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MODULE 1: BASIC FINANCIAL LITERACY FOR DAILY LIFE



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TABLE OF TOPICS

1. Meaning of money (E-learning)
2. Bank account (face to face)
3. Savings account (face to face)
4. Cashless money (face to face)
5. Borrowing money and debts (face to face)



INTRODUCTION

GENERAL DESCRIPTION OF THE MODULE

- This module is regarded as the most important part of financial literacy in this project.
- To some kind this module will be the basis for module 2 and 3.
- The aim of this module is to learn the **basics about money, bank and savings account**, to understand basic and advanced **methods of paying with cashless money** and to know what is important when someone gets a **loan** and how he/she gets it.
- To give an overview about **new methods of paying** (i.e. PayPal, ...)

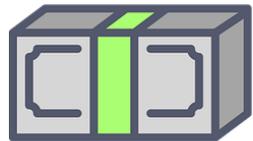


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BANK ACCOUNT

CONTENTS:

- Types of bank accounts
- Checking accounts
- Internet banking
- Overdraft of an account
- Additional services of a checking account



4 TYPES OF BANK ACCOUNTS

- Is not relevant for private households

MONEY
MARKET
ACCOUNT

SAVINGS
ACCOUNT

- Account which is just used for saving
- You can withdraw and deposit money at any time

- This account is known as a basic transactional account

CHECKING
ACCOUNT

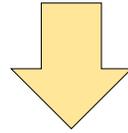
CERTIFICATE
OF DEPOSIT

- allows you to save money at a set interest rate, for a specific amount of time. It is not possible to withdraw money.

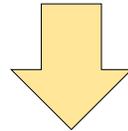


CHECKING ACCOUNTS

- Most people have one or two primary **sources of income**.



- Typically this income goes into one **checking account** (otherwise things will become complicated).



- **All expenses** (fixed and variable) come out of that one account.



CHECKING ACCOUNTS

- With a checking account **standing orders** can be installed



- **Internet banking** makes things much easier
→ You can **save** a lot of **time**



CHECKING ACCOUNTS

Opening a checking account

- Before you open a bank account you need to choose **which bank are you going to use**
- To make a decision you should ask the following questions:
 - Does the **bank have a branch close to where you live?**
 - What are the **monthly fees** (e.g.: some internet banks do not have fees)



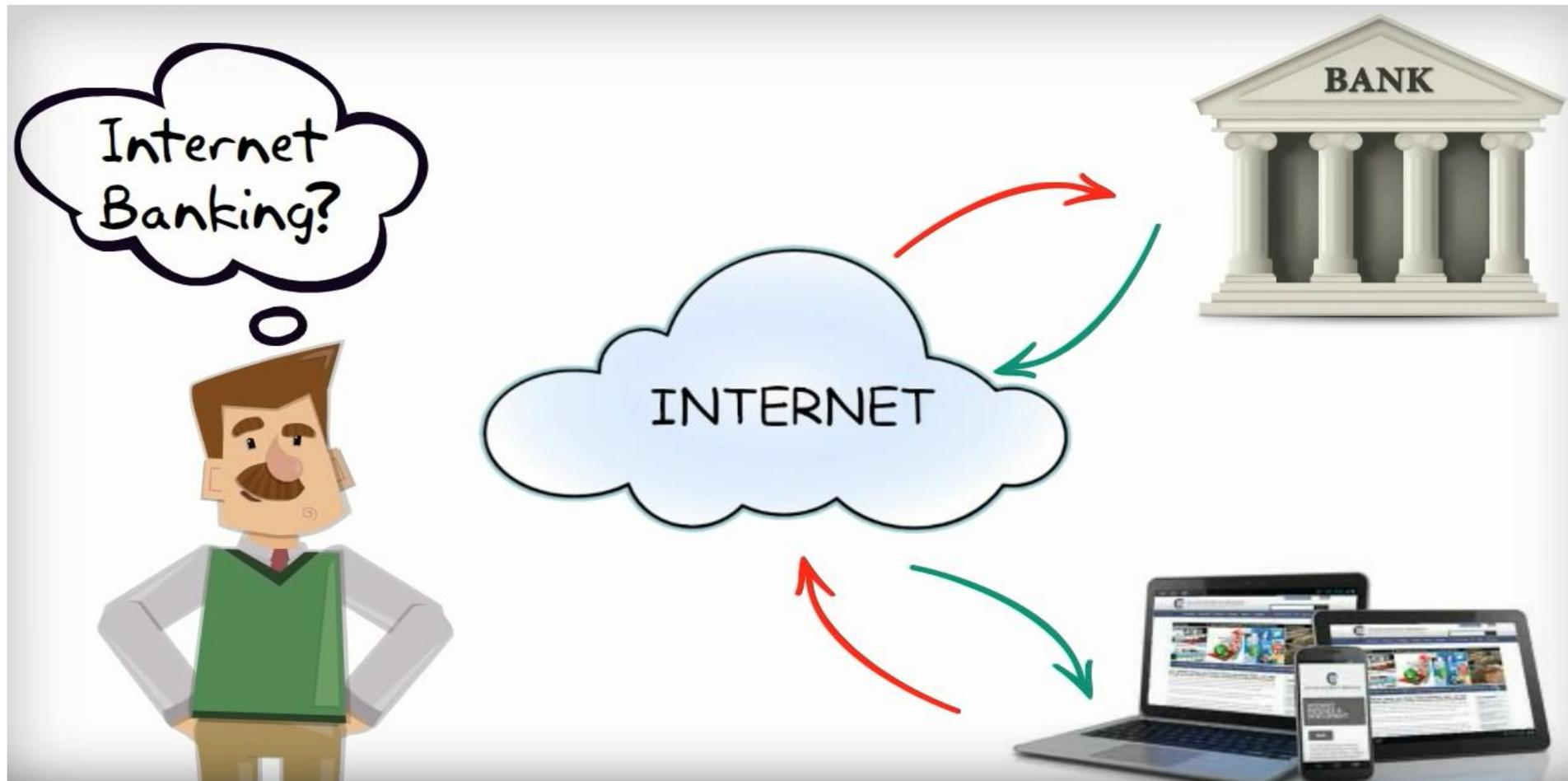
CHECKING ACCOUNTS

Opening a checking account

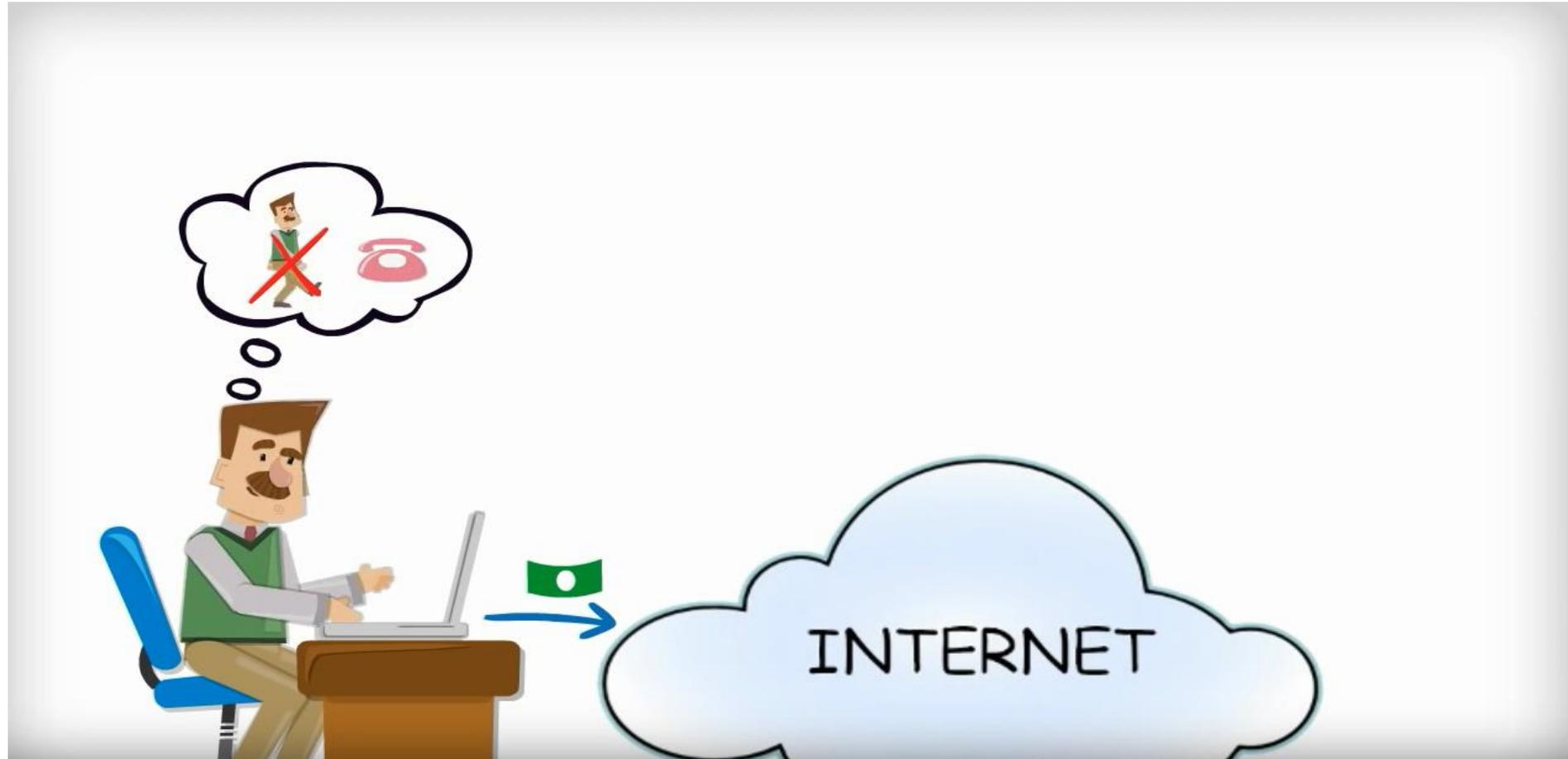
- You are allowed to open a **teen checking account** when you are 13
- **However:** under 18 years requires parental joint owner
- You have to give the bank personal details like a copy of your ID
- Proof your address (with a certificate of registration)



INTERNET BANKING



INTERNET BANKING



INTERNET BANKING



ADVANTAGES OF INTERNET BANKING

- You can use internet banking 24 hours on each day
- It is fast, easy and convenient

