

## Chapter Eight: *Predatory Lending*

# PREDATORY LENDING



## *Lesson Plan*

### Materials

1. Dry erase board/flip chart
2. Marker or chalk
3. Copies of magazines (Vibe, Cosmopolitan, and Rolling Stone are best, they are full of ads)
4. Create a transparency of **Where Our Federal Taxes Went in 2006**
5. Student Materials Packets

### Outline

1. Review
2. Definition
3. Rent-to-own
4. Comparison
5. Predatory?
6. Advertisements
7. IEAL
8. Taxes
9. Where \$ goes
10. RAL

### Objectives

1. The student will be able to compare prices for the same item from a rent-to-own store to and a retail store.
2. The student will be able to evaluate current advertisements and decide what impact they might have on people who see them everyday but cannot afford to buy them.
3. The student will be able to describe why rent-to-own stores charge higher prices for the goods that they lease.
4. The student will be able to calculate how much more an item will cost at a rent-to-own store than the same/similar item at a retail store.

### Procedure

#### **REVIEW** (5 mins)

1. *In our last class we talked about consumer rights and responsibilities, and discussed some of the rights that protect you. Let's do a quick review of some of the rights we talked about.*
2. *What law protects you against collections agent harassment? Fair Debt Collections Act*
3. *What law makes it illegal to deny someone a loan based on there race, gender or use of public assistance? Equal Credit Opportunity Act*

#### **DEFINITION OF PREDATORY LENDERS** (5 mins)

4. *You are all consumers of products and services, but they all cost money. We have done a lot of talking about savings and making your money grow over time. It doesn't grow unless it is in an account earning interest. Making the most of every dollar is another great way to keep more money earning interest for you.*
5. *Comparing items based on price and quality is a good way to get the best deal. .Although you do have many rights to help protect you there are still lots of scams out there that are totally legal.*

6. *Predatory lending is defined as a business, financial institution, or other entity taking advantage of a person's lack of knowledge about credit to loan them money or something of value at a cost that is much higher than they could get elsewhere. Most often those who are taken advantage of have the lowest income.*
7. *Let's take a look at rent-to-own stores and we will decide if they are predatory lenders based on this definition.*

### **RENT-TO-OWN** (5 mins.)

8. On the board write down the definition and break it out into its component parts so that you can check each one. It would look something like this...
  - a. A business, financial institution, or other entity\_\_\_\_\_
  - b. Taking advantage of someone's lack of knowledge\_\_\_\_\_
  - c. To loan them money or something of value\_\_\_\_\_
  - d. At a much higher cost then they could get elsewhere\_\_\_\_\_
9. *Where have you seen rent-to-own stores in our town?* Have students tell you where they might have seen them in their neighborhoods. Usually they locate in low income communities.
10. *How do rent-to-own stores work?* A person rents an item and pays a monthly payment until a certain amount is reached, then they own the item.
11. *Let's say that you wanted to buy a laptop computer do you think you would pay more for it at a rent-to-own store or a retail store like Wal-Mart or Circuit City?* Take a poll of the class to see how many think the rent-to-own store would cost more.

### **COMPARISON SHOPPING** (15 mins)

12. *We will find out the answer to this question by comparing the costs for an item at the two different stores to see which costs more and then we will decide if rent-to-own stores engage in predatory lending.*
13. Using the rent-to-own Comparison Shopping Worksheet and the flyers from the rent-to-own store and the retail store, have the students fill in the blanks and answer the questions at the bottom.

### **PREDATORY LENDERS?** (10 mins)

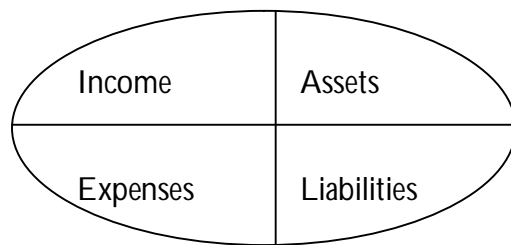
14. After the students have filled in the worksheet go back up to the board and go through each piece of the definition. Decide as a class whether the rent-to-own store fits the description of a predatory lender.
15. *Whether they are predatory or not you are still going to pay a lot more at a rent-to-own store then almost anywhere else. What happens if you miss a payment?* They come and take your stuff back and you have lost all that money that you paid toward the item.
16. *Why would people use rent-to-own store, when they cost so much more?* Because they don't want to wait to save up for an item or because they have bad credit and can't get a credit card etc.

