DOCUMENT RESUME

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TITLE	How to Use Truth in Lending, Case No. 1: "The Grey Family Finances an Auto Purchase." Case Study with Discussion Questions.
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ABSTRACT

In a consumer education brochure, the Federal Trade Commission traces steps that a family might take in fiancing an auto. Through the use of a case study comparison of the credit terms of two car dealers, explanations are given for terms such as annual percentage rate, credit life insurance, finance charge, and deferred payment price. Copies of contracts are shown to assist teachers in assembling their own copies of contracts in local usage, and discussion questions are raised that stimulate students to think in terms of using credit wisely. (EA)

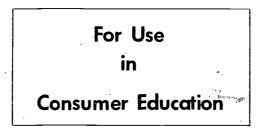
on

How To Use Truth in Lending

Case No. 1

"The Grey Family Finances an Auto Purchase"

Prepared by Washington Area and Kansas City FTC Regional Office Staff



U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE NATIONAL INSTITUTE OF EDUCATION

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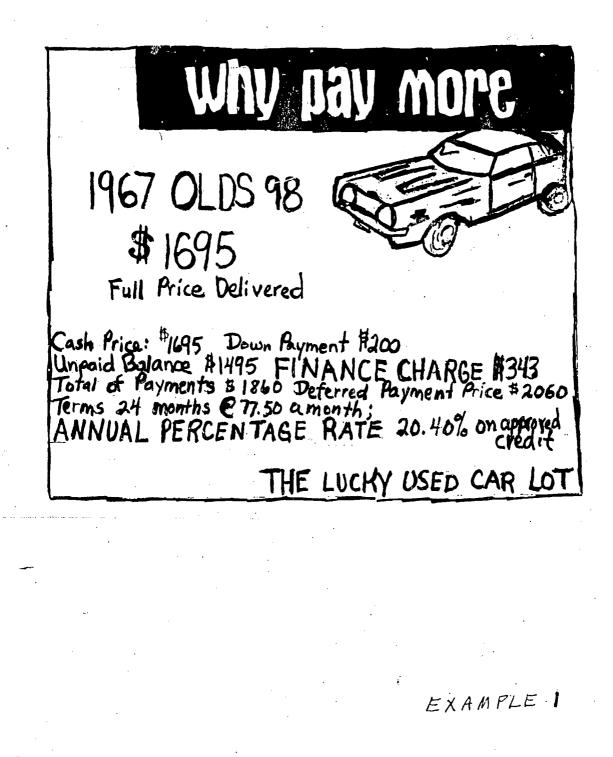
The contracts shown are meant to guide educators in assembling their own copies of contracts in local usage.

THE GREY FAMILY FINANCES AN AUTO PURCHASE

Last summer the Grey family's old car finally went its last mile and had to be junked. The Greys needed another one, so Mr. Grey checked local newspaper ads for used cars. He finally saw two ads that interested him. Both were for the same kind of car and prices were identical. The Lucky Used Car Lot advertised credit terms, and required a \$200 downpayment. But Wheels and Deals Used Cars advertised "No Money Dcwn." That sounded good to Mr. Grey, so he paid Wheels and Deals a visit.

(The ads Mr. Grey saw are on the next two pages.) (Examples 1 and 2)





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1967 OLDS 98 \$1695 No Money Down Wheels and Deals Used Cars Sells For Less

EXAMPLE 2



At Wheels and Deals Mr. Grey looked the car over, liked it, and asked about terms for financing it. The salesman told Mr. Grey that he could pay \$80.61 a month for 24 months, and gave him a contract that was already filled in.

(The contract is Example 3.)

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The contract was a bit confusing to Mr. Grey, but right away he noticed a \$200 downpayment included in the figures. He asked the salesman about this since "no money down" was what had attracted him to Wheels and Deals in the first place.

The salesman told Mr. Grey that the credit department could finance only \$1,495 for him. However, he told Mr. Grey that he could borrow \$200 for a downpayment from a loan company down the street. Payments would be less than \$20 a month for only 12 months. Mr. Grey thought about that, but decided he probably wouldn't need a loan. He had already saved about \$200 which he could apply on a car.

> (The loan Mr. Grey could have taken out is shown as Examples 4 and 5.)