!! WARNING

- Security issues
- It is important to lock up login and password



INTERNET BANKING

Internet only banks



Lower costs



Better deals



INTERNET BANKING

How to transfer money via internet banking

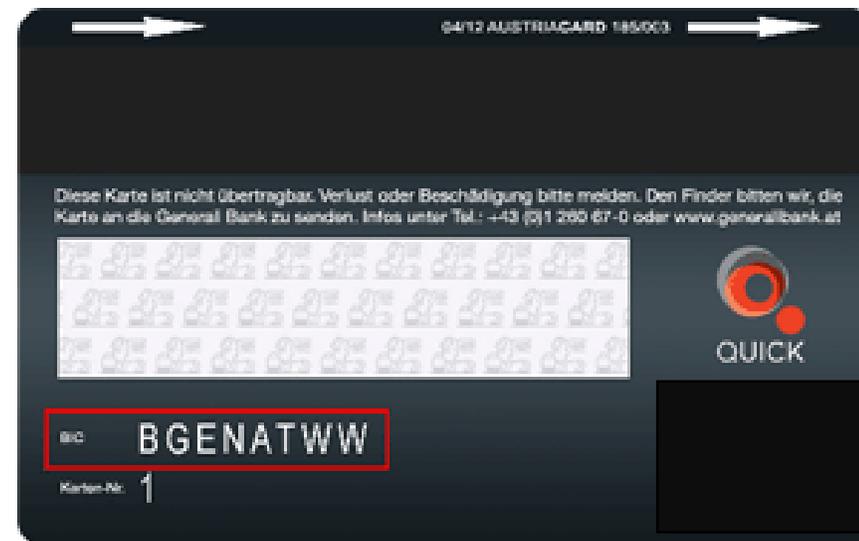
1. Login to your account
2. Choose pay and/or transfer
3. Fill in:
 - Name of the firm or person where you want to transfer money
 - IBAN and BIC (in the most cases you don't need BIC)
 - Enter the amount you want to pay
 - Reference of your payment
4. Confirm with a TAN (which you get on your mobile phone)
5. **FINISHED** ✓



INTERNET BANKING

Where do I find my IBAN and BIC?

- On your debit card
- Sometimes you find the BIC at the backside of your debit card



OVERDRAFT OF AN ACCOUNT

Bank overdraft definition:

- An overdraft facility linked to a checking account is an unsecured line of credit designed to cover short-term cash flow shortfalls. Normally, a bank grants you a certain amount which you can overdraw. This **amount is based on your regular income.**

Distinguish loan: Fixed amount of borrowing over a set term with regular repayments.



OVERDRAFT OF AN ACCOUNT

When would I need an overdraft?

- When the **expenditures exceeded your income** in the past or when you have high unexpected expenditures in the short run (for example: you have a high bill because you need to repair your car)

When is a bank overdraft not the best option?

- Overdrafts are not suitable for consolidating debts



OVERDRAFT OF AN ACCOUNT

Does a young person have the right to get an overdraft?

To provide the possibility of an overdraft is **not obligatory for the bank**. Each bank has its own strategy and rules for placing overdrafts. It is important to know as customer about these rules. If you are not satisfied with the bank's decision just go and ask what to do to get an overdraft (Or change the bank).

Be careful...

- If your **overdraft facility is not arranged in advance, account overdrawn fees** are due.
- If you overdraw your account more than accepted by the bank **it may also influence your credit rating.**
- Interest rates are often higher with overdrafts



OVERDRAFT OF AN ACCOUNT

BENEFITS OF A BANK OVERDRAFT

- Is a flexible credit option applied to your bank account.
- Let you spend up to an agreed limit.
- You do not have to pay additional fees.
- Overdrafts are not operating with a fixed repayment schedule



OVERDRAFT OF AN ACCOUNT

Duration of an overdraft

- Bank overdrafts are short term oriented (**duration no longer than one year**)
- If it is not possible to get rid of this form of short term debt, it makes sense **to change an overdraft into a loan** (medium term oriented)

For example:

Someone has overdrawn his account by EUR 4.000 on average per month over a time period of one year. His income is EUR 1.300 per month. In this case it could be better to speak with your bank adviser to change the overdraft into a loan. Then you have a positive balance on your account and you pay back a specific amount per month.



ADDITIONAL SERVICES...

...of a checking account

- Debit card
- Credit card
- Online banking

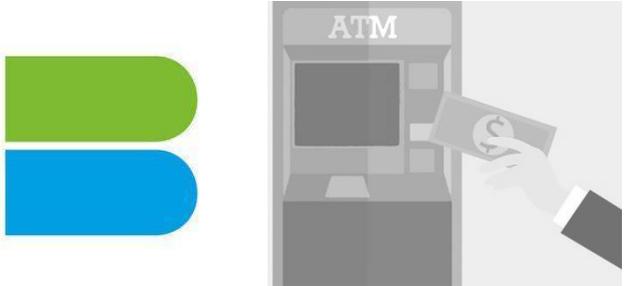


ADDITIONAL SERVICES...

...of a checking account

→ Debit card

- To pay your bills you can use currency or e-money.
- With a debit card you can do both:

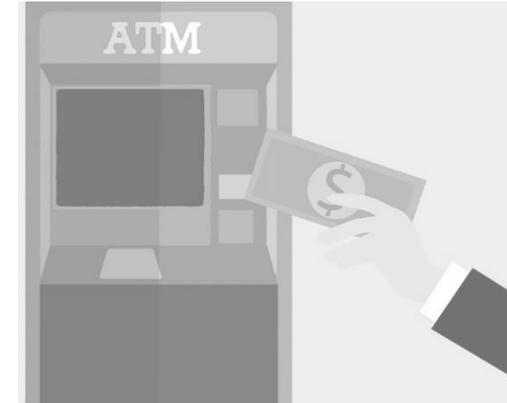
WITHDRAW MONEY FROM A CASH MACHINE	PAY WITH YOUR CARD AT THE CASH DESK
	



ADDITIONAL SERVICES...

How to use a debit card at a cash machine?

1. Insert your card
2. Enter your PIN: Be sure that nobody can see your PIN
3. Request a transaction (cash withdrawal):
Follow the on-screen instructions to choose the amount
4. Finish the transaction



BIBLIOGRAPHY

- Mishkin, F. S. (2013): The Economics of Money, Banking and Financial Markets, 10th edition. Boston: Pearson Education Limited. Chapter 3.
- Handa, J. (2009). Monetary Economics. 2nd edition. New York: Routledge. Chapter 1.
- Samuelson, P.A./Nordhaus, W. D. (2010). Economics. 19th edition. New York: McGraw Hill. Chapter 23.



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SAVINGS ACCOUNT

CONTENTS:

Benefits of savings accounts

Types of savings accounts

Opening a savings account

Loosing savings accounts and forgetting passwords



WHY IS SAVING IMPORTANT?

What is wealth?

Wealth is defined by the amount you keep, not what you spend.

If you spend more money than you earn,
you will run out of cash fast and lose creditability.



BENEFITS OF SAVINGS ACCOUNTS

Why should I have a savings account?

SAFETY:

-  Safer to keep the money in a savings account **than at home**.
-  In some countries you don't bear the **risk of bank-insolvency** to a certain amount (i.e. in Austria 100.000€).
-  If you have a savings account with a fixed interest rate for a certain time, you don't have a **interest-change risk**.

INTERESTS: You get more than you gave.

Of course: It depends on the interest rate



SAVING ACCOUNTS AND INTERESTS

Interests for your saving account is the money the **bank pays you** for keeping your money there.

Compound interest

You can compare compound interests with planting flora. When you plant something it's very small. The longer the plant has time, the more it will grow.

Compound interests → Same: **the longer** you will let the money **in the savings account, the more money** it will get.





COMPOUND INTEREST

So saving money is not just about how much you are saving, it's also **about when you start saving.**

It makes sense to **start in a teenage age.**

"I start saving when I earn my own money" is not always the optimal solution.



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Benefits of savings accounts



TYPES OF SAVINGS ACCOUNTS

Basic Savings Account

- Variable interests
- You can withdraw money any time
- You can deposit money any time
- Interest rates are low

Bound Savings Account

- Often variable interests
- Your money is bound for a certain time (for example 2 years)
- The longer the bonding the higher is the interest rate

Capital Savings Accounts

- Fixed interests
- You deposit money only once.
- The interest rates will be more attractive than in other forms of saving accounts

+ ONLINE SAVINGS ACCOUNTS



TYPES OF SAVINGS ACCOUNTS

Basic
Savings Account

Bound Savings
Account

Capital Savings
Accounts

+ ONLINE SAVINGS ACCOUNTS

- **The conditions** of the savings accounts **distinguish** between the different banks.
- Sometimes there are **special conditions and offerings for young people/teenagers**.
Attention here: It's not enough to check the conditions now. The saving accounts for children and teenagers often change into “normal” savings accounts, when the children and teenagers have a certain age. So it's also important to check how the conditions will be when the children/teenagers are getting older.



TYPES OF SAVINGS ACCOUNTS 2

Bearer savings account

- Every person, who holds the savings book and know the **password** can transfer payments.
- It's possible that there is a **maximum amount** of money you can save with a bearer savings account. In Austria you are not allowed to save more than 15.000€ with a bearer savings account.

It depends on the countries individual regulations

Registered savings account

- Only the person, **who opened** the savings book can transfer payments.
- It's possible that you **have to choose** a registered savings account when you want to save a **certain amount of money**. In Austria for example you have to open a registered savings account, when you want to save more than 15.000€



ONLINE SAVINGS ACCOUNT

- You deal with an online savings account **only through the internet**
- **Often higher interest** rates than offline savings accounts → greater earnings potential
- **Often no minimum deposit** to open an account
- Many **brick-and-mortar banks** also offer online savings accounts. But there are also **bank without physical branches** , which only offer online products.



OPENING A SAVINGS ACCOUNT

– *What to think about BEFORE opening a savings account:*

- Think about your **savings goal** (for example saving a certain amount of money until next year to finance a driving license)
- Think about the **investment duration** (for example 2 years, 5 years, 10 years)
- Do you want to save **frequently** (for example monthly) or do you want to save a certain amount **one time**.
- **Fixed interests** or **variable interests**



OPENING A SAVINGS ACCOUNT

Where?