## ADVERTISEMENTS (15 mins)

17. *If the only way you can afford something is to use a rent-to-own store then you probably can't afford to have it. Are most of the things in a rent-to-own store needs or wants? Wants*
18. *Let's take a look at some advertisements that we see everyday and it may give us an idea about why people would be tempted to spend beyond what they can afford.*
19. Get the students into groups of four or five and hand out one magazine to each group.
20. *I want you to look through this magazine and find two things that are needs, things that you must have to survive. You need to have one person write down your list of needs, and one person who will present them.*
21. *The person who is presenting should also be able to answer this question. ....*
  - a. Do you think that being surrounded by advertisements like these make people more likely to spend more than they can afford to spend?

## IEAL (5 mins)

22. After all groups have presented and you have discussed the information they gathered draw the IEAL chart on the board.



23. *Where would a rent-to-own payment go on this chart? Expenses*
24. *Where would the total cost that you would have to pay off go? Liabilities*
25. *Once you had it all paid of would you have gotten an Asset? No*
26. *Why is it not an Asset? Because you can't sell it for the amount you paid for it or more, it has decreased in value.*

## TAXES (5 mins)

27. *How many of you have jobs?*
28. To the students who said yes: *Who worked for the money that you got paid at your job? **We did!***
29. *So whose money is it? **Ours!***
30. *So why does the government get some of it? Often students will say it pays for roads, schools etc. This is true about state, city, and property taxes but most of the federal budget is not put toward schools.*
31. *Let's take a look at where your money goes once it gets to the federal government.*

## WHERE DOES IT GO? (5 mins)

32. Show the students the transparency and ask them about how they would spend the money if they were in control of the federal budget.
33. *As citizens we can vote to elect officials that we think will spend the money we give them the way we think it should be spent. However, the money that we have the most control over is the money that we keep.*
34. *How many of you filed you taxes this year?* Wait for students to answer.
35. *Did you know that many of you would probably get most of the money you paid in taxes back at the end of the year if you filed your taxes?*
36. *Keeping more of your money in your accounts earning interest for you is always a good thing. Filing your taxes can be confusing but it is worth the time.*
37. *Did any of you go to H&R Block, Jackson Hewitt, or Liberty Tax Services?* These are tax preparers that charge for their services and offer short term high interest loans for the amount that you expect to receive from your tax return.
38. *These places charge you a fee to help you do your taxes, and they also offer to loan you the money you expect to get back from the Internal Revenue Service. So instead of waiting two weeks to get your money back you get your refund immediately minus their fees and interest. This all means less money working for you and more money in the pockets of other people.*