> > -4-



On this 15 11 day of 1114, 1970.	WHEELS AND DEALS LISE	DCARS
1296 Center St. St Loui	S St Louis Mo.	(Slata)
St. Laur St. Laur St. Ler. hereby agrees to sell and Howard St. Laur St. Laur St. Ler. hereby agrees to sell and Howard St. Laur St. Laur St. Laur St. Mo. (Caunty) (St.	(Name) (County) 3585 (Stree (Name) DEBTOR-BUYER, horeby agrees to buy and to	ainine Adduessi
(City) (County) (St Sciently interest in the following described property:		Brank to accured 1. Hy a
Unallised Yr. Mod. Make No. Cyl. Model No. LISED 1967 CIdS 8 98	Model Name Body Type Serial Number Sedan OF08H84	Motor Number 0 121347
X Radio X Heater X Transmission Overdrive X	Power Power Power Air C Steering Brakes [] Windows [] ditio	aing [] Other
This security interest is given to secure the payment and performance of the Dividual promissory note of even date executed by Debtor and made payable $four = \frac{0.3}{100} + \frac{0.3}{100} = 0$ Dollars (\$ 1934, 63	to Secured Party in the principal sum of <u>AINeFicn</u> h	undred thirty
CREDIT COST DISCLOSU	RE AS REQUIRED BY LAW	
I. C.ish Price \$ 1695,00 2 From Payment \$ 200,00 0 Cash Down Payment \$ 200,00 (38) Trade In (Describe) \$	6. FINANCE CHARGE (Composed of)	<u>\$ 1560.23</u> <u>\$ 374:40</u> <u>\$</u>
Intal Down Payment \$ 200.00 3. Unpaid Balance of Cash Price \$ 1495.00 4. Other Charges (Itemize) (4A) Non Required Insurance (4A) Non Required Insurance \$ 43.23		\$2134.63 \$1934.63 \$115770
B) Official Fees LICENSE FEE \$ 22.00 (4C) 4D. Total Other Charges \$ 6.5,23 that afteracquired property is also liened and that future advances and ot interest in said property is disclosed within this document in the security agr charged. Prepayment of the obligation may earn refund of the unearned F	DAMAGE CAUSED. TO OTHERS IS NOT INCLUDED. N amounts thereof, due dates of each payment, and fr disclosed in this document in the note and security agr tion of property to which a security interest is claimed her indebtedness to the secured party are likewise secu cement. Late charges of \$5.00 or 5% of the payment, which	umber of payments, equency thereof are eement. The descrip- and granted, the boot ired by the security
	RANCE dit, may be obtained through any proper agent or compa by creditor, the cost will be \$ for the term of	
CHIDIT LIFE AND DISABILITY INSURANCE, is not required to obtain this will be added to the cost of the credit.	extension of credit. If borrower desires such coverage the c	osts as set out below
 The cost for Credit Life Insurance alone will be \$ The cost for Credit Life and Disability Insurance will be \$ 		
I desire Credit Life and Disability Insurance	Igned date	Slinet
l desire Credit Life Insurance	I desire NO Insurance	signed
Party(ies) stipulate and agree that all provisions on the reverse side here Notice to Buyer: Do not sign this contract before you read it or if it contract Under the law, you have the right to pay off in advance the full amount due	ins any blank spaces. You are entitled to an exact copy o	part of this egited of the contract your the
Debtor acknowledges that on the day and year first above written, this agreement executed by both Secured Party and Debtor has been delivered	agreement was executed and that on said day a fully co to him.	mpleted copy of this
SECURED PARTY	DEBIOR	
Name)	(Name)	 .
(Corooration or Partnership)	By Example	3
	/	

PROMISSORY NOTE LOUL \$ 224_42 ... Missouri FOR VALUE RECEIVED, the undersigned jointly and severally promise to pay to the order of I. C. U. LOGI (the sum of TU'O. TILLNCIZE of TU'ENTEL-Mine and 92/100-Dollars \$ 229.9 Co at the place: designated by the holder hereof, with interest after maturity until paid at the maximum lawful contract rate, in 12 installments of \$ 19.16 \$/15/70 th, the first installment being due on..., and each successive installment being due on the same day of each successive month. Der : .n maker, guarantor, indorser and surety hereof walves presentment, notice of dishonor, protest and notice of protest, and diligence in bringing suit hereon, and consents that the time of payment of this indebtedness or any or all installments thereof may be extended from time to time and more than one time without notice and without affecting their liability. The undersigned agree that the holder hereof may charge and collect interest on each delinquent payment hereunder at a rate which shall not exceed the highest lawful contract rate. If any of the said installments, or any part thereof, are not paid when due, then the entire indebtedness then remaining unpaid shall, at the option of the holder hereof, and without notice or demand, become immediately due and payable and the undersigned agrees to pay an attorney's fee of fifteen per cent (15%) of the balance due and payable under this note if same is referred to an attorney for collection after default, and further agrees to pay court costs incurred in the collection if attorney's fees and court costs are permissible by law. Witn Debtor's signature Debtor's signature. Sami Dodsworth Co. K.C. (C)8-267

