mftransparency.org

FINANCIAL EDUCATION

For the enabling APR / EIR Program

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www.17Triggers.com

www.cc-creativecomms.com

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FINANCIAL EDUCATION TRAINER'S GUIDE

Financial Education for the enabling APR/EIR Program

made possible with the generous support of the MasterCard Foundation

The MasterCard Foundation

MicroFinance *Transparency*

MicroFinance Transparency, launched in July 2008 at the Microcredit Summit in Bali, Indonesia, is an international non-governmental organization that promotes transparency by facilitating microfinance pricing disclosure, offering policy advisory services and developing training and education materials for all market stakeholders. MFTransparency represents an industry movement toward responsible pricing practice. Our vision is a microfinance industry operating with healthy free market conditions where consumers and other stakeholders can make informed decisions. Our mission is to be the venue for the microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation.

The MasterCard Foundation

The MasterCard Foundation advances microfinance and youth learning to promote financial inclusion and prosperity. Through collaboration with committed partners in 42 countries, The MasterCard Foundation is helping people living in poverty to access opportunities to learn and prosper. The MasterCard Foundation has actively support financial education (FE) initiatives across the globe since its inception. An independent, private foundation based in Toronto, Canada, The MasterCard Foundation was established through the generosity of MasterCard Worldwide at the time of the company's initial public offering in 2006. For more information, please visit www.mastercardfdn.org.

The *enabling* APR/EIR Program

Through the enabling Africa to Price Responsibly and Educate on Interest Rates (**enabling APR/EIR Program**), MicroFinance Transparency is raising awareness of transparent pricing issues in 8 countries in Africa. The project, which began in May 2010, includes Malawi, Uganda, Rwanda, Ghana, Tanzania, Zambia, South Africa and Mozambique. The main objective of the ***enabling* APR & EIR Program** is to promote improved consumer protection principles through microfinance product pricing transparency.

ACKNOWLEDGEMENTS

These financial education learning sessions were developed with the generous support of the MasterCard Foundation to promote financial education to enable consumers to make informed decision about financial products, and support regulators and financial institutions in help them do so. The project – ***enabling* Africa to Price Responsibly and Educate on Interest Rates (*enabling* APR/EIR *Program*)** – was launched in eight countries in Africa in 2010, and the financial education program designed and piloted in Rwanda and Malawi with the assistance of the Association of Microfinance Institutions in Rwanda (AMIR) and the Malawi Microfinance Network (MAMN).

Many people were involved in the design, testing and finalization of the learning sessions. Jessica Massie, a financial education consultant for MFTransparency, led the development process with expert input from Lillian Diaz and Mike Rios at 17Triggers. Alexandra Fiorillo and Charles Waterfield of MF*Transparency* provided expert input on the program design and content at each step of the process. Peter Rwema and Rita Ngarambe of AMIR and Stewart Kondowe of MAMN provided invaluable assistance.

Finally, the needs assessments to inform content and delivery would not have been possible without the leadership of Bright Sibale and Peter Jere at the Centre for Development Management (CDM) in Malawi, and the expertise and flexibility of Marcienne Umubyeyi, Rachael Kayitesi, and Deo Gakuba, Evary Ndabarinzi, Valens Rutazihana, Eugene Nteziyaremye, Marcel Sibomana, and Darius Habamenshi of Max Impact Consulting in Rwanda.

Finally, these materials were piloted in Rwanda under the direction of Mr. Job Opar of ADECOR, and in Malawi under the direction of Mr. Jon Kapito of the Consumer Association of Malawi (CAMA) and the Reserve Bank of Malawi. Without their input, the final product would be less appropriate for microfinance clients.

MicroFinance *Transparency*

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INTRODUCTION

These financial education learning sessions were developed as a key activity for MicroFinance *Transparency's* project called ***enabling* Africa to Price Responsibly and Educate on Interest Rates (enabling APR/EIR Program)**. The goal of the Trainer's Guide is to provide face-to-face learning sessions that allow any organization or institution – a financial institution, community-based organization, government institution, non-profit or non-governmental organization – to educate borrowers and potential borrowers about interest rates. It is especially geared towards contexts found in Africa.

Throughout Africa, microloans – those loans marketed to low-income consumers – are often complicated in terms of price and interest rate. Loans come with many different terms and conditions that are difficult for consumers with low levels of literacy, numeracy, and education to fully understand. A variety of fees and charges are added on to interest rates, resulting in loans that are more expensive than they appear. Regarding interest rates, within the same country some are advertised by month, others by year. Some interest rates are flat, while others are declining. A small borrower must become familiar with a great deal of new information that can be overwhelming and lead to that borrower paying much more for a loan than he or she bargained for.

According to Kate McKee of CGAP, "There are three main consumer protection goals – regardless of whether the consumer is a fruit vendor in Ghana or a home buyer in the U.S. Information given to the customer should be **transparent:** it should be clear what they are getting." Not only should the information be clear and transparent, but it should be presented to consumers in a way that they can understand.

This module is meant to realize a goal of consumer protection, and to provide a step-by-step guide to educating consumers – especially those in an African context – to better understand the terms, conditions, interest rates, and fees and charges that are part of their loans. It follows a simple and straightforward "Rules-of-Thumb" approach, and uses pictures, stories, and interactive activities to teach current and potential borrowers about their loans. A simple approach means that there are important aspects of financial education not covered in the module, such as savings and budgeting. Our belief, based on research into the Rules of Thumb approach, is that "more is less" and creating a base for these borrowers will lead to greater behavior change than attempting to teach everything at once.