OFFLINE

- At a bank branch
- You might need an appointment
- Take your ID with you

ONLINE

- Every time possible
- The bank/institution which offers you an online savings account will need data about you



OPENING A SAVINGS ACCOUNT

Compare interest rates and conditions

- The interest rates and conditions can **distinguish between savings accounts** of different banks.
- Compare the interest rates and conditions and **choose the optimum** savings account for you
 - high interest rates and less fees
- There are useful tools on the internet, which can help you to compare the savings account.
- For example:

<https://www.bankenrechner.at/>



WHAT SHOULD I DO...

when I lost my savings account?

- **Contact the bank** and the **police** to freeze the savings account.
- During a certain period (in Austria 4 weeks) you have the opportunity to **search again**.
- If you don't find the savings account after the period (and the amount of money on your savings account exceeds a certain amount of money), you have to go to **court**. In the meantime the savings account will be frozen. There might be court fees.



This can depend
from country to
country



WHAT SHOULD I DO...

- Recommendation: Remembering the **savings account number and as much information as possible** about your savings account make these situations easier.

– *when I forgot my password?*

- Recommendation: Sign the application form. This allows the bank to tell you the forgotten password.

Don't write your password
into the savings account.



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CASHLESS MONEY

CONTENTS:

Debit card

Credit card

PayPal



DEBIT CARD

- payment card
- deducts money directly from a consumer's [checking account](#) to pay for a purchase



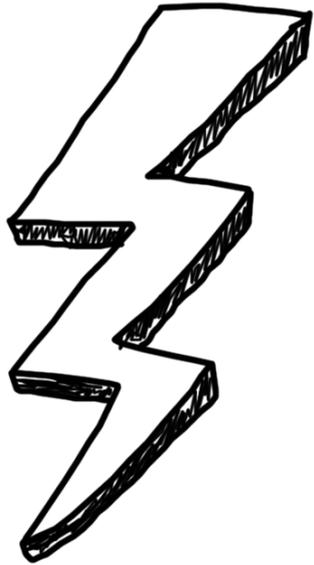
DEBIT CARD

How to use a pay with debit cards

- Debit cards can be used almost everywhere where credit cards can be used.
- You just need to hold the debit card on the card machine.
- If you just pay a small amount you need no PIN for confirmation.
- When the bill is higher than EUR 25 you need a PIN to finish the transaction.



DEBIT CARD



RISK OF USING A DEBIT CARD:

- The debit card is directly linked to your checking account
- If your card is stolen, your checking account could get drained by a thief.
- You are protected when you immediately inform your bank that your card is lost.



CREDIT CARD

A credit card is a card issued by a financial company which enables the cardholder to borrow funds.

Using credit cards responsibly

- Your strategy should be to make small purchases in stores and in the internet.
- Pay them off immediately
- This boosts your credit history and your credit rating.



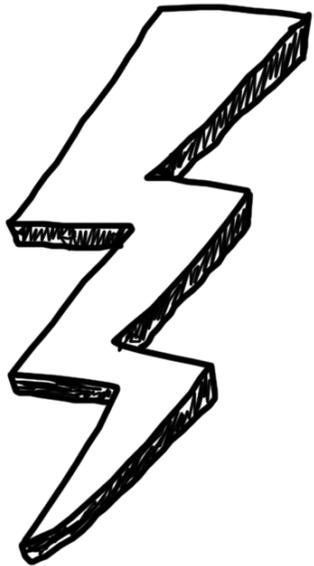
CREDIT CARD

Getting your own credit card

- If you have never had a credit card: **Visit your bank** and ask them about the possibility of getting a credit card.
- Banks will be willing to offer credit cards to responsible and qualified customers.
- It depends on **how long you have a checking account** and **how much money you earn**.
- Another possibility: Make a request **directly at VISA, MasterCard or American Express**. You have to be able to prove your financial responsibility there.



CREDIT CARD



RISK OF USING A CREDIT CARD:

- Many cards are issued with PIN number technology.
- But: you do not always need the PIN to use the credit card. Sometimes you just need a signature.
- **Therefore** : Immediately report lost or stolen cards to the issuer.



CREDIT CARD

The screenshot shows a payment method selection interface. On the left, under the heading "Choose your payment method", there are radio buttons for MasterCard, Visa (selected), Western Union, QNB Kowloon, Moneybookers, Bank Transfer, and other. The main area is titled "Pay with VISA". It contains the following fields and instructions:

- Cardholder Name: First name and Last name input fields.
- Card No: A long input field with a green checkmark icon to its right. Below it, a note states: "We currently cannot process business/commercial cards or charge cards."
- Expiration date: Two input fields for MM and YY.
- Security code: A three-digit input field with a note: "The 3 digits after the card number on the signature panel of your card."

A yellow "Pay My Order" button is located below the security code field. At the bottom of the form, there is a "Print this page" link. Below the form, there is a "Note:" section with three bullet points:

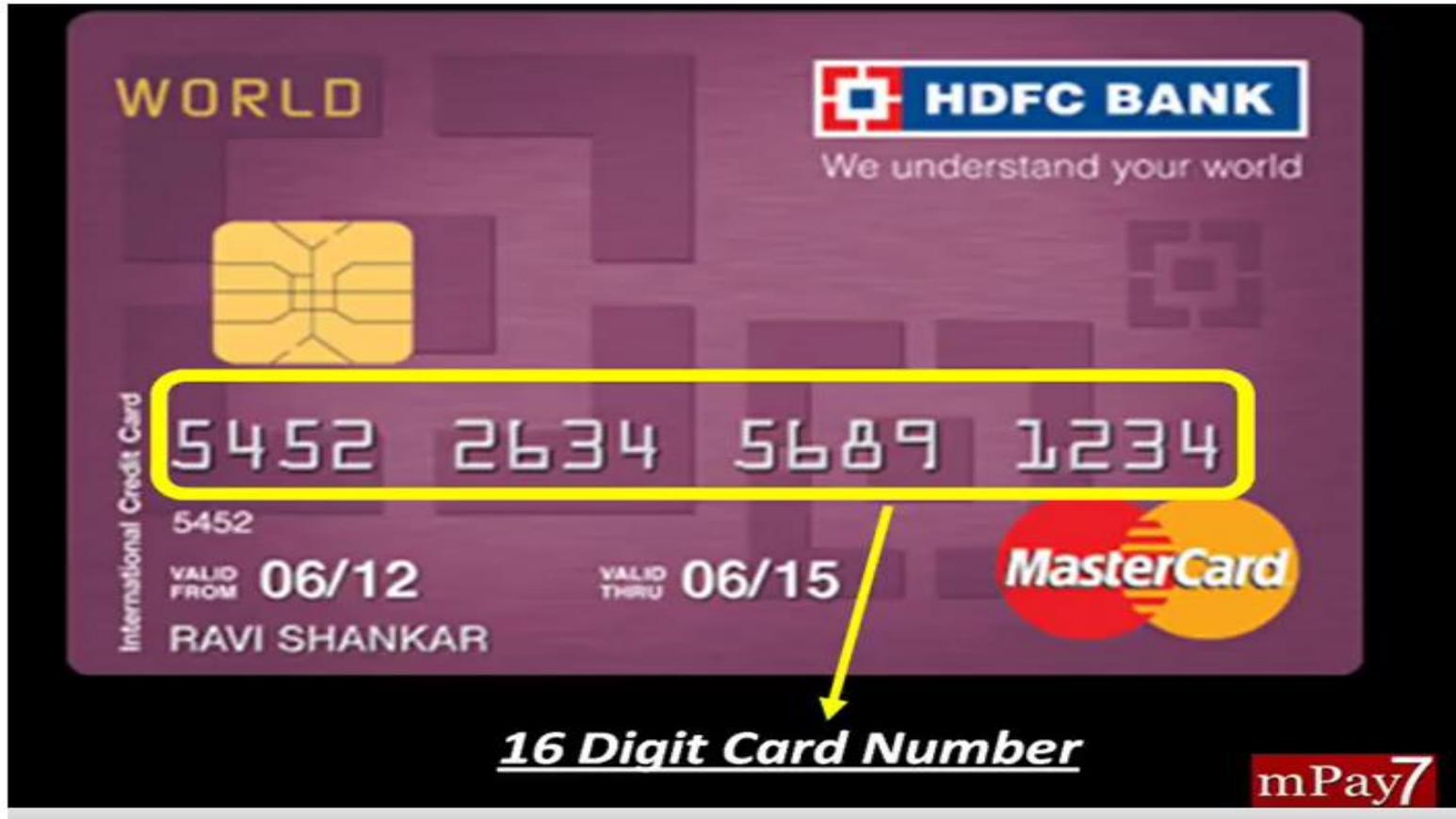
- Your payment is secured with VeriSign SSL encryption, the highest commercially available encryption technology. Please be assured that your credit card details will not be exposed.
- Your payment will be kept secure and will only be released to the supplier when you confirm satisfactory receipt of your order.
- Import duties, taxes and other customs related charges are not included. Buyers bear all responsibility for all extra charges incurred (if any). [Learn more](#).

How to pay with credit card in the internet?