Example 4

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	S	ECURITY	AGREEMEI	N T		
			LOANS ONLY)			
W-ALL MEN-BY-THESE P	RESENTS, that	ад талана са са са се	HOWE	Name of Dabter)	ey	n in su characteritanteritante
		St Louis		COULI J · (County)	/17 (St.	7, eto)
ematter (jointly and severally if	there be more than one)	called debtor, grants, co	nveys and gives to	I.O.U. Lo	an Co	
1348 aunter	- St. S	1 Tours			of Secured Perty)	
(Addreas) einafter called secured party.		(City)	/	17)155	State)	••
ECURITY INTEREST in and to th	he following described pro	perty, hereinafter called o	collateral, together with	all additions, replaceme	ints, accessions a	nd accessories the
listed below or on the attached	sheet which is incorporate	ed her e in:				
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				N.		·
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e for payment of a note o						<u>·</u>
*	REDIT COST D	isclosure as s 200.00			.AW	
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2. Other Charges (Itemized)		· •	В.		. 1	
		*	C ·		5	
		2		-		Di lin
		s	4. TOTAL FINANCE 5. Total of Paymen		\$	29.42
3. Amount Financed (1 & 2)		\$ 200.00	5. Total of Paymen 6. ANNUAL PERCEN	ts	50 %	29.42.
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The number of payments her disclosed elsewhere on this of interest is granted and claim party are likewise secured by gation entitles retund of the PROPERTY INSURANCE, if w rower, but if borrower desires subject only to rate increase CREDIT LIFE AND DISABILIT will be added to the cost of 1. The cost for 2. The cost for 1 desire Credit Life and Disab 1 desire Credit Life Insurance Party(ies) stipulate and agr	reunder, the amount of a document within the boo ned, the fact that aftera is the security interest in unearned FINANCE. CH/ written in connection with s such coverage to be of s granted by state office y INSURANCE, is not re the credit. Credit Life Insurance al Credit Life and Disability pility Insurance date the that all provisions o re first above written an	each payment, the due of dy of the promissory not icquired property is also said property is disclos IRGE computed by Rule INSUI In this extension of creat balaned through or paid ials, and such charge w quired to obtain this ext one will be \$ y Insurance will be \$ signed a the reverse side hereo d debtor hereby acknow	5. Total of Paymen 6. ANNUAL PERCEN- thy beginning tate of first and all su te and security agreen b liened and that fut sed within this docum of 78s. RANCE dit, may be obtained to by creditor, the cost ill be added to the cost ill be added to the cost tension of credit. If bo for the term o for the term o for the I desire property id desire NO Ins of are incorporated the ledges receipt of a c	ts VIAGE RATE 26. HLC 9, 15, 1 Ibsequent payments, an vent. The description of ure advances and oth ent in the security agr hrough any proper age will be \$ solutions of the credit. brower desires such co f the loan. term of the credit. insurance data trance data	constitute a pa greement, promi	o which a security s to the secured ment of the obli of choice by bor rm of the credit s as set out below algned signed rt of this agreem

Mr. Grey looked at the car contract again, saw a charge for credit life insurance, and asked about it. The salesman quickly told him that the insurance really was a good thing to have.

Finally Mr. Grey noticed the words ANNUAL PERCENTAGE RATE and asked what they meant. The salesman told him that was a term required by the Truth in Lending Law, but really didn't mean a thing. He told Mr. Grey that the only important figure was the amount he would owe on the car and that was \$1,934.63. That was a lot of money, and Mr. Grey decided to think things over before signing the contract.



What has Mr. Grey learned so far?

1. What did he find out about the "no money down" ad? It wasn't honest because a downpayment really was required. Mr. Grey was tricked. REMEMBER - "No money down" is an attention-getter in an advertisement. Seldom can a large purchase be made on credit with nothing down.

(It also was a violation. The Truth in Lending Law says you must advertise meaningful credit terms or advertise none at all. It specifies just what is required.)

2. Was the salesman really helpful?

No. He wanted to make the sale. He didn't really answer Mr. Grey's questions. He wasn't interested in Mr. Grey's welfare - and he led him to believe things that weren't so.

- 3. <u>Did he say that credit life insurance was required</u>? No, but the charge was included. That made it appear that it was required. Was it? Let's look at the contract (Example 3) and find out.
- 4. Do you think it's a good idea to be handed a contract that is already filled in? No. You ought to be very suspicious. There must be some reason. Be sure to see what other charges are included. What if the contract is BLANK? DON't SIGN UNTIL YOU SEE ALL COSTS OF THE SALE!!!

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5. If Mr. Grey had taken out a \$200 loan, what would his payments have been? (See Loan Disclosure -Example 5)

> Loan payments - \$19.16 (12 months) Car payments - <u>\$80.61</u> (24 months) Total per month for 12 months - \$99.77

สัมอากร์

Financing a downpayment makes a deal very costly!

- 6. (Discuss location of disclosures on loan contractExample 5)
 - Is insurance required here? (Read from contract.)

7. Do you think the law would require using the term ANNUAL PERCENTAGE RATE if it had no meaning? No, but remember that term. We'll find out about it later.

-10-

Let's continue with our story -

Mr. Grey started home, and them remembered that the Lucky Used Car Lot had advertised a car like the one he had just seen. The ad had stated a lot of terms - one was ANNUAL PERCENTAGE RATE - but he had forgotten what they were. He decided to go to Luckys and see how the credit terms there compared with those offered by Wheels and Deals.

The salesman at Luckys showed Mr. Grey the car, and asked if he had seen their ad. Mr. Grey said he had, but confessed that he hadn't really understood all the terms. The salesman then got a blank contract, sat down with Mr. Grey and explained the credit terms, and pointed out that some of them could be used to great advantage by a shopper.