This module is meant to be a living entity. Therefore, please adapt it, contextualize it, update it, and use some or all of the sessions according to your organization or institution's needs. Please contact us at MicroFinance Transparency with any questions or comments you have! For more information on all of our work, visit www.mftransparency.org.

[1] Drexler, A, Fischer, R, and Schoar, A. (2010). *Keeping it simple: Financial literacy and rules of thumb*. July 2010, Working Paper, London School of Economics.

INSTRUCTIONS FOR THE TRAINER

Greetings to all financial education trainers! We are pleased you are using our participatory Trainer's Guide as a tool or reference to teach current and potential borrowers where you live and work. Use the following sections to help you understand the Trainer's Guide and use it to its full potential.

Who are the "Stars" of the guide?

In each learning session, you will notice two characters: Auntie Need-a-Loan, and her friend Chantal. To create continuity between the sessions (as well as other materials), we created humorous and entertaining characters that "star" in each story or example. These characters have two different personalities, for a reason:

- ***Auntie Need-a-Loan:*** Auntie Need-a-Loan is a loveable, humorous borrower. She is always in a hurry to get her loan, and sometimes makes mistakes in the process! Her stories are meant to give participants an example of what can go wrong with borrowing if the Rules of Thumb are not followed.

- ***Chantal***: Chantal is Auntie Need-a-Loan's best friend. She is smart, cautious, and she thinks through her loans before borrowing. She provides a good example for participants to follow, and keeps in line with the Rules of Thumb.

Who is this Trainer's Guide for?

This module was designed for those with low levels of literacy, education, and numeracy. However, because it takes an interactive and participatory approach, it can be fun and interesting for a number of target groups. It can be used to train:

- ***CURRENT BORROWERS:*** Many borrowers begin taking loans without fully understanding the terms, conditions, interest rates, fees and charges. These borrowers can be oriented to their loans using these sessions, or trained when it is identified that they do not properly understand their loans. Alternatively, borrowers moving from groups to individual products may be trained in the differences in the products before they graduate.

- ***FINANCIAL INSTITUTION STAFF:*** Sometimes, the village agents, credit officers, and loan officers that come face-to-face with borrowers do not understand terms, conditions, interest rates (or the differences between types of interest rates), and fees and charges well. These sessions could be used to train staff of financial institutions as well.

- ***POTENTIAL BORROWERS:*** Many people are interested in finding ways to obtain money to boost or "top-up" their small businesses or activities. These potential borrowers can be educated by organizations or institutions before they rush into taking a loan.

[2] The characters of Auntie Need-a-Loan and Chantal were conceptualized by Mike Rios and Lillian Diaz of 17Triggers, an organization specializing in social marketing and behavior change communications. See www.17triggers.com for more information about and examples of their work .

What are the Rules of Thumb and their objectives?

Each Rule of Thumb has a separate learning session, with separate objectives. Use the table below as an overview to each session. The table and objectives can help you to choose the learning sessions that are right for your organization and target group.

There are two important notes about the sessions:

1. Insurance is a separate learning session from terms and conditions or fees and charges. This is because insurance is a charge with a different goal than fees and charges – it is meant to protect the borrower from potential risk.
2. The final session on APR or EIR – Annual Percentage Rate or Effective Interest Rate – will not be relevant in all contexts. It is meant for use where APR or EIR is used, or about to be used in the near future.

The RULES OF THUMB and their Objectives

RULE OF THUMB	OBJECTIVES *By the end of this session, participants will have:*
1. Know your loan term ABCs	• Identified the disadvantages of borrowing without considering all terms and conditions by analyzing a story • Compared an example of a good behavior, knowing the loan terms and conditions, with the previous example • Practiced giving advice on what to ask about loan terms and conditions when borrowing
2. Interest: ask if your rate is flat or declining	• Defined the meaning of "flat" and "declining" interest rates using the example of a voyage or journey • Compared two loans – one with flat interest, one with declining interest – to understand the difference • Brainstormed reasons why it is important to understand the difference between flat and declining interest
3. Declining interest: It's lower than it looks!	• Listed the fees, charges and mandatory insurance that may come with a loan product • Reviewed the responsibilities to pay in full and on time • Discussed the difference between flat and declining interest, and reasons why these two methods of calculating interest exist
4. Don't forget the fees and charges	• Placed a story in the correct order using pictures • Analyzed the problems that occur when you borrow without knowing the fees and commissions, and proposed good practices for borrowing. • Discussed how borrowers can avoid being surprised by fees and commissions
5. Insurance: A little now can save a lot later	• Described what happens when a borrower does not have insurance and experiences an emergency through a picture story • Contrasted the difference in costs between a borrower with insurance and a borrower without insurance • Linked the concept of insurance and protecting against possible loss with other common practices
6. Compare apples to oranges with APR (or EIR)	• Linked the idea of borrowing money with the concept of renting – taking out a loan is like "renting" money • Compared two loans of different terms and interest rates using APR • Discussed common myths about the APR method of advertising interest rates

How is each learning session designed?

Each learning session has two parts: An Easy-Preparation Guide, to help you prepare and adapt the session, and four separate (but important!) steps. These are described below:

- ***EASY-PREPARATION GUIDE***

The Easy-Preparation Guide is just what its name says: A guide to make your preparation easy! The guide is a box at the beginning of each session. In the guide you will find:

→ The **Purpose** of the session. This explains why the content of the learning session is important.

→ The **Objectives** of the session. These objectives are outlined by step, and explain what participants will achieve in each step.

→ The **Materials** needed for the session: Any extra materials, such as counters, markers or paper, are listed here.

→ **Pictures** and **Posters**: Each learning session has pictures and/or posters that help you to tell stories and teach participants. These are listed here.