- Choose the card (e.g. VISA)
- Cardholder name
- Card number
- Expiration date
- Security code
- Click „pay my order“



CREDIT CARD

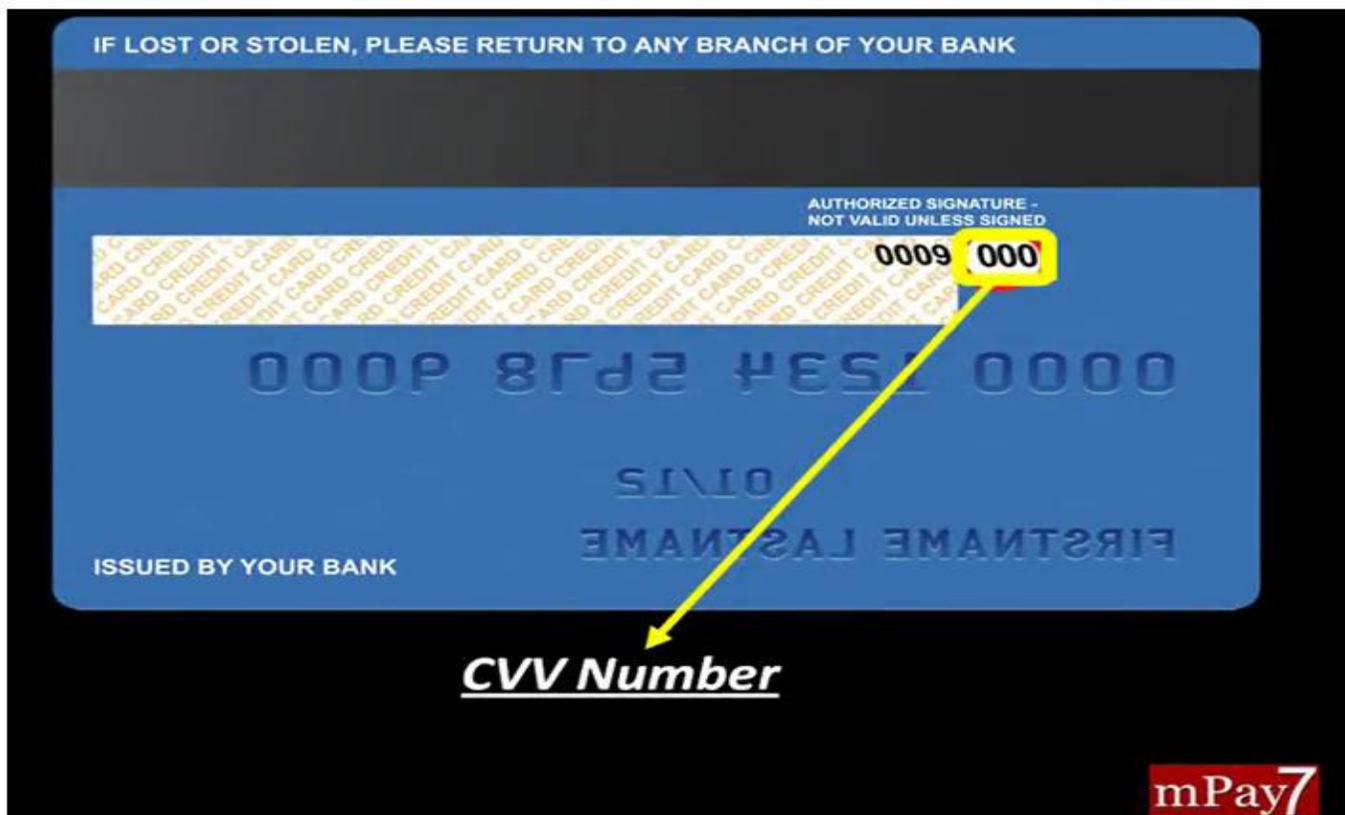


This is an example of a Master card:

- Above you can see the bank of the card holder
- The yellow outlined area show the card number
- Below you can find from when to when the card is valid
- Valid thru: 06/15 means June 2015
- Finally you find the name of the card holder



CREDIT CARD



- At the other side of the card:
- You find the **signature** of the card holder and the **CVV number**.



PAYPAL



How to use paypal and how to send and receive money

- For Paypal you just need an **e-mail address** and you have to register on Paypal.com
- Your e-mail address is your **username**. Then, you of course you need a **password**.
- You have to indicate your checking account information. Paypal checks that information.
- You can use Paypal also as an unverified account. But: You have to pay fees for any transactions and have limits concerning the amounts you can transfer.



PAYPAL



How to pay with Paypal

Customize Links WarriorForum Google Yahoo! Go Daddy Allkrent Susan Starr TinyURL

Deep River Media

Your order summary

Description	Amount
2012 Hosting Item number: FastActionDescrnt Item price: \$220.00 Quantity: 1	\$220.00
Item total	\$220.00
Total \$220.00 USD	

Choose a way to pay
PayPal securely processes payments for L

Have a PayPal account?
Log In to your account to pay

Email

PayPal password

[Forgot your email address or password](#)

Don't have a PayPal account?

When you have a Paypal account:
- Enter your e-mail and your password.



PAYPAL



\$220.00

\$220.00

total \$220.00 USD

▼ **Have a PayPal account?**
Log in to your account to pay

Email

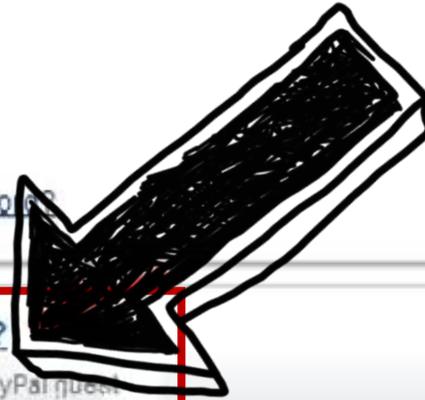
PayPal password

[Forgot your email address or password?](#)

▶ **Don't have a PayPal account?**
Pay with your debit or credit card as a PayPal guest

PayPal™

You can also pay with PayPal when you **do not have an account.** You have to press at that link.



PAYPAL



Pay with a debit or credit card

https://www.paypal.com/

Customer Links | WanzelPharm | Google | Yahoo! | Go-Daddy | Allrent | Susan Starr | Tivoli | Google Reviews Test | Google Analytics | Pa | Other bookmarks

Your order summary

Descriptions	Amount
3011 Floating Item number: 748440804040 Item price: \$220.00 Quantity: 1	\$220.00
Item total	\$220.00
Total \$220.00 USD	

Choose a way to pay

PayPal securely processes payments for Deep River Media.

Have a PayPal account?
Log in to your account to pay.

Pay with Bill Me Later®, Debit or Credit Card
Pay with your debit or credit card, or with Bill Me Later®

Country: United States

Bill Me Later®, a PayPal® service
Enjoy 6 months to pay on purchases of \$100+
See terms

Credit Card

Card number:

Payment Types:

Expiration date: /

CSC
What is CSC?

First name:

Last name:

Address line 1:

Address line 2 (optional):

City/State:

ZIP code:

Telephone: 888-888-1234

Email:

Payments processed by

Next you have to fill in the details of your credit card.
You use your credit card with Paypal.



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BIBLIOGRAPHY

- Mishkin, F. S. (2013): The Economics of Money, Banking and Financial Markets, 10th edition. Boston: Pearson Education Limited. Chapter 3.
- You will find links to you tube videos and/or other material in the guidelines. (You will also find a lot of material in your local language)



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BORROWING MONEY AND DEBTS

CONTENTS:

- Meaning of borrowing money
- Types of credit
- Rate types
- Comparing credits
- Consumer credit ratings
- Leasing
- Credit vs leasing
- Cash method of accounting



THE MEANING OF BORROWING MONEY

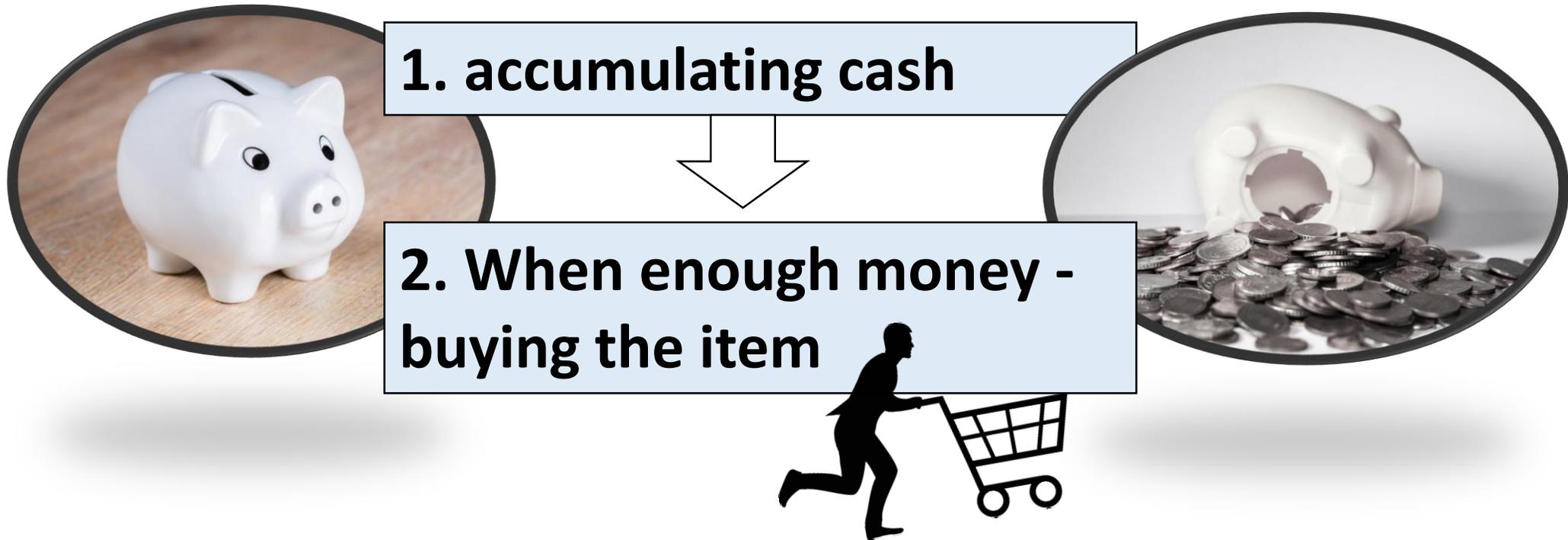
When you need more money than you have?

There is a high probability that the time comes, when you need more money than you have.

If you are in need of money for an essential item or to help make your life more manageable, it's a good thing to familiarize yourself with the kinds of credit and loans that might be available to you and the sorts of terms you can expect.



BEST WAY TO GET WHAT YOU WANT:



→ But this is often not the time pattern consumers prefer.



THE MEANING OF BORROWING MONEY



For many goods, accumulating cash first could mean doing **without the item** or paying for more **expensive substitute** services for a **period** that might amount to years.



Credit facilitates all these transactions by enabling households to **use future regular inflows** to pay for lumpy expenditures made today.



EXAMPLES

- People could walk to work or take the bus rather than making payments on car loans.