(The blank contract is Example 6 - next page.)

He told Mr. Grey that he should always look for four things when buying on credit, and made a check mark beside each as he described it. -

•<u>First</u>, look for the CASH PRICE. You ought to know what the price would be if you were paying cash.



-11-

SECURITY AGREEMENT AND RETAIL INSTALLMENT SALE CONTRACT (INSTALLMENT SALE OF MOTOR VEHICLE)

. .

On this	day of			, 19,		(Name)		
	(Street Addre	\$\$)		(Cl	lty)	(County)		(State)
ECURED PARTY	SELLER, hereby	agrees to sell a	nd	· · · · · · · · · · · · · · · · · · ·	(Namo)		(Street A	
ecurity interest in	City) the following dev		ounty)	(St	• •	R—BUYER, hereby e	grees to buy and to gr	
	Mod.	Make	No. Cyl.	Model No.	Model Name	Body Type	Serial Number	Motor Number
						.		· · · · · · · · · · · · · · · · · · ·
Radio	Heater		matic smission	Overdrive	Power Pow Steering Bra		ver AirCon adows Dditionir	
This security i	nterest is given	to secure the p	ayment and				nd also to secure the p	
				or and made payable	to Secured Party in th	e principal sum of		
			Dolla	rs (\$) payable in installmen	its and maturing on	theday	of
<u> </u>	19							
		CRED	DIT COS	T DISCLOSU	RE AS REQU			
1. Cash Price			• •	\$			ced	·
2 /n Paym				. \$	(6A) Time Price	RGE (Composed of) ce Differential	/ 	\$
(2B) Trade	In (Describe)		·····	\$	(6B) Required	Insurance (Itemize	e)	
Total Down	Payment			. \$	(6C)	• <u> </u>		\$
				. \$	5. IVIAL FINANC	CE CHARGE	6)	
4. Other Char					8. ANNUAL PERC	ENTAGE RATE _	%	
	Required Insura			\$			monthly beginning	
	·			<u>\$</u>	LIABILITY INSUR	ANCE COVERAGE	_monthly beginning FOR BODILY INJURY	AND PROPERTY
(48) Offici (4C)				- \$ \$	DUBUNGE OUCCE		NOT INCLUDED. Nun	
				\$	announts maraon		ch payment, and freq ote and security agree	
interest in sai	d property is di	sclosed within i	his docume	nt in the security agr	her indebtedness to	the secured parts s of \$5.00 or 5% of	interest is claimed an y are likewise secure of the payment, which ole of 78s.	d by the security
					IRANCE			:
							er agent or company	
					dded to the cost of th		for the term of	the creast, subject
CREDIT LIFE	-	Y INSURANCE					such coverage the cos	ts as set out below
	1. The cost fo	r Credit Life li			for the term			
					for th			
I desire Cred	it Life and Disa	bility Insuranc	e		I desire prope	rty insurance	data	signed
1	it Life Insuranc							4181100
					I desire NO			signed
Notice to B Under the law, y	uyer: Do not si ou have the rig	gn this contrac ht to pay off i	t before you n advance t	i read it or if it cont he full amount due	ains any blank spaces and obtain a partial r	• You are entitled refund of the time		the contract you si
Debtor a agreement ex	cknowledges ti recuted by both	at on the day Secured Party	and year fin and Debto	st above written, thi has been delivered	s agreement was exec to him.	cuted and that on	said day a fully com	pleted copy of this
STOURED PA	RTY				DEBTOR			
(Name)	•••				(Name)			<u> </u>
	Partnership)			-12-	(Corporation or Partne	ership) Ful	nm ble	6
Full Text Provided by ERIC					бу	<u> </u>	<u>~!'' j==</u>	

PARTIES HEREBY WARRANT AND COVENANT:

1. That Debtor will not sell, offer to sell, or otherwise transfer or encumber the collateral or any interest therein without the prior written consent of the ecured Party.

2. That Secured Party will procure the insurance coverage designated above herein the proceeds therefrom to be payable to the Secured Party and Debtor as their interests appear. If insurance other than insurance on motor vehicles is designated above herein. Debtor shall be covered thereby. In the event of any default under this agreement, the Secured Party is authorized to cancel the said insurance and to receive the return premiums, if any, which shall be either credited to the unpaid belance due under this contract, or used to purchase insurance protecting the interest of the Secured Party alone, or used for both, whichever Secured Party elects.

3. That Debtor will preserve the collateral and keep it in good condition, and shall allow the Secured Party to inspect the same at any reasonable time.

4. That Debtor shall not sell or dispose of the collateral or subject it to any unpaid charge or any subsequent interest of a third person, unless the Secured Party first gives written consent to such.

5. That the Secured Party may at the Secured Party's option discharge liens, security interests, or other encumbrances on the collateral, and may pay for the repair of any damage to the collateral, the maintenance and preservation thereof and for insurance thereon, and upon so doing Debtor shall on demand reimburse the Secured Party for any payment so made. Said oayments advanced shall draw interest at eight percent (8%) per annum from the date of payment until reimbursement, shall be added to the indebtedness owed by Debtor and shall be secured by this Security Agreement.