→ The **Time** you need to complete each session. In all cases, this is one hour.

→ Notes for **Adaptation**: For your context, you will need to make some adaptations to the learning session. Those items of information that you must adapt or change are noted here.

- ***4-STEP LESSON PLAN***

Each learning session follows a 4-Step format for a reason![3] We suggest that you follow the 4-Step format, even if you make other changes and adaptations. (Refer to the websites found in the footnote to learn more about our approach.)

This 4-Step plan is meant to guide participants from the known to the unknown in a straightforward way. The approach is geared towards behavior change, and not just a change in knowledge:

STEP 1. Connect: The first step includes an activity or question to orient learners to the new topic and to create a connection with their own experience from the very beginning of the session. The Rule of Thumb is presented in the first step.

STEP 2. Content: In the second step, a story or conversation is used to provide new information to the learners.

STEP 3.Challenge: In the third step, learners are guided through a series of questions, a discussion, or a practice activity to allow them to analyze and draw conclusions about the new information.

STEP 4. Change: Finally, in the last step, learners are asked to think again about their own lives and situations, and to explore how they will use the new content. The Rule of Thumb is also emphasized in this step.

[3] For more on Vella's 4A Learning Cycle and Kolb's Experiential Learning Cycle, see www.learningcycle.ca.
For more on McCarthy's 4MAT see www.aboutlearning.com.

What materials make up the financial education package?

The Trainer's Guide is accompanied by a set of pictures and posters that are meant to be used in an African context. You can photocopy the pictures, use them as handouts for participants, or simply use them as a guide to draw or produce your own pictures.

However, there are other materials that are included in the overall Financial Education for Transparency package. These are:

- *PUBLIC SERVICE ANNOUNCEMENTS (PSAs) FOR RADIO:* A set of four public service announcements, or PSAs, are part of the financial education package. These PSAs could be played for training participants, or aired on the radio. They are meant to reinforce the Rules of Thumb and ideas in the Trainer's Guide. They also star Auntie Need-a-Loan and Chantal.

- *GENERIC POSTERS:* Your organization or institution may want to reinforce the information on terms, conditions, fees, charges, and interest rates using pictures or simple ideas. Posters that you can use as a guide to design your own are included in the package.

- *A SIMPLIFIED LOAN WORKSHEET:* As noted earlier, a key to transparency and to consumer protection is providing information to borrowers in a way that they understand. Currently, many borrowers ignore long, wordy contracts or fail to catch all information in orientation meetings. A simplified loan contract – meant to be adapted for your institution – can be used as a guide. Note that this is not meant to replace a legal contract – but to clarify its complicated terms.

- *ANIMATIONS:* A series of four short animations illustrating terms and conditions, interest rates, and fees and charges was produced for this financial education package. These animations can be shown during a training workshop, in a banking hall, in a public place, or even on television. They simplify complicated ideas in a fun and entertaining way.

GLOSSARY OF IMPORTANT TERMS

Annual Percentage Rate or APR: APR is a way to measure how much a loan will cost a borrower in interest in one calendar year.

Bank: A licensed financial institution regulated by a government banking supervisory agency. It may provide multiple financial services, including savings, loans, and money transfers.

Collateral or Guarantee: Collateral, or a guarantee, is an amount of money or an item of value that a borrower owns that is formally required by a financial institution to prove that the borrower is able to repay a loan. In some cases, the financial institution can use "social collateral" in which a group of borrowers pledge that they will be responsible for repayment if one member of the group cannot repay the loan.

Commission: A fee that is sometimes charged on a loan to pay for services.

Compulsory Savings: An amount of money, usually a percentage of the loan that a borrower is required to save with a financial institution as security for the loan, usually before they are able to borrow. Compulsory savings are sometimes required instead of collateral/guarantee.

Contract: A loan contract is a legal agreement between a borrower and an MFI. The contract states all the key things a borrower needs to know about your loan, including loan fees, loan interest, repayment schedule, penalties, and collateral.

Declining Interest: In this manual, the "declining balance" method of assessing interest on a loan – or reducing balance method, is referred to as "declining interest" for simplicity. Using the declining balance method, interest calculation is based on the outstanding loan balance – the balance of money that remains in the borrower's hands as the loan is repaid during the loan term.

Effective Interest Rate or EIR: A way to calculate the true cost of borrowing money over one calendar year. EIR includes calculations on the rate of inflation and the compounding schedule.

Fee: A fixed amount of money charged by the financial institution to cover its professional services. When one takes a loan, there are sometimes fees charged to the borrower, such as account opening fees.

Flat Interest: In this manual, the "flat rate" method of assessing interest is referred to as "flat interest" for simplicity. When using the flat rate method, interest is charged on the full original loan amount throughout the loan term, rather than on the money that the borrower actually has to use.

Insurance: A form of risk management or protection against a potential loss. Insurance can be part of a loan product and usually comes with an extra charge to the client. In microfinance, insurance is usually – but not always – life insurance.

Interest Rate: The amount of money a borrower pays a lender for the use of money for a given period of time. Interest on a loan can be understood as renting money. Just like one pays rent on a house, a borrower pays rent on money borrowed.

Loan Term: The period of time that a borrower has to use a loan and repay it in full. The loan term is usually determined by the lender.

MFI: A microfinance organization is an organization that provides financial services to low-income people. These can be savings, credit, insurance or other types of financial services.

Percent: Percent is a word used to describe parts per hundred. When it comes to loans, the interest rate is described as a percent and tells the borrower what part of 100 units of money he or she will repay. A simple example: If a borrower takes a loan for one month at 2%, he or she will pay 2 dollars for every 100 dollars borrowed.