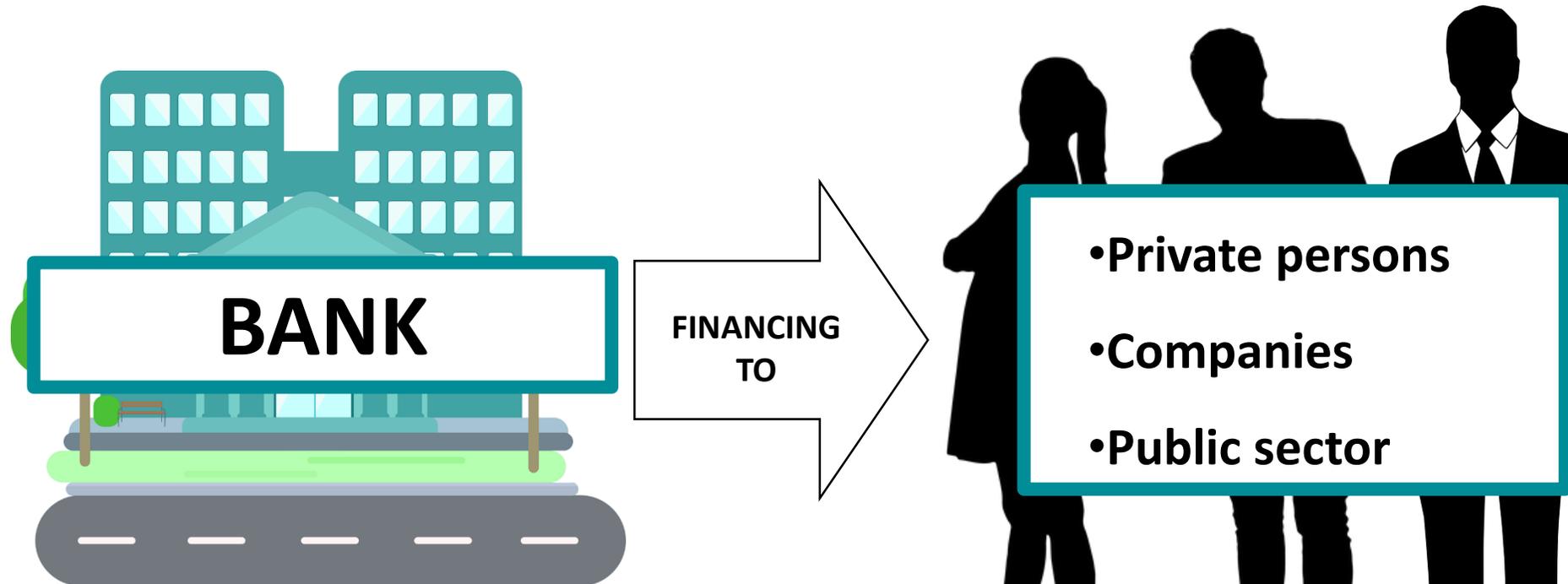


- People could put on sweaters and coats or live with relatives when their heating system failed.



ECONOMIC MEANING

- The credit business is the **classic function of a bank**.
- The bank transforms the deposits of the saving persons (maturity, seize and risk transformation) and lends money to credit takers. This is important for the development of a country.



TYPES OF CREDITS

Open-End Credits

- Revolving credit
- Can be used repeatedly for purchases
- Most common form: Credit cards
- More details about credit cards in content

“Cashless Money”

Closed-End Credits

- To finance a specific purpose for a specific period of time. Examples:
 - Mortgages
 - Car loans

Each credit has a specific intended use. They can vary by length of time, by how interest rates are calculated, by when payments are due and by several other variables.



TYPES OF CREDIT

CONTENTS:

- Overdraft facility
- Instalment credit
- Annuity amortization
- Bullet repayment



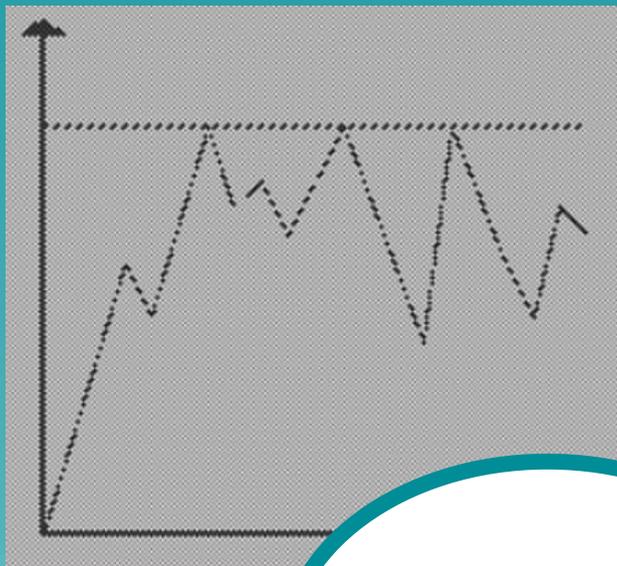
OVERDRAFT FACILITY

- Allows you to withdraw cash from your current account up to the overdraft limit approved.
- You have to pay interests on the amount you overdrawn.

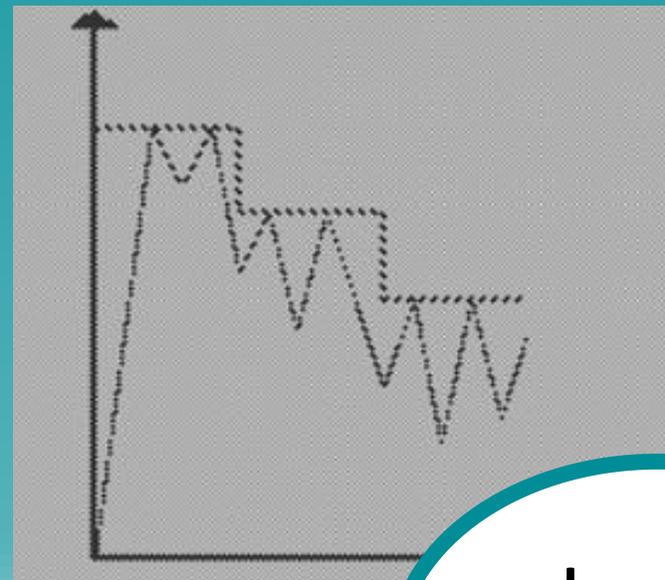
Overdraft limit:
Maximum amount
that can be overdrawn

OVERDRAFT FACILITY

The overdraft limit can....



be fixed



change
in time

OVERDRAFT FACILITY

INTEREST

- is charged based on the **amount of overdraft** used and is calculated on a daily basis. It is debited from the account at month-end.

OVERDRAFT FACILITY

PARTNER



1. Financial institution
2. Individual customer or a company

→ Both partners of the overdraft facility contract can be borrower and creditor. This depends on the account status. Is there a positive surplus or is there an overdraft?

OVERDRAFT FACILITY

Secured Overdraft

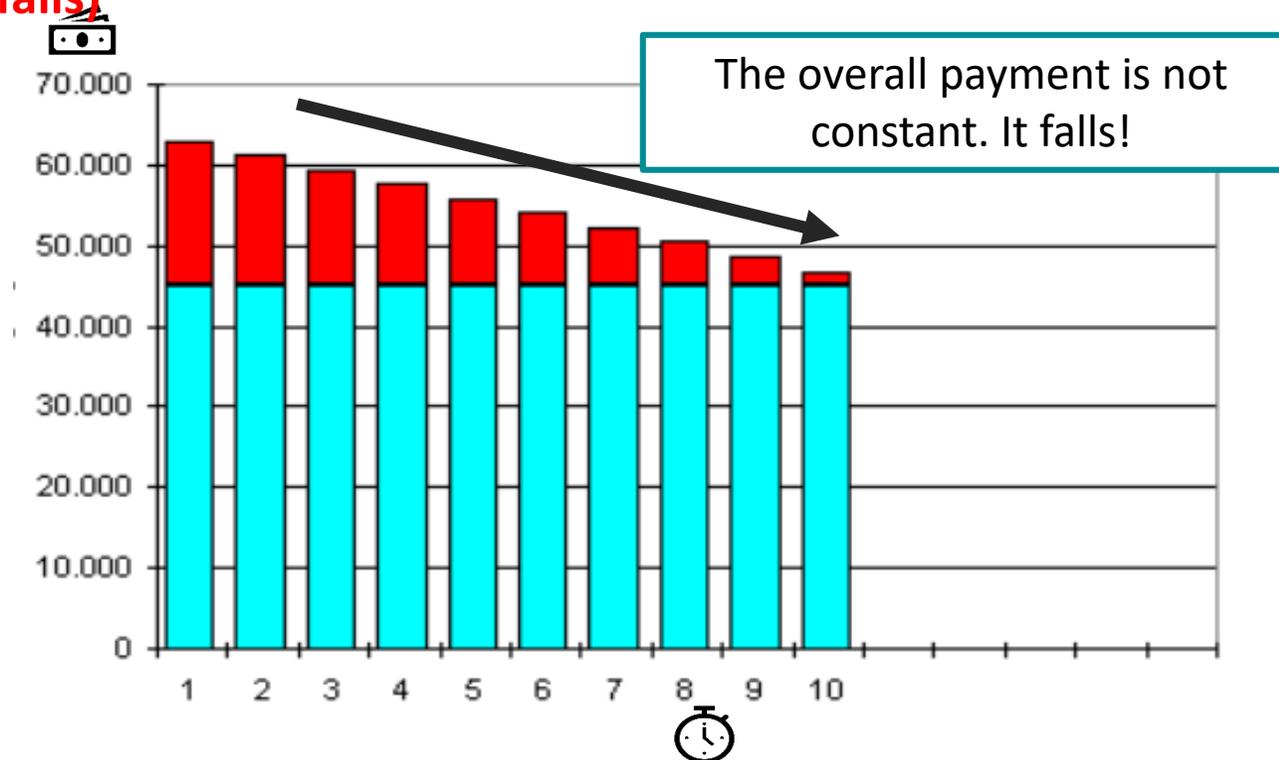
- Pledging an **asset** to the bank as **security**
- The asset could include deposits in the bank, property or shares.
- If the bank stops your secured overdraft facility and you are **unable to repay** your debt, the bank has the right to sell your pledged **assets to recover** what you owe it.
- If the proceeds are not enough to recover debt → still liable for the difference.

Unsecured Overdraft

- **No assets** are pledged as security.
- Sometimes banks can only grant unsecured credit of up to three to four times an individual's monthly income. This includes credit granted on credit cards and other unsecured credit facilities.