	6. That the Debtor's residence is:			7. That the Secured At the addres	Party's place of bus s shown in the first		
At	(Street)	(City)	(State)	At	(Street)	(City)	(State)
8. That the Debtor st removal in connection with	hall not permit the re its ordinary use, wit	moval of the colla hout first obtainin	teral from	of the Secured Party.	County,	Missouri, except f	or its temporary

9. That the Debtor shall be in default under this agreement upon:

A. Default in the payment or performance of any obligation, covenant or liability contained herein;

B. Reasonable determination by Secured Party that any warranty or representation herein made was false when made;

C. Loss. theft, substantial damage, destruction, sale or encumbrance of any of the collateral, or the making of any levy, seizure or attachment there

D. Death, dissolution, termination of existence, insolvency or business failure of Debtor, or appointment of a receiver for any part of the collateral, assignment for the benefit of creditors or the commencement of any proceeding under any bankruptcy or insolvency law by or against Debtor or any guarantor or surety for Debtor.

10. Upon such default and at any time thereafter, the Secured Party may declare all obligations secured hereby immediately due and payable and may proceed to enforce payment of the same and exercise any and all rights and remedies provided by the Uniform Commercial Code as well as all other rights and remedies possessed by the Secured Party. The Secured Party may require the Debtor to assemble the collateral and make it available to the Secured Party at a place designated by Secured Party which is reasonably convenient to both parties. Expenses for retaking, holding, preparing for sale, selling and the like shall include the Secured Party's reasonable attorney's fees and legal expenses. Any notification of sale or other disposition of the collateral required to be given by the Secured Party will be sufficient if given personally, or mailed by certified mail, not less than five (5) days prior to the day on which such sale or other disposition will be made, and such notification shall be deemed reasonable notice.

11. No waiver by the Secured Party of any default shall operate as a waiver of any other default.

12. The contents of the copy of the financing statement found immediately preceding this Security Agreement are incorporated herein by reference and made a part hereof.

13. Upon full performance of the Debtor's obligations under this agreement and full payment of the Debtor's obligations on the promissory note herein described, this agreement shall be void, otherwise to remain in full force and effect.

14. The terms of this agreement shall be binding upon the heirs, executors, administrators, successors, and assigns of the parties hereto.

ASSIGNMENT

For value received, the within agreement and all the right, title and interest of the undersigned Secured Party, to the property therein described and secured, is hereby sold, transferred, conveyed and assigned to:

its successors and assigns, with full authority to do every act and thing necessary to collect and discharge the same. The undersigned expressly warrants that the within agreement arose from the bona fide time saie to the Debtor of the property described therain and secured thereby, that the title to said property at the time of said sale was vested in the undersigned free and clear of all liens and encumbrances, that the undersigned had the legal right to and did property assign and deliver such title as well as said property to the Debtor at the time of said sale, that said property was not misrepresented to the Debtor in any way and that the statements of the Debtor and all other statements of fact in this Security Agreement are true to the best of the knowledge and belief of the undersigned, and that the down-payment indicated in said agreement was paid in full by Debtor in cash or trade in as stated therein. The above agreement and above described note were completely executed prior to Debtor's signing the same. All warranties herein contained are made to induce the assignee to purchase this agreement and if there is any breach of any warranty, without regard to the knowledge or tack of knowledge of the undersigned, the undersigned will on demand purchase this agreement from the assignee for the balance then remaining unpaid plus any costs and expenses paid or incurred by the assignee.

SECURED PARTY

(Corporation or Partnership)

Example 6 (Resurse)

(Nama)

Second, look for the FINANCE CHARGE. It is the CHARGE for paying later - the cost of credit in Then - decide whether paying later is dollars. worth that many dollars. He said it was very important to think about this charge, and that was why the term was more conspicuous on the contract than most of the other credit terms. .Third, look for the DEFERRED PAYMENT PRICE. That's the CREDIT price. It includes the cash price, the finance charge, and other charges that you might or might not have to pay if you paid cash. You need to think about the CREDIT PRICE, and decide if paying later is worth that much money.

•<u>Fourth</u> - and VERY important - look for the ANNUAL PERCENTAGE RATE. It is the charge for paying later - the finance charge expressed as a percentage. The LOWEST annual percentage rate is ALWAYS the best credit term buy, regardless of the amount of the debt or the time it takes to repay it. He showed Mr. Grey that the words were conspicuous on the contract - and told him to always look for that term. He said to COMPARE annual percentage rates on credit deals, and to always choose the lowest one if you want to GET THE MOST FOR THE LEAST AMOUNT OF MONEY.