Principal: The total amount of money a lender borrows for use, without the addition of interest, fees, commissions and other charges.

Repayment Schedule: The frequency of a borrower's loan repayments. These can be weekly, bi-weekly, monthly, and sometimes "balloon" payments, or one lump sum payment at the end of the loan.

Transparent Pricing: The pricing, terms and conditions of financial products will be adequately disclosed to clients in a clear manner that allows them to accurately understand loan prices and to be able to compare different products.

SESSION 1: KNOW YOUR LOAN TERM "ABCS"

Why Are We Teaching This Content?

PURPOSE
To emphasize the importance of knowing all loan terms and conditions before borrowing.

OBJECTIVES
By the end of the activity, participants will have:

STEP 1. Recited the first Rule of Thumb: Know Your Loan term ABCs
STEP 2. Identified the disadvantages of borrowing without considering all terms and conditions by analyzing a story
STEP 3. Compared an example of a good behavior, knowing the loan terms and conditions, with the previous example
STEP 4. Practiced giving advice on what to ask about loan terms and conditions when borrowing

What Is Needed for This Session?

MATERIALS
- =/=

PICTURES / POSTERS
- "Rules of Thumb" Poster
- Picture: Auntie Need-a-Loan at the Bank
- Headshot: Auntie Need-a-Loan
- Headshot: Chantal
- Story Pictures: Auntie Need-a-Loan Takes a Loan
- Story Pictures: Chantal Takes a Loan

TIME
1 hour

Adaptation Reminders:

✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
✓ Have you checked the stories to make sure that they are realistic in your context?
✓ Have you translated the Loan Term "ABCs" – the TAIIG – so that they make sense in your language?
✓ Have you changed the type of currency from the "dollar" to the currency used in your country?
✓ Have you checked the terms and conditions, and added any that are important for your target group?

Step 1: Connection – 10 minutes

Welcome everyone to the learning session. Explain to participants that you will talk about loan terms and conditions today.

Say:

Today we're going to talk about loan terms and conditions. But first, I'm going to ask you some short questions. First, I'd like you to turn to someone next to you and discuss the answer for you. Then, we'll discuss together as a big group.

There are no right and wrong answers to my question, so don't be shy. Share what you know with others! Together, we can learn something today. Let's take a look at this picture together.

Show the picture of Auntie Need-a-Loan at the bank. Explain that Auntie Need-a-Loan is meeting with her loan officer.

Ask:

- **What is happening in this picture?**
- **How does Auntie Need-a-Loan feel in the picture?** *[You can probe for more information: Is she shy, impatient, afraid to ask questions, upset?]* **How can you tell?**
- **Why might someone feel this way at the bank?**

Say:

These are some great observations. You see, Auntie Need-a-Loan took a loan out from Big Bank, and was overwhelmed by the terms and conditions.

Ask:

- **Have you ever felt this way when you borrowed money?**
- **What happened?**
- **Why? Describe the story to your neighbor or neighbors.**

Give everyone 2-3 minutes to talk to a neighbor or neighbors. Then, ask for 1-2 volunteers to share the story. Highlight any ideas that have to do with knowing all the terms and conditions of the loan.

*Then present the first **RULE OF THUMB**. Show the Rule of Thumb poster and point to #1:*

Taking a loan from an MFI doesn't have to be a confusing experience. It can be a very good one! Today we will talk more about loan terms and conditions, and become confident borrowers. Our first Rule of Thumb is **"Know Your Loan Term ABCs!**"

Step 2: Content – 20 minutes

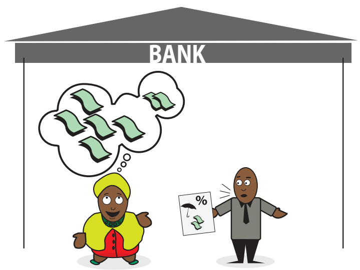
Show the head shots of Auntie Need-a-Loan and Chantal as you introduce them. Then tell the story, using the boxes below to guide you. Show the picture as you tell the story. Use different voices to make it fun and interesting!

This story is about a woman named Auntie Need-a-Loan and her best friend Chantal, who live near us in *[choose a place]*. They are borrowers like you!

Picture 1:
"Loans are available at Big Bank! Come one, come all, to get a loan for your small business. Come on Tuesday to sign up, and take the first step toward your loan today!"

Picture 2:
On Tuesday, Auntie Need-a-Loan rushed to Big Bank to open an account and sign up for her loan. When she got to the Big Bank branch, she ignored the greeter, who asked her to look at the terms and conditions before signing up for the account!

Auntie is lucky – she qualifies for a loan. As the loan officer explains the terms and conditions - the term, repayment schedule, cash collateral, insurance, fees, and interest – Auntie daydreams about what she will do with her money.



Picture 3:
Auntie did not realize that she had to repay the loan every two weeks, and her shop suffered from lack of planning.

She also did not account for her cash collateral, and was surprised that some of her money stayed with the bank.

At the end of the loan, her shop shelves are empty. She thinks to herself: "How did this happen?