## REFUND ANTICIPATON LOANS (8 mins)

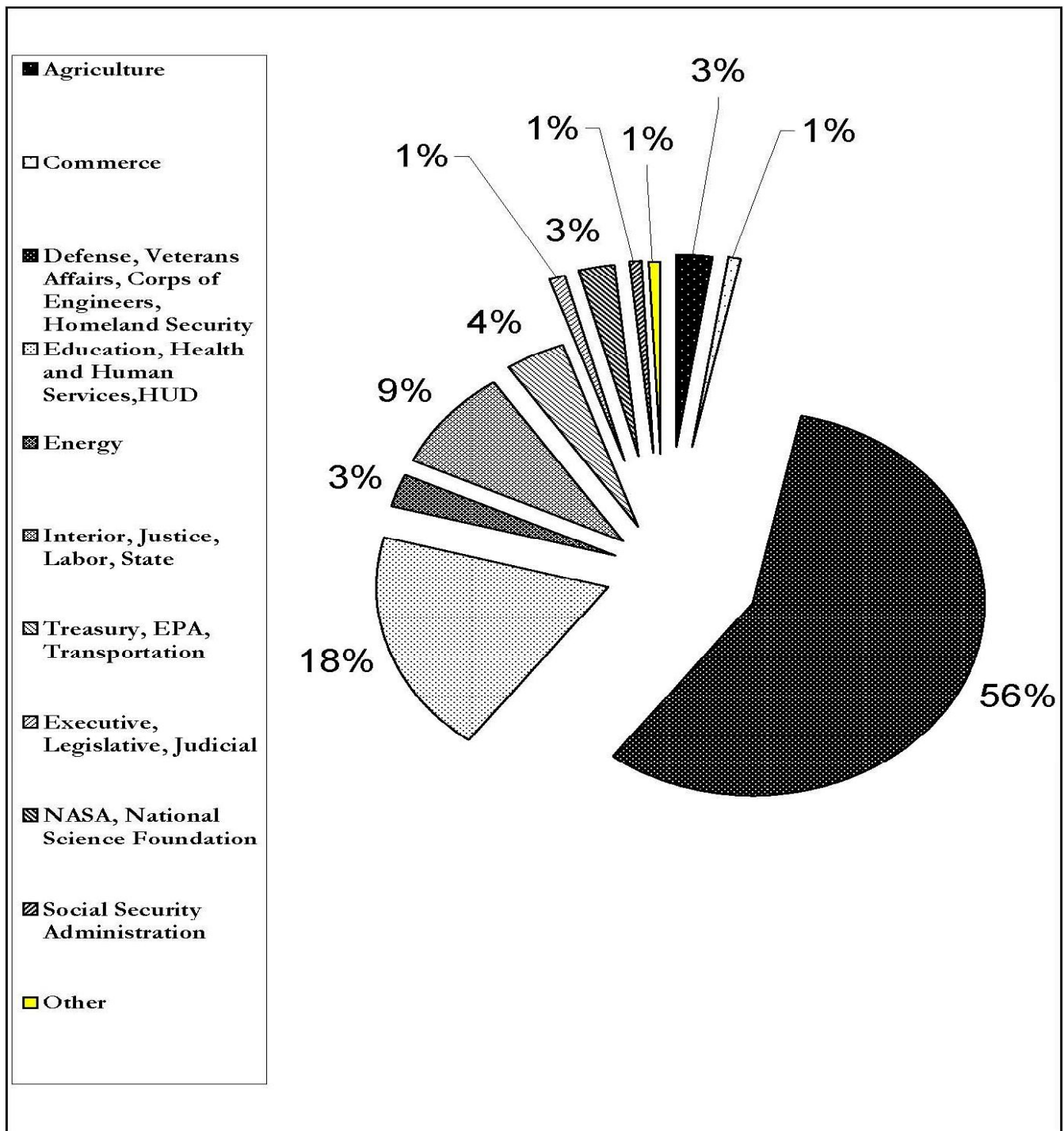
39. *When we looked at the advertisements in the magazines did any of you see things you wanted to buy, but probably couldn't afford now?* Ask students who respond to tell you what they wanted to buy and make a list on the board.
40. *Imagine that you have worked all year long and had taxes taken out of your paycheck. It comes time for you to file your taxes but you don't understand how to do it. You really need the refund to get one of these things on the board or something else you really want.*
41. *Let's say that you are going to get \$2,000 back this year. What if I told you that you could have your taxes done for you and get most of that money back in the same day? How many of you would take that deal?*
42. Count how many are interested and hopefully someone will ask if there is a catch. The catch is that the only way to get your money right now is to get a Refund Anticipation **LOAN**.
43. *Sometimes these are called Rapid Refunds or by other names. You have to pay a portion of your return to get them.*
44. Have students take a look at what they would pay if they did this for their \$2,000 return. Then ask those who said they would do it if they have changed there minds.
45. Finally let students know that there are places they can go to get there taxes done for them for free, they are called Volunteer Income Tax Assistance (VITA) sites. If they have a savings account and get their return direct deposited they can have there money in less than two weeks. The number to find a site near them is on the last page of the packet.

46. Go through the definition on the board and ask students if they think Refund Anticipation Loans are a form of predatory lending,
47. *Whenever you can't wait for money, you will have to pay for it. It is a good idea to try and not pay attention to advertisements and have patience, it will save you lots of money and insure that you have plenty for retirement. Our next lesson is on Investments where we will talk about what to do with all this money you have saved.*

**Note to instructor:**

We have calculated this at 78 minutes of teaching time. This is the minimum, it can take much longer. Feel free to adjust time according to students needs.