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Next the salesman told Mr. Grey that he could finance the car for 24 months at \$77.50 a month, exactly as the advertisement had stated. Then he filled out a contract to show all the costs for the car. As he did so, he discussed other charges. He pointed out that credit life insurance could be purchased, but was not required, and Mr. Grey decided he wouldn't need it. When the salesman had finished filling in the contract, Mr. Grey saw that the Deferred Payment Price was a lot more than the Cash Price. (The difference was \$365.) Even so, he could easily see that Lucky's terms were better than those offered by Wheels and Deals - and -

LUCKY'S ANNUAL PERCENTAGE RATE WAS LOWER!

(Lucky's contract is Example 7 - next page.)



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SECURITY AGREEMENT AND RETAIL	INSTALLME	INT SALE CO	INTRACT (II	NSTALLMENT SALE O	F MOTOR VEHICLE)
On this 15 th day of JULU	19 70 1	the LUCK	Y USED	D CAR	Lot .
14 90 Center St.	St. LOUI.	5	St. Louis)
(Street Address)	oward (City)	Grey	(County)	3585 ma	inline
St. Louis St. Louis	mo	me) / DEB10R-		(Street	Address) (rant to Secured P rly
(County) (County) ecounty interest in the following described property:	(State)				
New Hsed Yr. Mod. Make No. Cyl.	Model No.	Model Name	Body Type	Serial Number	Motor Number
15kD: 1967 0105 8	98		Seden	1626153	2 32546
Radio Reater X Automatic Transmission O	verdrive 🔀 Pow	er ering X Brake			
This security interest is given to secure the payment and per highlightions on a promissory note of even date executed by Debtor a					
SI X/4 Dollars (sind made payable io : \$ 1860,00) pa	yable in installments	and maturing on	the 1574 day	y of_ July
. 19. 72.					/
	DISCLOSURE				م مر سرا
	1695,00	5. Unpaid Bal <mark>a</mark> nce & 6. FINANCE CHARGI	& Amount Finance - (Composed of)	ed	\$ 15/7.00
wn Payment , Λ) Cash Down Payment\$.		(6A) Time Price	Differential	·····	\$
(28) Trade In (Describe) \$,	(6B) Required In	surance (Itemize)) 	\$
Total Down Payment \$	200,00	(6C) 6. Total finance			\$ 34.9.00
3. Unpaid Balance of Cash Price \$. 4. Other Charges (Itemize)	1470,00	7. Deferred Paymen	t Price (1, 4D & i	6)	\$ 2060.00
(4A) Non Required Insurance		8. ANNUAL PERCEN 9. Total of Payment	s (3, 4D & 6)	20,40%	5-1,860.00
<u> </u>		2.4 installmer LIABILITY INSURAN	Its of \$ 77.50 ICE_COVERAGE_E	monthly beginning FOR BODILY INIU:	8/15770 AY AND PROPERTY
(4B) Official Fees LIDENSE Fee \$ (4C)	12.00	DAMAGE CAUSED. T	O OTHERS IS N	OT INCLUDED. Nu	mber of payments,
4D. Total Other Charges \$	22.00	amounts thereof, d disclosed in this doc	sument in the not	e and security agre	ement. The descrip-
that afteracquired property is also liened and that future	advances and other	tion of property to v indebtedness to th	vhich a security in e-secured -party	nterest is claimed a Fare likewise secur	nd granted, the fact - ed by the security -
 interest in said property is disclosed within this document in 	n the security agreem	ient. Late charges o	f \$5.00 or 5% of	the payment, which	never is less, will be
charged. Prepayment of the obligation may earn refund of			ipuleo under nui	e of 785.	
PERTY INSURANCE, if written in connection with this			rough any prope	r agent or compan	y of choice by bor-
rower, but if borrower desires such coverage to be obtained only to rate increases granted by state officials, and such	I through or paid by	creditor, the cost w	ill be \$	for the term of	the credit, subject
Childhit LIFE AND DISABILITY INSURANCE, is not require will be added to the cost of the credit.	d to obtain this exte	ension of credit. If b	orrower de <mark>sires</mark> si	uch coverage the co	sts as set out below
1. The cost for Credit Life Insurance alone					
2. The cost for Credit Life and Disability Ins					
I desire Credit Life and Disability Insurance	signa	I desire property	insurance	date	signed
I desire Credit Life Insurance		I desire NO Ins	urance		
Party(ies) stipulate and agree that all provisions on the Notice to Buyer: Do not sign this contract before you rea Under the law, you have the right to pay off in advance the f	ad it or if it contains	any blank spaces.	You are entitled	to an exact copy of	part of this again I the contract you vie
Debtor acknowledges that on the day and year first a agreement executed by both Secured Party and Debtor ha	bove written, this ag	reement was execut			npleted copy of this
CURED PARTY		DEBTOR			·
(Name)		Name)			
I		Corporation of Partnerst	alp)	1 . ~	
EKIC	-15 -		81a	mble 7	· · · · · · · · · · · · · · · · · · ·

Let's stop and compare deals -

- 1. How many monthly payments does each contract call for? 24
- Which costs are the same on both contracts?
 The Cash Price and the Downpayment.
- 3. Which costs are higher at Wheels and Deals? Everything else - Other charges, amount financed, finance charge, total of payments, deferred payment price, monthly payments. And, of course, the ANNUAL PERCENTAGE RATE!
- What made the difference?
 The amount of the "Other Charges." Actually, the charge for credit life insurance.
- 5. What did the salesman tell Mr. Grey about credit <u>life insurance</u>?