Lay out the pictures side by side or display them where everyone can see. Ask the following series of questions to help guide participants through the important points. Then ask:

- **What happened in Auntie Need-a-Loan's story? Describe it in your own words.** *[Allow 2-3 participants to contribute.]*
- **What was Auntie Need-a-Loan's problem?** *[She didn't learn the terms and conditions of her loan before she borrowed, and in the end, her loan ran out. She was in too big of a hurry!]*
- **What terms and conditions did the loan officer explain?** *[Term, repayment schedule, guarantee (cash collateral), insurance, fees and interest.]*
- **How does this problem relate to your own experience?** *[Probe for whether or not the person in the example listened well and took the time to know all the terms and conditions before borrowing.]*
- **What solutions can you suggest for this problem?** *[Auntie Need-a-Loan can listen carefully when terms and conditions are explained, she can take a look at her contract before signing, compare what she thinks she will earn to what the loan will cost, and she can ask questions about what she doesn't understand.]*

Step 3: Challenge - *20 minutes*

Say:

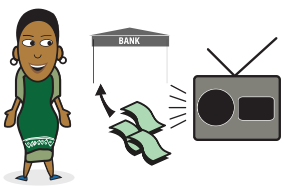
You had some great ideas. Now, let's look at what Auntie's best friend, Chantal, did when she took out a loan from Big Bank.

Show the headshot of Chantal again. Tell the story:

Picture 1:

One day, Chantal heard the same announcement about loans that Auntie Need-a-Loan heard:

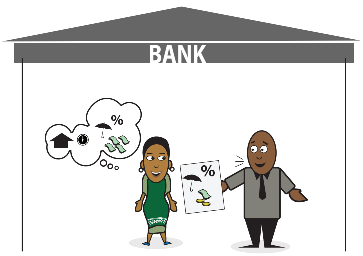
"Loans are available at Big Bank! Come one, come all, to get a loan for your small business. Come on Tuesday to sign up, and take the first step toward your loan



Picture 2:

On Tuesday, Chantal got up and thought carefully about her need for credit. She talked with her husband, and they agreed that she should go to find out more about the Big Bank loans. When she arrived at Big Bank, she saw the greeter who was pointing out a sign with terms and conditions. Because she had not studied, she asked the greeter to explain the sign.

Chantal qualifies for a loan. When it is time for her to get the loan, she talks over all of the terms and conditions with the loan officer - term, repayment schedule, cash collateral, insurance, fees, and interest.



Picture 3:

Chantal listened carefully and discussed the loan and its terms with her husband at home. Chantal and her husband decide the loan is right for them, and Chantal borrows. They accounted for the cash collateral, and planned for each bi-weekly payment.

At the end of the loan period, she looks around at her shop and thinks "What a good decision for us to borrow! I was scared, but it was the right decision!"

Lay out the pictures side by side or display them where everyone can see. Ask the following series of questions to help guide participants through the important points. Then ask:

- **What was the difference between Auntie Need-a-Loan's experience and Chantal's experience?** *[Chantal listened to the terms and conditions and made good use of her loan. She also discussed the loan with her family before taking it.]*

Explain the Loan Term ABCs. Ask a volunteer to make each letter using his or her body to "act" the letter out:

Our Rule of Thumb is **"Know Your Loan Term ABCs"**. By remembering the ABCs, you can keep the terms and conditions at the front of your mind! Repeat after me! These ABCs are:

T is for TIME! Know the terms about time – loan term, repayment schedule, wait time, and even a grace period – when you are given some time before you pay the loan.

A is for AMOUNT! Know the terms about how much you will pay – how much at each repayment, how much you will pay in total.

I comes twice, to help you remember your interest rate and insurance.

G is for guarantee – your cash collateral, required savings, or physical collateral.

Step 4: Change – 10 minutes

Say:

> Auntie Need-a-Loan's best friend, Chantal, took out the same loan from Big Bank but in the end, she profited greatly. Just like in the solutions we talked about, Chantal listened carefully to her loan officer, asked her friend to help her look again at her loan contract, compared her estimated profits to what she thought she would earn, and asked questions to her loan officer.
>
> Chantal followed our first Rule of Thumb.

Show the Rule of Thumb poster again, and point to the first rule:

> Put your right thumb up, and repeat after me: "Know Your Loan Term ABCs!"

Allow participants to practice the first Rule of Thumb with a short role-play. Ask participants to talk with a partner, and give them the following instructions:

> Chantal knew what questions to ask and paid attention to her loan terms and conditions. She knew the first Rule of Thumb! In your pairs, play these parts:
>
> 1. Choose one person to act as Chantal, and the other as Auntie Need-a-Loan
> 2. Pretend that you – Auntie and Chantal – meet as you go to make your loan payment
> 3. Auntie – you are disturbed because of your problems, and you explain them to Chantal
> 4. Chantal – based on the Rule of Thumb, give Auntie some good advice!

Allow participants to talk together for 5 minutes. Make sure they are just playing the parts – not planning a skit. If time allows, ask 1-2 pairs to show their skits to the rest of the participants. Congratulate them on their great acting!

Conclude by saying:

> A loan can be an excellent tool for your business or to help you meet a financial goal. Make it as good as it can be by taking the time to know all of the terms and conditions before you borrow. "A minute of patience can lead to a year of peace!"
>
> I am giving each one of you a simple loan sheet. When you go to get a loan – from a bank, SACCO, MFI, or other institution – make sure you know all the loan terms and conditions. Use this as your guide!

Emphasize that participants can ask any questions about terms to their MFI or bank, and that they can also ask a trusted friend or family member to help them look through the contract.

At the end, congratulate everyone on a job well done!

SESSION 2: INTEREST: KNOW IF YOUR RATE IS FLAT OR DECLINING

Why Are We Teaching This Content?

PURPOSE

To introduce and analyze the concepts of flat and declining interest.

OBJECTIVES

By the end of the activity, participants will have:

STEP 1. Recited the second Rule of Thumb: "Interest: Know if Your Rate is Flat or Declining"

STEP 2. Defined the meaning of "flat" and "declining" interest rates using the example of a voyage or journey

STEP 3. Compared two loans – one with flat interest, one with declining interest – to understand the difference

STEP 4. Brainstormed reasons why it is important to understand the difference between flat and declining interest

What Is Needed for This Session?

