition that requires weekly visits to a specialist who is out-of-network and charges $230 per visit. In addition, your child needs 4 medications that cost a total of $1,000 per month at an in-network pharmacy (if purchased without insurance). What would be your annual costs under each plan? Remember, your out-of-pocket payments to the specialist count toward your deductible.
Out-of-network specialist: $230 per visit x 52 weeks = $11,960
Plan A: 0.30 x $11,960 out-of-pocket for specialist + ($20 pharmacy co-pay x 4 medications x 12 months) = $4,548
Plan B: 0.20 x $11,960 out-of-pocket for specialist +(0.20 x $1,000 pharmacy co-pay) x 12 months = $4,792

Activity 2

AUTO INSURANCE

1. Which plan would you choose if you had a very inexpensive car?
Answers will vary, but students should note that the lower the coverage, the more they will have to pay to fix/replace their car.

2. Which set of rates would you expect if you had a safe driving record, good credit, and lived in a low-crime area?
Rate C, the least expensive, would be expected for this low-risk driver in a low-risk location.

3. What if your car were fairly expensive and you lived in an area with frequent traffic accidents — which set of rates would you expect?
Rate B, the most expensive, would be expected for this high-cost car in a high-risk location.

4. What's the total annual difference in cost between the least and most expensive set of rates for the highest level of coverage? When would it be worth getting the extra coverage? What steps could you take to ensure you get the lowest rates?
12 x ($1,566 - $1,133) = $5,196 per year
Answers will vary but students should note the various factors that affect insurance costs.

Activity 3

PLANNING FOR PROTECTION

1. What types of insurance did you elect to purchase? Why? *Answers will vary.*

2. What financial risks are you protecting against by selecting these types of insurance? *Answers will vary.*

3. What financial risks do you run by not having the remaining types of insurance? *Answers will vary.*

4. Of the four types of insurance you researched, which is most important at the start of your working life? Why?
Answers will vary, with auto and health insurance likely leading the pack. Have students debate the benefits of these two types of insurance at the start of one's working life.

5. How might this change after five or ten years? Why?
Answers will vary.

6. What questions do you still have about insurance?
Answers will vary.

Answer Key:

Final Assessment Quiz

(Answers in **bold**.)

1. You would like to put more money into your savings account each month. Which of the following would NOT be a financially sound strategy?
   a. Consolidate your debt so that you can pay less per month.
   b. Reduce credit card payments to the minimum each month.
   c. Find ways to reduce spending on needs, such as negotiating for lower insurance premiums.
   d. Cancel your gym membership and purchase a bike instead.
2. You are having trouble keeping up with your monthly bills. You should:
   a. Apply for a consolidation loan.
   b. File for bankruptcy.
   c. Hire a debt settlement company to help you make a plan for reducing your debt.
   d. Contact your lenders and let them know you are having a hard time paying.
3. Which of the following would negatively impact your credit score?
   a. An increasing amount of debt each month
   b. A history of paying your bills on time every month
   c. A new job
   d. Expensive hobbies
4. When shopping for a loan, you should ask:
   a. Whether the interest rate is fixed or variable
   b. If there are penalties for early repayment
   c. How frequently the interest is compounded
   d. All of the above
5. You are buying your first home and budgeting for a mortgage. Your monthly payment will be based on the cost of the home and:
   a. Your down payment
   b. Your credit score
   c. Length of the loan
   d. All of the above
6. Two people apply for a 5-year loan to purchase a new car for $15,000. Person A has a credit score of 745, and Person B has a credit score of 600. Which customer is likely to have a higher interest rate and insurance costs?
   a. Person A
   b. Person B
   c. They will have the same interest rate and insurance costs.
   d. Person B will have a lower interest rate, but insurance will be the same.
7. You're ready to trade in your old vehicle, but you're not sure if you want to finance a used car or lease a new car. A lease makes more financial sense if:
   a. You have a long commute to work.
   b. You can do most of the repairs yourself.
   c. You like to always have the latest tech and luxuries.
   d. You want to save money on insurance.
8. Insurance is based on the principle of probability — insurance companies measure the probability you will need to make a claim. A high probability means higher premiums, a low probability means lower premiums Who do you think will have the lowest premium on a life insurance policy?
   a. Person A is 100 pounds overweight, and smokes cigarettes.
   b. Person B is 26, and runs 10 miles a day.
   c. Person C is generally healthy and works in construction, typically on high-rise scaffolding.
   d. Person D is 75 and has a chronic illness.
9. You are shopping for insurance for your family. Which of the following is not required by law, but is critical, particularly for parents?
   a. Auto insurance
   b. Life insurance
   c. Mortgage insurance
   d. Homeowners insurance
10. You are shopping for a mortgage and choosing between a 30-year fixed, a 30-year adjustable, and a 15-year fixed. The 15-year is best if you want:
    a. To build equity quickly
    b. Lower monthly payments to start
    c. Lower monthly payments for the life of the loan
    d. Steady payments to make it easier to budget

APPENDIX:
Online Resources

Below you will find a list of additional resources related to the chapters in this book. These resources can be used to extend your understanding and study of the subjects in each section.

CHAPTER 1: BEGIN WITH A BUDGET

The Balance
Tips and news relating to budgeting
www.thebalance.com

Bankrate.com
A variety of calculators and data used throughout the book
www.Bankrate.com

CHAPTER 2: LOANS AND DEBT

Credit Reports
The three major reporting agencies:
www.equifax.com
www.experian.com
www.transunion.com

Free annual reports are provided at
www.annualcreditreport.com

Financial Industry Regulatory Authority
Loan tools and other financial calculators
www.finra.org/investors/tools

Credit Counseling
National Foundation for Credit Counseling offers advice and resources to help with debt
www.nfcc.org

Identity Theft
Information on preventing identity theft from the Federal Trade Commission
www.consumer.ftc.gov/features/feature-0014-identity-theft

CHAPTER 3: PURCHASING A CAR

Edmunds.com
News articles, car buying information, and calculators
www.edmunds.com
www.edmunds.com/calculators/

Kelley Blue Book
Provides news articles, model reviews, and pricing information
www.kbb.com

CHAPTER 4: PURCHASING A HOME

Mortgage Professor
Monthly Payment Formula
www.mtgprofessor.com/formulas.htm

CHAPTER 5: INSURANCE PROTECTION

Life and Health Insurance Foundation for Education
Find specific information about health and life insurance along with calculators for determining coverage and cost
www.lifehappens.org

Insurance Information Institute
Includes information about all types of insurance, a glossary of insurance terms, and important facts and statistics related to insurance
www.iii.org/

The Actuarial FOUNDATION

YMI YOUNG MINDS INSPIRED