The purchase of credit life insurance depends on the needs of the consumer, unless the contract states that it is required.

- <u>If you make a bigger downpayment, will the finance charge be less</u>?
 Yes. The less dollars you finance, the lower the finance charge.
- 7. If the amount financed is reduced, what happens to the finance charge?

It goes down. The finance charge is based on the amount financed. Again, the less dollars you finance, the lower the finance charge.



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- What is the quickest and easiest way to see which is the better deal?
 Compare ANNUAL PERCENTAGE RATES.
- 9. What do you think of Lucky's ad (Example 1)? It was truthful - meaningful - would help when shopping for credit.
- What four things did the salesman say to look for?
 Cash Price, FINANCE CHARGE, Deferred Payment Price, and ANNUAL PERCENTAGE RATE.

(Refer to blank contract, Example 6. Suggest that these four important credit terms be checked on the blank contract. Then mention and point out the location of various other kinds of information, such as:

> Payments - number, amount, due dates Penalty for Late Payments Refund if debt is paid off early Insurance Security

> > -17-

Our story continues -

Mr. Grey was about ready to buy the car when the salesman suggested another choice. Mr. Grey could pay for the car in 18 months at \$98.33 a month. The salesman filled out a contract, just to show Mr. Grey the very real difference between his choices. Mr. Grey immediately noticed that the ANNUAL PERCENT-AGE RATE WAS MUCH LOWER ON THE 18-MONTH PLAN. Also, he saw that he could save nearly \$100 on the FINANCE CHARGE by making the higher monthly payments for fewer months.

(Lucky's 18-month contract is Example 8)

At that point Mr. Grey was convinced that he should buy from Luckys. Not only had he been offered better deals there, but also he had learned how really easy it is to SHOP FOR CREDIT.

Mr. Grey considered his choice of payment plans, and finally decided on 24 months. Although the other plan would certainly save money, he felt it was more important to be sure he could meet his monthly payments than it was to reduce his finance charge. If he couldn't afford the higher payments, he might lose his car.

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SECURITY AGREEMENT AND	RETAIL INSTALL	MENT SALE C	ONTRACT (IM	ISTALLMENT SALE OF (MOTOR VENICLE)
On this 1.5 th day of 14/4	19.70	The Lill	RUL US	ED CAR	LOT
490 Center St.	St. Loui	5	St LIOUIS	mo,	
(Street Address) (Street Address) (CUBILD PARTY—SELLER, hereby egrees to sell and	Howard	" Grey	(County)	3585 Mai	(State) n//ne
St. LOUIS St. L.	ours mo.	(Name) / / DEBTOR	-BUYER, hereby ag	(Street Ad rees to buy and to gran	
(Count Security Interest in the following described property:	(Sta	to)		•	
Then thend Yr. Mod. Make LISED 1967 01.05	No. Cyl. Model No. 8 98	Model Name	Body Type Sedan	Serial Number 1L26J532	Motor Number 32546
🕅 Kadio 🛛 Heater 🖾 Automa		Power Steering X Bral			Other
This accurity interest is given to secure the payr obligations on a promissory note of even date execute Six rig : N2ne 4 - 4 94/100 $J.G.R.$, 1972.	d by Debtor and made payable Dollars (\$ 1769, 94)	to Secured Party in the payablo in installment	i principal sum of <u>5</u> Is and maturing on t	ihe_15_day o	und red
•	r Cost Disclosui				I-IN DD
L Cush Price wn Payment (CA) Cash Down Payment (2B) Trade In (Describe)	<u>\$ 1695.00</u> <u>\$ 200.00</u> \$	6. FINANCE CHAR (6A) Time Pric			
Total Down Payment 3. Unpaid Balance of Cash Price 4. Other Charges (Itemize) (4A) Non Required Insurance	<u>\$ 200,00</u> \$ 1495.00	7. Deferred Payme 8. ANNUAL PERCE 9. Total of Payme	E CHARGE ent Price (1, 4D & 6 INTAGE RATE nts (3, 4D & 6)) 15,25 %	252,94 1969.94 1769.94
 (AB) Official Fees <i>LICED.SE</i>. <i>Fee</i> (4C) 4D. Total Other Charges that afteracquired property is also liened and interest in said property is disclosed within this 	\$ \$2ZO that future advances and oth document in the security agree	LIABILITY INSUM DAMAGE CAUSED amounts thereof, disclosed in this d tion of property to ther indebtedness to coment. Late charges	ANCE COVERAGE F . TO OTHERS IS NO due dates of each ocument in the note which a security in the secured party of \$5.00 or 5% of	OR BODILY INJURY DT INCLUDED. Numb payment, and freque and security agreem terest is claimed and are likewise secured the payment, whichey	er of payments, ency thereof are ent. The descrip- granted, the fact , by the security
changed. Prepayment of the obligation may ea		RANCE CHARGE as co		9 01 785.	
PERTY INSURANCE, if written in connection rower, but if borrower desires such coverage to only to rate increases granted by state official CREDIT LIFE AND DISABILITY INSURANCE, is	on with this extension of crea b be obtained through or paid is, and such charge will be ad	dit, may be obtained by creditor, the cost ded to the cost of the	will be \$	for the term of th	e credit, subject
will be added to the cost of the credit. 1. The cost for Credit Life Insu					
2. The cost for Credit Life and E	Disability insurance will be \$	for the	e term of the credit	,	
l desire Credit Life and Disability Insurance		I desire proper		date	signed
l desire Credit Life Insurance	signed	I desire NO I	nsurancedate	··	signed
Party(ies) stipulate and agree that all provis Notice to Buyer: Do not sign this contract b Under the law, you have the right to pay off in a	efore you read it or if it conta	ins any blank spaces.	You are entitled t	o an exact copy of th	t of this agreen te contract you cit
Debtor acknowledges that on the day and agreement executed by both Secured Party and	l year first above written, this nd Debtor has been delivered	agreement was exected to him.	uted and that on s	aid day a fully compl	eted copy of this
URED PARTY		DEBTOR			
(Name)	· · · · · · · · · · · · · · · · · · ·	(Name)			
ERIC on or Partnership)	-79-	(Corporation or Partner By	ship) Eff.Cer	inple {	ζ