MATERIALS

- Counters (i.e. any small, round item such as small stones or bottle caps)

PICTURES / POSTERS

- "Rules of Thumb" Poster
- Signs: MFI 1 vs. MFI 2
- Picture: Auntie Need-a-Loan on a Flat Plain
- Picture: Auntie Need-a-Loan Going Down a Hill
- Chart: MFI 1 (Flat) vs. MFI 2 (Declining)

TIME

1 hour

Adaptation Reminders:

- ✓ Have you double-checked the interest rates in Step 1 to be certain they reflect how interest is advertised in your context?
- ✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
- ✓ Have you verified that both flat and declining interest are used in your context?
- ✓ Have you changed the type of currency from the "dollar" to the currency used in your country?
- ✓ Have you recalculated the amounts so that they are realistic for borrowers in your context?

Step 1: Connection – 10 minutes
Welcome everyone to the learning session. Explain that today you will talk about interest rates.

Start by holding up two signs, each with a different interest rate. [MFI 1 – 2.5%. MFI 2 – 3.0%] Explain that in this example, ALL other costs are the same – fees, charges, insurance, etc.

Ask:

- **Let's say you are going to borrow 100,000 "DOLLARS" over 5 months. Between MFI 1 and MFI 2, which loan would you choose? Why?**

MFI 1	MF 2
2.5%	3.0%
Covered	*Covered*

Allow 2-3 volunteers to share their answers, and encourage them to explain why they would choose MFI 1 or MFI 2. It is likely that some will say that MFI 1 is cheaper than MFI 2. Continue by uncovering the next line on the signs, and asking the next question.

- **Now, what if I tell you that these are the total amounts that interest will cost over the loan term?**

MFI 1	MFI 2
2.5% Total Interest 12,500	3.0% Total Interest 7,500

Participants will most likely be surprised. It is possible that they will disagree with you, or ask you how this can be possible.

Ask:

- **Does anyone know how this can be possible?**

Allow several participants to answer. Congratulate anyone who already knows the difference between flat and declining interest. Continue by explaining:

> It does not seem possible that a loan with a lower interest rate could mean more money from your pocket in the end, does it?
>
> The difference between these 2 loans is that MFI 1 charges ***flat*** interest, and MFI 2 charges ***declining*** interest. In a moment I will show you the difference. For now, let me tell you our second Rule of Thumb!

Then present the second ***RULE OF THUMB***. Show the Rule of Thumb poster and point to #2:

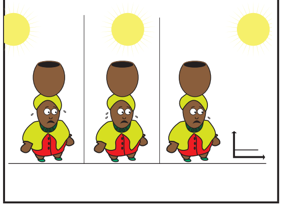
> As you can see, it is important to ask questions about your interest rate before you borrow. Sometimes, you can save a little money with just a question or two. Our second Rule of Thumb is **"Interest: Ask If Your Rate is Flat or Declining!"**

Step 2: Content – 20 minutes

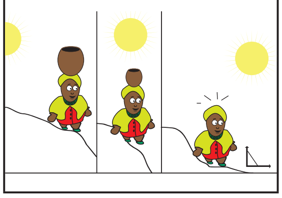
Say:

Many people look at the number of the interest rate and think of it as the loan price. They think that a lower number is always better, and a higher number is always worse. This is not always the case!

Flat Interest Picture:



Declining Interest Picture:



➤ **What is interest?**

Allow 2-3 volunteers to give their definitions. Then say:

Interest is the fee that the bank or MFI charges you to lend you money, and it is a very important part of borrowing. Without interest, the bank cannot pay its workers to help you, buy the materials it needs to track your loan and keep it safe, and pay for the branch to keep operating. It cannot grow and lend money to other people.

Interest is like rent – it is rent you are paying for the money you are using, just like you might pay rent for a parcel of land, a house, a bicycle or a car. It is important to know that interest rate stays the same – like 2.5%, or 16%, for example – but that the amount of money you repay depends on the amount you borrow.

First, we'll talk about flat interest.

Ask:

➤ **When I say the word "flat" what images come to mind?** *[A table, a board, the floor, a field, etc.]*

Good examples! Something that is flat is always at the same level. With flat interest, you keep paying the same amount every period. It doesn't change.

Show the picture of Auntie Need-a-Loan walking on a flat plain.

Here is Auntie Need-a-Loan, walking on a flat plain. The basket on her head represents the interest she pays every month. With flat interest, Auntie Need-a-Loans basket stays the same size, because her interest is the same every month. If Auntie borrows 100,000 "DOLLARS" over 5 months, she pays interest on that 100,000 "DOLLARS" each month.

Now, let's talk about another type of interest that banks sometimes use. This is called declining interest.

Ask:

➤ **When I say the word declining, what images come to mind?** *[Down a hill, down a staircase, a bar of soap that gets smaller and smaller each time you use it, etc.]*

Show the picture of Auntie Need-a-Loan going down the hill. Then say:

Very good! When you have a loan with a declining rate of interest, you pay only on the amount that remains for each loan repayment. As you can see, Auntie's basket gets a bit smaller as she moves down the hill, just like her capital – the money in her pocket to use – and interest get smaller when she takes a loan with a declining balance. Remember our first example, with loans of 2.5% and 3.0%? If 2.5% is flat, and 3.0% is declining, you are almost guaranteed that 3 is less than 2.5!

Step 3: Challenge – 20 minutes

Do the following simulation step-by-step, using volunteers to help you move the counters. Show the poster as you do the simulation:

Together, let's do a short example to compare flat and declining interest. Each of these counters represents 1,000 "DOLLARS". Let's say Auntie Need-a-Loan wants to take a loan of 100,000 "DOLLARS" over 5 months.