## Where Our Federal Taxes Went in 2006



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<sup>1</sup> Source: Fiscal Year 2007 Mid Session Review Budget of the U.S. Government, <http://www.whitehouse.gov/omb/budget/fy2007/pdf/07msr.pdf>, pg. 35





# PREDATORY LENDING



*Rent-to-Own Store  
Advertisement*

**JVC**

**JVC 42" LCD Flat Panel TV**  
TV panel plano LCD JVC de 42 pulgadas

- 1366 x 768 Resolution
- Dual HDMI Input
- 8M Sec Response Time
- Auto Sensing Component Video Input

**with FREE DVD Player**

**YOU PAY ONLY \$99.99\***  
**OWN IT IN ONLY 24 MONTHS!**  
EVERY DAY LOW PRICE \$1583.99  
Minimum Lease Period 6 months

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*Cost information for the rent-to-own store*

- Total cost of ownership (after renting) \_\_\_\_\_ (1)
- Total number of months needed to own the item \_\_\_\_\_ (2)
- Total monthly payment \_\_\_\_\_ (3)
- Total price of item if you buy it today \_\_\_\_\_ (4)
- Minimum amount of time you have to rent the item \_\_\_\_\_ (5)

*Retail Store  
Advertisement*



**Only  
\$1,196.00!**

***Philips 42" Full HD 1080P LCD***

- 1920x1080p resolution
- 3 HDMI inputs
- Response time: 5 ms
- Video Input
- Add 2 Year Service Warranty for just \$78.88
- Add a DVD Player for just \$79.88

***Cost information for Retail Store***

Total cost of the item \_\_\_\_\_ (6)

Total cost after rebates \_\_\_\_\_ (7)



***Comparison Shopping***  
***Rent-to-own vs. Purchasing***

Name \_\_\_\_\_

Date \_\_\_\_\_

1. Which store costs the most? Why do you think that is?
  
  
2. Which store costs the least? Are the two items that much different? Does cheaper always mean “not as good”?
  
  
3. Subtract line 1 from line 6. What amount do you get? Notice this is how much more you will pay from a rent-to-own store.
  
  
4. How could you buy the item from the retail store now even if you didn't have the full purchase price saved up?

# Don't Pay to Borrow Your Own Money

## The Risks and Costs of Tax Refund Anticipation Loans

### The "Tax Refund" That Really Isn't One: It's a Refund Anticipation Loan

How would you like to pay a super-high price to borrow money that already belongs to you? Sounds ridiculous, right? But that's pretty much what happens to many folks at tax time in the crazy world of RALs, or refund anticipation loans.

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds." These ads will offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans.

When you get a RAL, you're borrowing against your own tax refund money. And RALs are often marketed to people who need money the most — low- and moderate-income workers who receive the Earned Income Tax Credit.

### Don't Pay Triple-Digit Interest Rates to Borrow Your Own Refund

RALs are extremely expensive. Loan fees typically range from \$30 to \$90, which translates into Annual Percentage Rates (APRs) of about 60% to over 700%. If you paid those rates on all your borrowing you'd probably go broke! And all to get your tax refund just a few days earlier than you can

for free from the IRS. You're lining someone else's pockets with YOUR hard-earned money!

RAL fees, combined with tax preparation, electronic filing, and other fees, can end up eating away a big chunk of your refund.

### RALs Can Be Hazardous to Your Financial Health

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in

partnership with a tax preparer, it must be repaid *even if the IRS denies or delays your refund, or your refund is smaller than expected*. If you don't pay back the RAL, the lender will take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

### Example:

For a tax refund of \$2000, you might pay to get a RAL:

RAL loan fee:	\$75
Electronic filing fee:	\$40
Combine that with the fee you will need to pay to the tax preparer:	\$100
<b>Total:</b>	<b>\$215</b>

This is *over 10%* of your refund!

This RAL has an APR (Annual Percentage Rate) of *142%* if it beats the IRS by 10 days.

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To find a VITA site near you call: 1-800-TAX-1040<sup>2</sup>

<sup>2</sup> Source: National Consumer Law Center [http://www.consumerlaw.org/initiatives/refund\\_anticipation/content/RALBrochure.pdf](http://www.consumerlaw.org/initiatives/refund_anticipation/content/RALBrochure.pdf)