INSTALMENT CREDIT

- Credit repayable in a series of payments (instalments), usually monthly
- The repayable amount consists of 2 parts
 - **Redemption (constant)**
 - **Interest payment (falls)**



INSTALMENT CREDIT

DIRECT

- Your partner is a **financing company** (=direct lender)
- A direct lender is a company that is doing all the underwriting and management of the loan from the start. There is no intermediary, just you and the company you will be borrowing the money from.

INDIRECT

- Your partner is a **saler** (=indirect lender).
- Indirect lenders act as **intermediaries** between you the borrower and the financing company.



INDIRECT INSTALMENT CREDIT

Easy Installment plan

Get the Galaxy S9 | S9+ on easy monthly
installments

Valid from May 30. 2018 to Dec 31. 2018

0% Interest Rate*

* Bank Terms and Conditions Apply



EXAMPLE

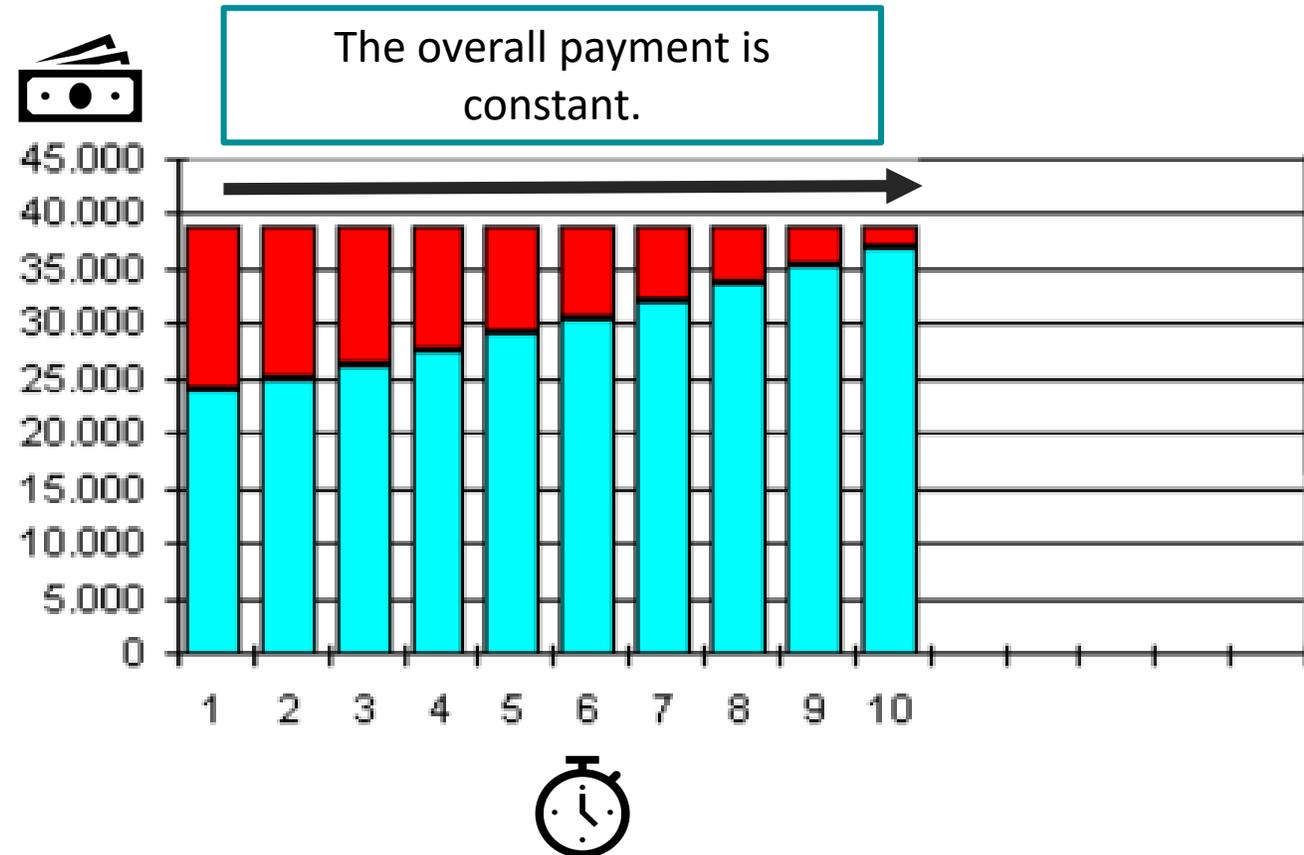


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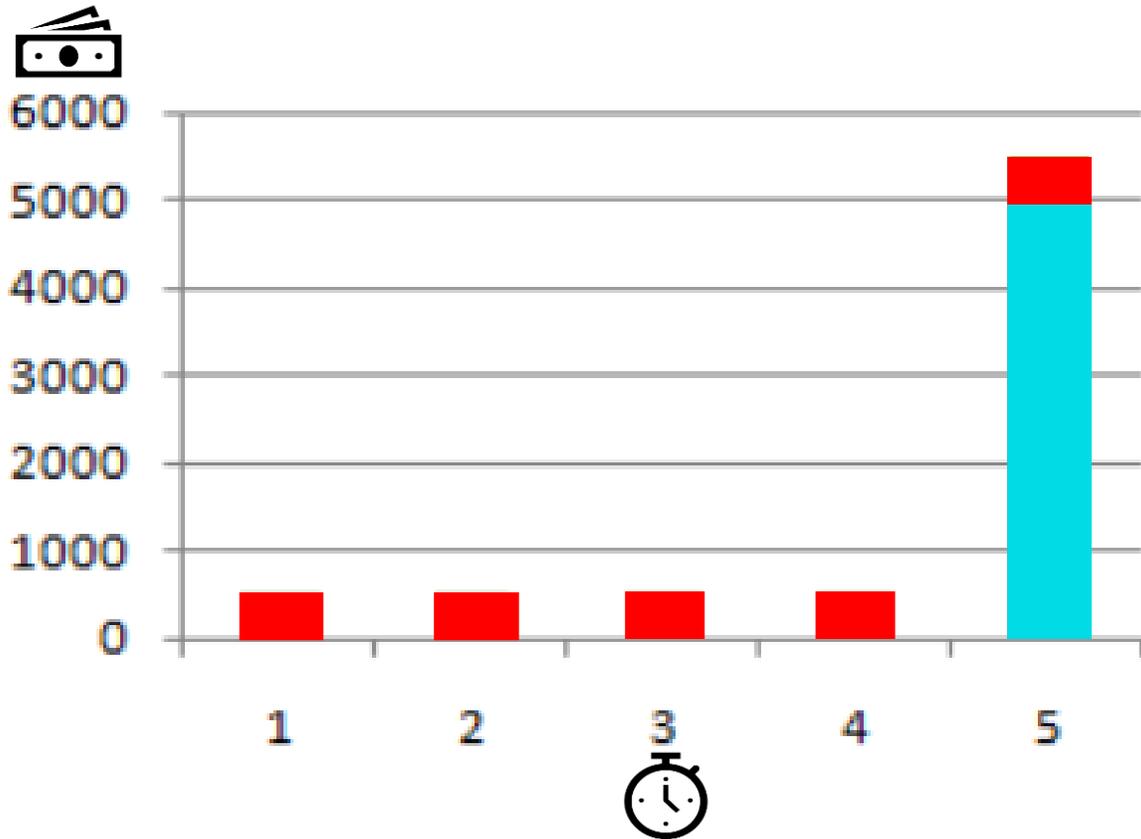
ANNUITY AMORTIZATION

- The **regular monthly payment** required is constant in every period.
- The repayable amount consists of two parts
 - **Redemption (rising)**
 - **Interest (falling)**



BULLET REPAYMENT

- **Redemption** for the credit only at maturity
- Regular **interest** payment every period



INTEREST RATE TYPES

Fixed rate

- Rate does NOT CHANGE
- Lower risk, no surprises
- Higher interest rate

Adjustable rate

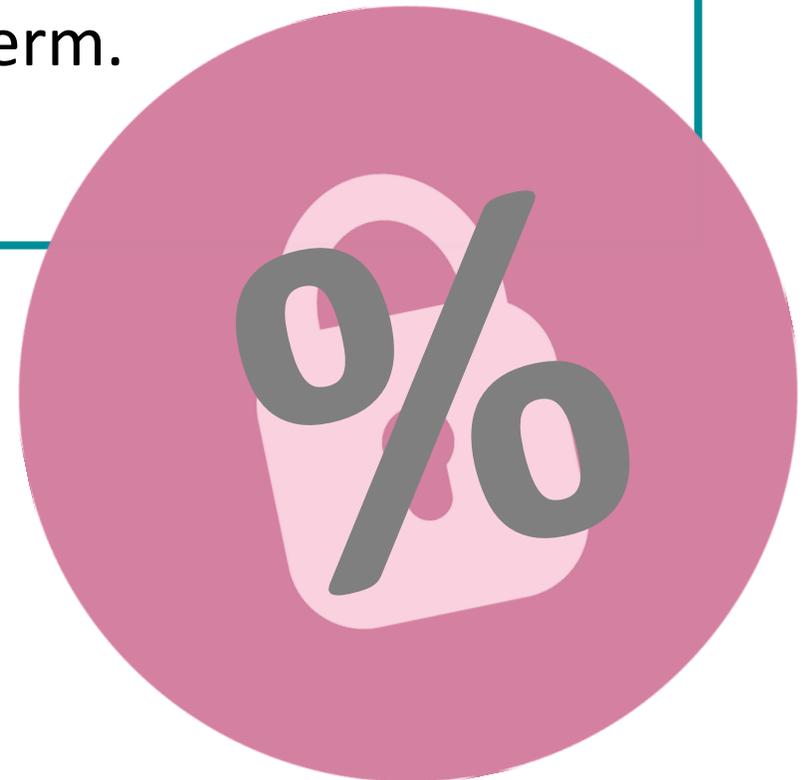
- rate can increase or decrease based on the market
- Higher risk, uncertainty
- Lower interest rate to start

Combination: After initial fixed period, rate can increase or decrease based on the market.