	MF1 - Flat	MFI 2 - Declining
Month 1	❍ ❍❍ ❍❍	
Month 2	❍ ❍❍ ❍❍	
Month 3	❍ ❍❍ ❍❍	
Month 4	❍ ❍❍ ❍❍	
Month 5	❍ ❍❍ ❍❍	

1. She sees that MFI 1 has a rate of 5%, flat. This means she'll pay back 5,000 "DOLLARS" of the amount she borrowed each month. *[Ask a volunteer to count out 5,000 "DOLLARS" counters and place them in each month in the "flat" column.]*

2. Now, Auntie Need-a-Loan goes to ask at MFI 2 about their interest rate. They have a rate of 5%, declining. This means that each month, she will pay back the interest on the amount she stays with – the amount still in her pocket.

*Walk another volunteer through the following process. If there are participants that know how to calculate interest, **ASK** them about each month's repayment and interest amounts, instead of telling. If there are not, **EXPLAIN** the calculations.*

3. Now, Auntie Need-a-Loan's interest is calculated on the amount she stays with:
   a. The 1st month, she has 100,000 "DOLLARS". Her interest rate, 5%, is the same as in the flat rate loan. It is 5,000 "DOLLARS". *[Direct the volunteer to count out 5,000 "DOLLARS" and place them on Month 1, Declining.]*

   b. The 2nd month, how much remains? *[80,000 "DOLLARS"]* What is 5% of 80,000? *[4,000 "DOLLARS". Ask the volunteer to place 4 counters next to Month 2.]*

   c. The 3rd month, how much remains? *[60,000 "DOLLARS"]* What is 5% of 60,000? *[3,000 "DOLLARS". Ask the volunteer to place 3 counters next to Month 3.]*

   d. The 4th month, how much remains? *[40,000 "DOLLARS"]* What is 5% of 40,000? *[2,000 "DOLLARS". Ask the volunteer to place 2 counters next to Month 4.]*

	MF1 - Flat	MFI 2 - Declining
Month 1	❍ ❍❍ ❍❍	❍ ❍❍ ❍❍
Month 2	❍ ❍❍ ❍❍	❍❍ ❍❍
Month 3	❍ ❍❍ ❍❍	❍ ❍❍
Month 4	❍ ❍❍ ❍❍	❍❍
Month 5	❍ ❍❍ ❍❍	❍

   e. Finally, in the 5th month, how much remains? [20,000 "DOLLARS"] What is 5% of 20,000? *[1,000 "DOLLARS". Ask the volunteer to place 1 counter next to Month 5.]*

As you can see, with declining interest, you pay interest only on the remaining loan amount. Sometimes, this seems more complicated, and sometimes it seems like your payment might change every month. However, institutions can do the calculations so that your payment is the same every month.

Step 4: Change – 10 minutes

Ask:

- **In our <u>flat</u> example, how many "DOLLARS" are there in total?** *[25,000]*
- **In our <u>declining</u> example, how many "DOLLARS" are there in total?** *[15,000]*
- **What is the difference in cost between the 2 loans?** *[10,000]*
- **Now, who can tell me something you can buy with 10,000 extra DOLLARS?**

Allow 2-3 volunteers to give their answers. Say:

It is important to note that declining interest does not mean you pay a different amount with each repayment. The bank or MFI will normally calculate how much you will pay in total, and spread it out over your repayment periods.

Push all the "DOLLARS" in the declining column together in a pile. Then, ask one volunteer to separate them into five equal piles, one for each month. The volunteer should have five piles with three counters each. Then say:

	MF1 - Flat	MFI 2 - Declining
Month 1	❍ ❍❍ ❍❍	❍ ❍ ❍
Month 2	❍ ❍❍ ❍❍	❍ ❍ ❍
Month 3	❍ ❍❍ ❍❍	❍ ❍ ❍
Month 4	❍ ❍❍ ❍❍	❍ ❍ ❍
Month 5	❍ ❍❍ ❍❍	❍ ❍ ❍

So, as you see, you can have declining interest and pay the same amount each month or each payment period. It is just a matter of calculating the total amount you will owe, and then splitting it into equal parts.

Ask [while holding up your right thumb and pointing to the Rule of Thumb poster]:

- **What was our Rule of Thumb from the beginning of the session?** *[Interest: Ask if your rate is flat or declining.]*

Congratulate the participants who answer on their good memories! Then ask:

- **Why is it important to ask if your rate is flat or declining?** *[Because the amount you pay in the end will be different.]*
- **Where can you find out if the interest rate is flat or declining?** *[You can ask the bank or MFI; ask a current customer or client of the banks you are comparing; read the brochures that the bank or MFI offers; ask a trusted friend or family member.]*

Ask participants if they have any questions, and end the session. Thank everyone for a job well done.

A NOTE TO THE TRAINER

Another Rule of Thumb is that with loans of equal repayment terms, and equal sizes, a flat interest rate costs roughly twice the declining rate with the same number. So, if you see a sign advertising "3% interest" and the rate is flat, it will be roughly twice as much as the same loan with "3% interest" and a declining rate. Two to one!

SESSION 3: DECLINING INTEREST: IT'S LOWER THAN IT LOOKS

Why Are We Teaching This Content?

PURPOSE

To demonstrate how interest rates – whether they are flat or declining – relate to loan cost.