After all decisions were made, Mr. Grey read his contract carefully, asked questions about things he didn't understand, and then signed. The salesman gave him a copy of his contract and the keys to his new car. Breathing a sigh of relief, Mr. Grey drove away - a happy car owner.

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Let's look at Lucky's 24-month payment plan versus the 18-month payment plan - <u>Example 9 - Know the \$</u> <u>Cost of Credit</u> -

This chart compares the 24-month plan with the 18-month plan. What is the charge for paying later in each case?

1. How much is the finance charge for each?

24 monthly payments - \$343.00

18 monthly payments - \$252.94

\$ 91.06

Mr. Grey could have saved \$91.06 if he could have handled the higher payments.

2. What is the annual percentage rate for each?

24 monthly payments - 20.40 18 monthly payments - 15.25

REMEMBER - You can save money if you can make higher payments for a shorter period of time.



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KNOW THE \$ COST OF CREDIT

It costs money to use credit. The following formulas are good to remember when shopping for credit:

Higher monthly payments + lower no. of months = lower finance charge Lower monthly payments + higher no. of months = higher finance charge

Compare Costs:	Deal A	Deal B
Monthly terms	Pay \$77.50 a month for 24 months	Pay \$98.33 a month for 18 months
Cash price of car Subtract cash downpayment Unpaid balance of cash price Add other charges Amount financed	\$1695.00 200.00 \$1495.00 22.00 \$1517.00	\$1695.00 200.00 \$1495.00 22.00 \$1517.00
Monthly payments Times no. of payments Total of payments Subtract amount financed Finance charge	\$77.50 a month x 24 \$1860.00 1517.00 \$343.00	\$98.33 a month <u>x 18</u> \$1769.94 <u>1517.00</u> <u>\$ 252.94</u>

Finance charge = the \$cost of credit

Annual percentage rate

20.40%

15.25%

Annual percentage rate = the cost of credit expressed as a percentage

-22-

Mr. Grey was exposed to four credit deals, as shown below-

	ANNUAL PERCENTAGE RATE
Financing \$200.0012 months	26.50
Financing \$1,560.23-24 months	21.60
Financing \$1,517.00-24 months	20.40
Financing \$1,517.00-18 months	15.25

Which is the best credit deal?

Check the ANNUAL PERCENTAGE RATE. It's the ONLY way you can compare these deals. The <u>LOWEST</u> ANNUAL PERCENTAGE RATE is the BEST credit cost deal!

Three things are necessary to using credit WISELY. You must -

- . Know how much credit you can AFFORD
- . LEARN the new credit terms
- . SHOP for credit

DID MR. GREY USE CREDIT WISELY?



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REMINDERS ·

- . Advertising is sometimes misleading.
- . You can seldom make a large purchase on credit with nothing down.
- . Pay as much down as you can.
- . Check and understand "other charges."
- . If credit life insurance is not required, buy it only if you need it.
- . You can reduce your \$ cost of credit (finance charge) by paying higher monthly payments for a shorter period of time.

AND - THE BIG THREE -

. The FINANCE CHARGE is the dollar charge for paying later.

Is paying later worth that many dollars?

Use the ANNUAL PERCENTAGE RATE to get the most for the least amount of money. It's the ONLY way you can compare credit deals.

The DEFERRED PAYMENT PRICE is the CREDIT PRICE. It includes the cash price, the finance charge, and other charges. Is paying later worth that much money?



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