INTEREST RATE TYPES

- You might prefer a **fixed-rate** loan if you value **certainty** about your loan costs over the long term.
→ Your **interest rate** will stay the same



INTEREST RATE TYPES

- You might prefer a **variable-rate** loan if **you think** that **interest rates will fall**.
 - You will have to **pay less interests**.
 - **BUT** when interest rates rise, you have to pay more interest



LOAN TERM

- The term of your loan is **how long you have to repay** the loan.
- This choice affects:
 1. Your monthly principal and interest payment
 2. Your interest rate
 3. How much interest you will pay over the life of the loan



LOAN TERM

SHORTER TERM

↑ Higher monthly payments

↓ Typically lower interest rates

↓ Lower total cost

LONGER TERM

↓ Lower monthly payments

↑ Typically higher interest rates

↑ Higher total cost



HOW TO TAKE OUT A CREDIT

STEPS:

1. Request Loan Estimates from multiple lenders
2. Compare offers and fine-tune your options
3. Choose a loan offer



HOW TO TAKE OUT A CREDIT

STEP 1: Request Loan Estimates from multiple lenders

Contact the lenders you are considering and tell them you are ready to request a **loan estimate**.

You just need to provide key pieces of **information** to begin your **loan application**:

- Your name
- Your income
- Your social security number
- The loan amount you want to borrow

Can be different in different countries



HOW TO TAKE OUT A CREDIT

STEP 1: Request Loan Estimates from multiple lenders

Ask **each lender** for the **same kind of loan** with the **same features**.

You want to be **comparing apples to apples** when you get your loan estimates. At this point in the process, you should already have a pretty good idea of the kind of loan and features you want:

- Loan type
- Rate type (fixed or adjustable)
- Loan term
- Loan amount



HOW TO TAKE OUT A CREDIT

STEP 1: Request Loan Estimates from multiple lenders

If a loan officer suggests a different type of loan or features than what you asked for, ask questions.

It's possible the loan officer has found a better loan for you, but they may also be trying to sell you a particular type of loan for other reasons.

→ Ask the loan officer to explain why they think the new loan is a better deal for you.

Ask the loan officer to give you Loan Estimates for both the original loan you asked for and the new loan they are suggesting, so you can see the differences in costs and risks.

Don't make any decisions until you **feel confident** you understand the pros and cons of all the options you are considering.



HOW TO TAKE OUT A CREDIT

STEP 2: Compare offers and fine-tune your options

- Make sure the offer reflects the loan option that you discussed with the loan officer. If anything seems different, call the loan officer right away to ask why.
- The **Loan Estimate shows** you the **terms** the lender expects to offer you if you decide to move forward with your loan application. You have **not committed** to this lender. In fact, you are not committed to any lender before you have signed final closing documents



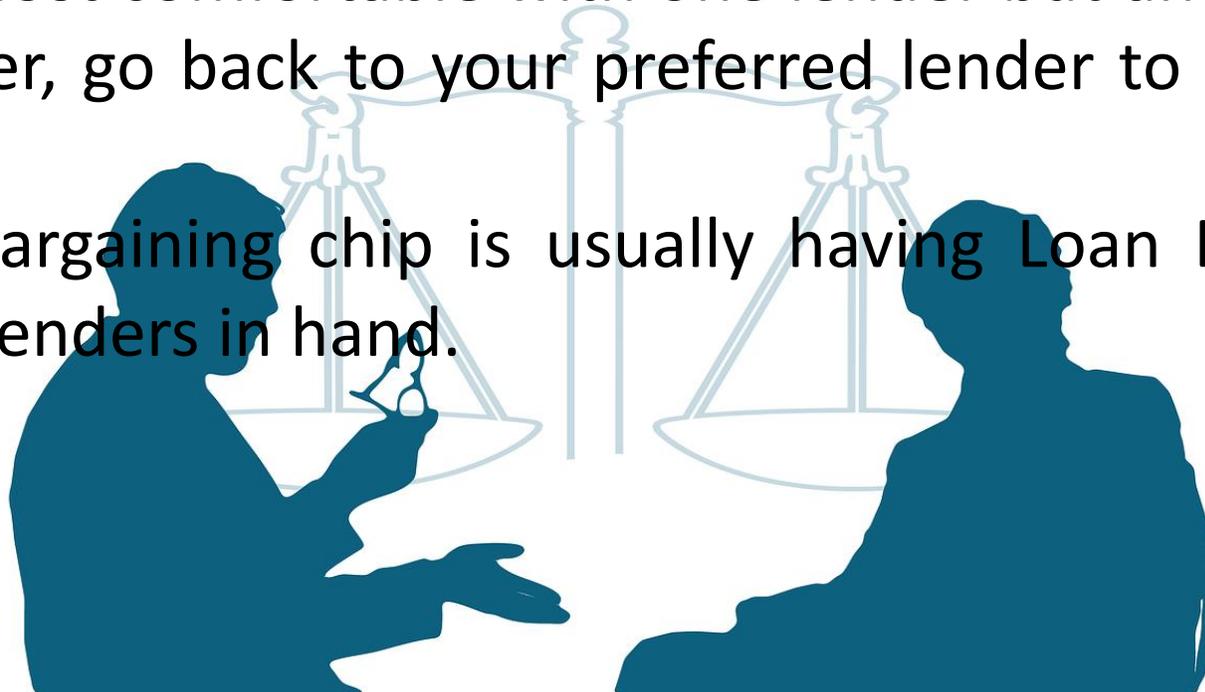
HOW TO TAKE OUT A CREDIT

STEP 2: Compare offers and fine-tune your options

→ Consider negotiating

If you feel most comfortable with one lender but another has a better offer, go back to your preferred lender to see what they can do.

Your best bargaining chip is usually having Loan Estimates from other lenders in hand.



HOW TO TAKE OUT A CREDIT

STEP 3: Choose a loan offer

Contact the lender you choose to tell them that you are ready to proceed with your application

If the lender has given you more than one Loan Estimate, make sure to be clear about which loan you want to proceed with. It's a good idea to run through the key terms with the loan officer to confirm that everyone is on the same page.

Never sign a form with blank spaces

When you sign a loan application, you are saying that what is on the form is true. Don't let anyone persuade you to sign a blank form or a form with any blank spaces left to be filled in later.



COMPARING CREDITS

- There are homepages where you can compare credits. Depending on your country you have various alternatives.
- **HOMEPAGES FOR AUSTRIA:**
- Comparing credits from different banks:
 - https://durchblicker.at/kreditrechner?gclid=Cj0KCQjA8f_eBRDcARIsAEKwRGcWC-II_bPX8FtdbUmEGWlQJkh_ckxdmbiTqTisEOAPNlxxDPvQnsIaAvwQEALw_wcB
- Comparing credits from one bank:
 - https://www.raiffeisen.at/oesterreich/1171455185331250605_1171455322770204459_1175211758612277259-1034181781565721796-NA-30-NA.html
 - <https://www.bawagpsk.com/BAWAGPSK/PK/services/Rechner/277218/ueb-kreditrechnergross.html>



CONSUMER CREDIT RATINGS

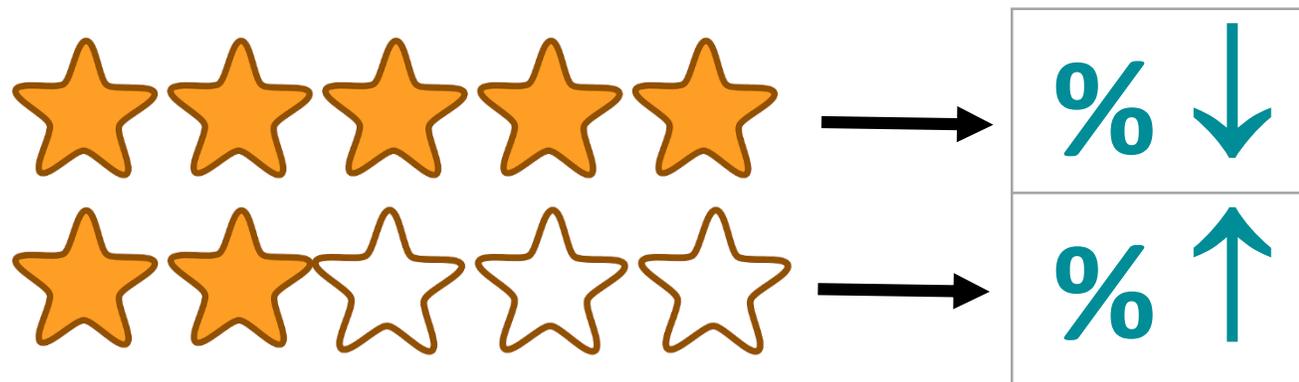
- Credit score is one of the most important **determining factors** when it comes to borrowing money.
- Different lenders ↔ different used credit scores
 - What one lender may view as a “good” score may fall into another lender’s “fair” credit category.



CONSUMER CREDIT RATINGS

Credit scoring

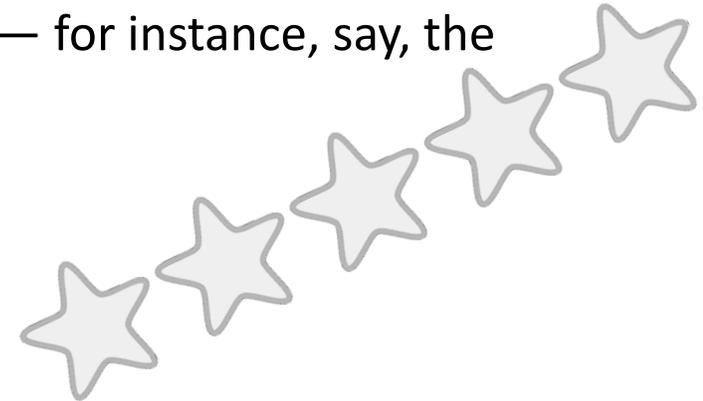
- is a technique which summarizes your credit status at a particular point in time.
- If you have a good record of repaying loans, then you get a high score.



CONSUMER CREDIT RATINGS

Ensure your rating stays “good” in the long-term

- It can help to pick one credit score and monitor your progress over-time.
- Pay attention to whatever is being cited as a “risk factor” — for instance, say, the amount of debt you’re carrying is too high.
- Make loan payments on time
- Keep the amount of debt you owe below
- Manage how often you apply for new credit in a short timeframe.



LEASING

– *“Why own a cow when the milk is so cheap? All you really need is milk and not the cow.”*

- Donald B. Grant

Concept of lease is influenced by this quote.

We can compare

- milk → rights to use an asset
- cow → the asset itself.



LEASING

- Arrangement between the **lessor** (owner of the asset) and the **lessee** (user of the asset)
- **Lessor purchases an asset** for the lessee and allows him to use it
- **Lessee pays periodical payments** called lease rentals or minimum lease payments (MLP) to the lessor. .
- A lease is **NOT a loan**.
- There are **no interest rates**.



OBLIGATIONS OF

LESSOR

- Deliver goods in proper conditions
- Receive payments

LESSEE

- Make payments
- Make choice of whether to acquire ownership of asset at expiration of contract



LEASING

There are four different things possible post-termination of the lease agreement.

1. The lease is renewed by the lessee perpetually or for a definite period of time.
2. The asset goes back to the lessor.
3. The asset comes back to the lessor and he sells it off to a third party.
4. Lessor sells to the lessee.





Advantages

- Balanced Cash Outflow: cash outflow or payments related to leasing are spread out over several years
- Quality Assets
- You don't have to worry about trading or selling your leasing object
- Protected by a warranty

Disadvantages

- Lease payments are treated as expenses rather than as equity payments towards an asset.
- No Ownership
- It can work out to be more expensive than if you buy the assets outright



EXAMPLE: CAR LEASING

What is car leasing?

- Choose a vehicle → for an agreed length of time (usually between two and five years)
- Complete freedom of choice over your vehicle's make, model and specifications
- Contract is tailored specifically to you in terms of the estimated annual mileage, the length of contract and how you'd like your payments to be structured.



EXAMPLE: CAR LEASING

What are the total costs?



- The **total costs** of your lease is calculated **based on several factors**:
 1. Value of the car (undriven)
 2. Car's estimated value at the end of the lease (the residual value)
 3. Annual mileage allowance
 4. Length of your lease
 5. Additional you have to pay for a fully comprehensive car insurance



EXAMPLE: CAR LEASING

How does it work?

- You put down a deposit → initial payment (usually equivalent to a few monthly instalments)
- Followed by fixed (monthly) payments that continue until the end of the contract.
- In general, the longer the period, the lower the monthly payments.



EXAMPLE: CAR LEASING

End of the lease:

- Vehicle is simply returned, checked over, and your payments then cease, leaving you free to lease another car.
- If you exceed the agreed mileage → there's typically a straightforward pence per mile calculation that you pay on returning the car



CREDIT VS LEASING DISCUSSING THE VIDEO



<https://www.youtube.com/watch?v=IA-mGZCcclc>



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CREDIT VS LEASING

DISCUSSING THE VIDEO



- Ownership
- Instalments are limited

- No ownership
- You have to pay instalments during the whole leasing-process

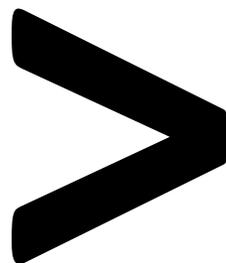


CREDIT VS LEASING

DISCUSSING THE VIDEO



– Instalments credits

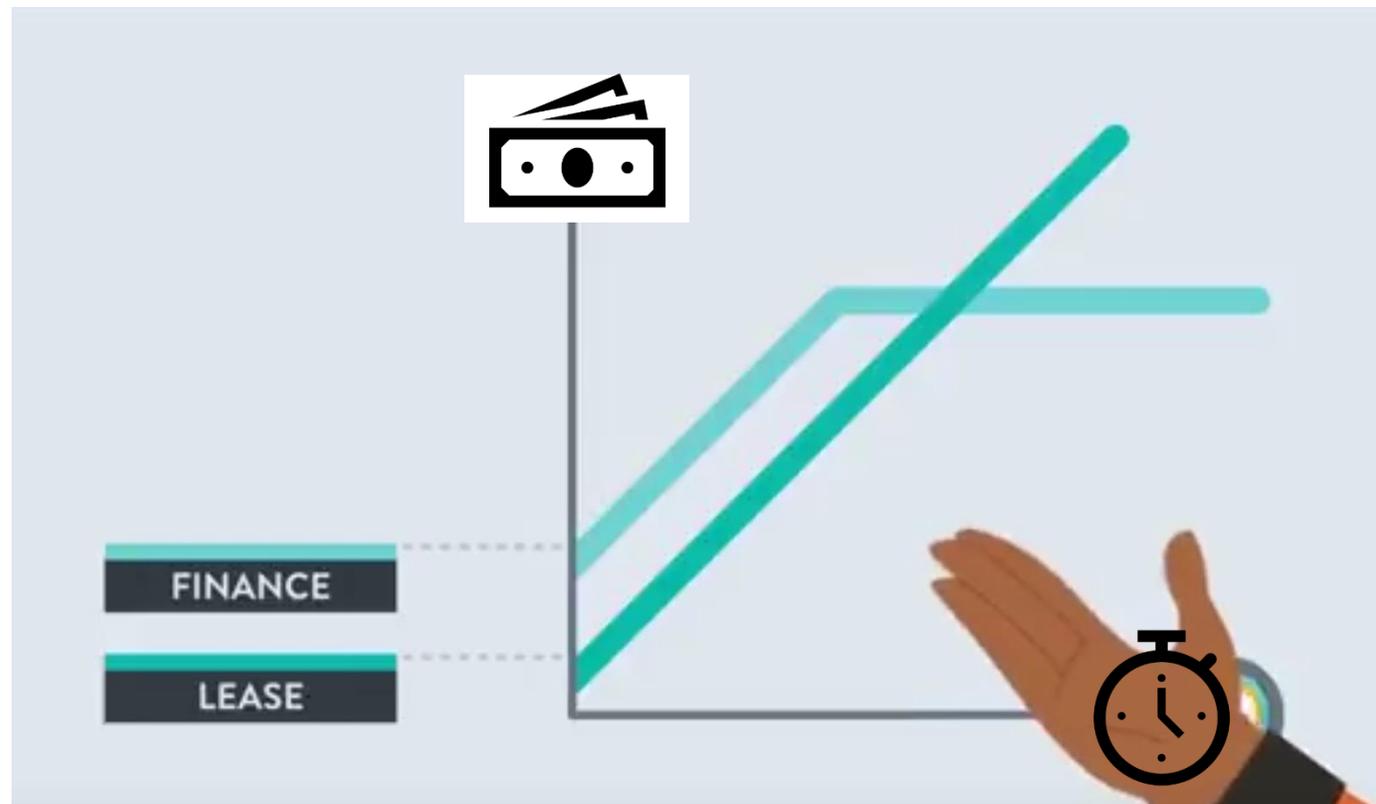


– Instalments leasing



CREDIT VS LEASING

DISCUSSING THE VIDEO



USUALLY:

Short term: Leasing is cheaper
Long term: credit is cheaper



CREDIT VS LEASING

	CREDIT	LEASING
SPEED	It can take weeks to prepare your request and bring it to the credit committee for review.	Approvals are often issued the same or next day .
TAXES	You might have tax benefits with leasing → depends on your country!	
AVAILABLE TERMS	Banks tend to be less flexible.	Generally you choose terms, purchase option etc. → more flexible



CREDIT VS LEASING

	CREDIT	LEASING
OWNERSHIP	Ownership	No ownership
COLLATERAL	Real estate, equipment, inventory, receivables or house etc.	In most instances, the only collateral is the equipment being leased.



CREDIT VS LEASING

So what should you do?

IT DEPENDS ON YOU!

There are advantages and disadvantages on both sides.

It's **not possible** to say that

- leasing is always better than credit
- or
- credit is always better than leasing

Think about what factors are important to you.



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Credit vs. leasing



CASH METHOD OF ACCOUNTING

How much money are you able to spend for your credit/for your leasing (per month) ?

CASH METHOD OF ACCOUNTING WILL TELL YOU!

3 STEPS:

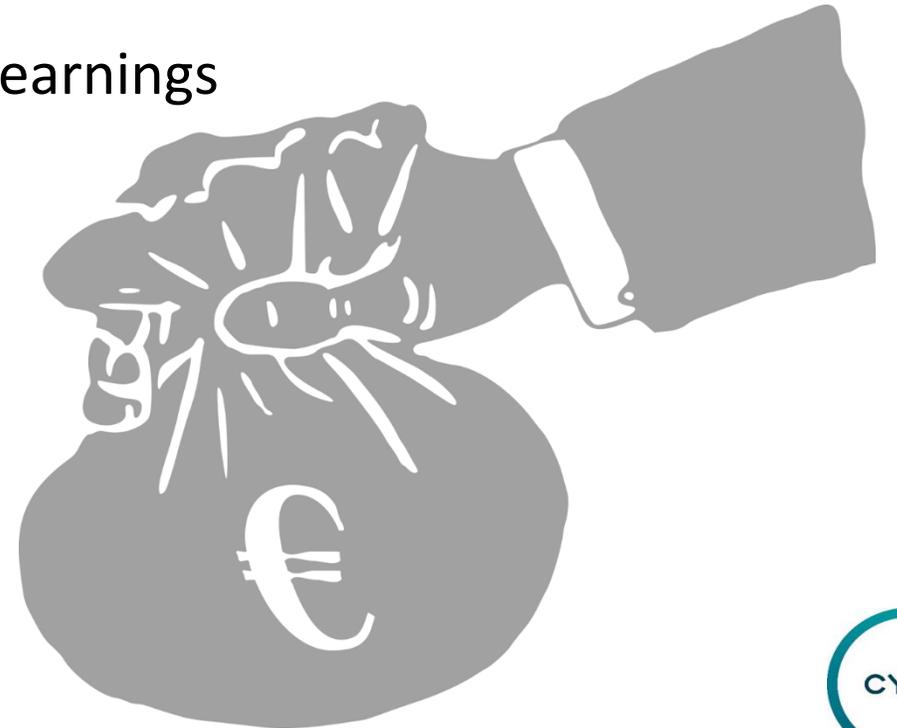
1. Analyse your earning
2. Analyse your outgoings
3. Compare earnings and outgoings



CASH METHOD OF ACCOUNTING

STEP 1: Analyse your earnings

- Collect information from the earnings of the past
- Distinguish between regular and irregular earnings



CASH METHOD OF ACCOUNTING

STEP 2: Analyse your outgoings

- Collect information from the outgoing of the past
- Distinguish between regular and irregular outgoings
- Is important to **know your fix costs** (per month/per quarter)



CASH METHOD OF ACCOUNTING

STEP 3: Compare earnings and outgoings

- Subtract the outgoings from your earnings.
- Now you see your saving potential -> **maximum** potential payment for your credit/leasing
- This step can help you to find saving-potentials
- You can do this with Excel, with a notebook, with an app etc.



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