OBJECTIVES

By the end of the activity, participants will have:

STEP 1. Recited the third Rule of Thumb: "Declining Interest: It's Lower than it Looks!"
STEP 2. Listed the fees, charges and mandatory insurance that may come with a loan product
STEP 3. Reviewed the responsibilities to pay in full and on time
STEP 4. Discussed the difference between flat and declining interest, and reasons why these two methods of calculating interest exist

What Is Needed for This Session?

MATERIALS

- Counters (i.e. any small, round item such as small stones or bottle caps)

PICTURES / POSTERS

- "Rules of Thumb Poster
- Headshot: Auntie Need-a-Loan
- Story Pictures: Auntie Need-a-Loan Learns About Declining Interest
- Graph: Flat vs. Declining Interest

TIME

1 hour

Adaptation Reminders:

- ✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
- ✓ Have you checked the stories to make sure that they are realistic in your context?
- ✓ Have you verified that both flat and declining interest rates are used in your context?
- ✓ Have you changed the type of currency from the "dollar" to the currency used in your country?
- ✓ Have you recalculated the amounts so that they are realistic for borrowers in your context?

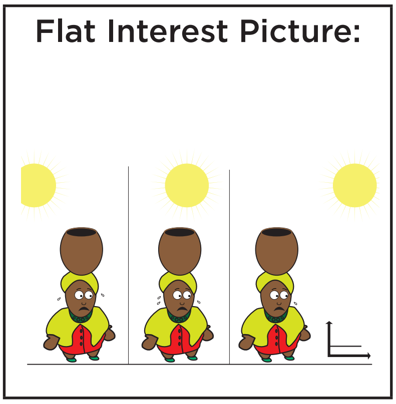
Step 1: Connection – 10 minutes

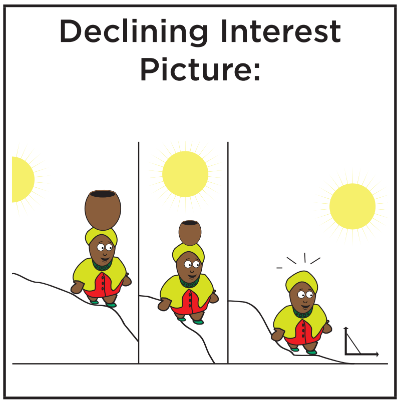
Welcome participants. Display the "Rule of Thumb" poster, and point to the third Rule of Thumb.

Ask:

- **What were our last two Rules of Thumb?** *[1.Know Your Loan Term ABCs, 2. Interest: Ask if Your Rate is Flat or Declining.]*

- **What is the difference between flat and declining interest?** *[Show the pictures of Auntie on a journey again to help remind participants of the previous Rule of Thumb.]*





- **Who can describe them?** *[With flat interest, you pay interest on the capital you borrowed each month. With declining interest, you pay only on the amount you stay with, or have in your pocket.]*

- **Why is it important to know whether your loan has flat or declining interest?** [*It affects the cost of a loan. Sometimes, flat interest may look lower than it actually is.]*

Allow 2-3 volunteers to give their answers. Then explain:

There are two important things to know about declining interest, which we will focus on today:

1. Nowadays, many financial institutions are switching from flat interest to declining interest. Because banks and MFIs all charge interest but in different ways, as clients we still need to know which type we are being charged.

2. Because there are different types of loans – for example, some loans are group loans, and others are individual – one bank or MFI might offer both types of interest. Sometimes, when someone graduates from being in a group to being an individual client, their interest rate switches from flat to declining.

Let's continue to talk about declining interest!

NOTE TO THE TRAINER:

When it comes to stories, remember:

"Never TELL when you can SHOW!"

"Never TELL when you can ASK!"

Step 2: Content – 20 minutes

Show the headshot of Auntie Need-a-Loan. Remember, you are telling a story. Say:

> Our old friend, Auntie Need-a-Loan, has been a member of a group that borrows from a local MFI – Credit MFI. Through her loan, she has learned a lot about managing her money! Of course, her loan officer and her friend Chantal have helped her so much.
>
> Now, Auntie is ready to take a big step. She is going to take out her first individual loan.

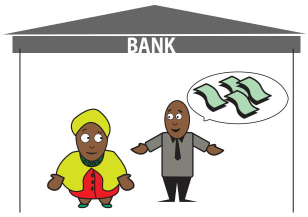
Tell the story of Auntie Need-a-Loan using the pictures. Before you explain each picture, ask:

- **What do you think is happening in this picture?**

1. Auntie goes to the bank to discuss her new loan with the loan officer in charge of individual loans. She asks him questions about the terms and conditions, interest rate, fees and charges.

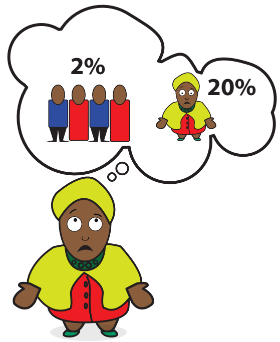
When she asks the officer about the interest rate, he tells her it is 20%.

Picture 1:



2. Auntie is surprised and astounded! 20%! How can it be so high? Her old loan, with her group, had an interest rate of 2%.

Picture 2:



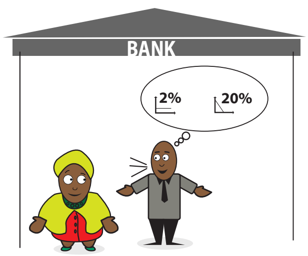
Ask:

- **How is it possible that Auntie's group loan had an interest rate of 2%, and her individual loan will have an interest rate of 20%?**

Allow several participants to offer their guesses. <u>DO NOT give them the answer yet.</u> Then, continue with the story:

3. Auntie Need-a-Loan's loan officer explains to Auntie that with her new loan, the method of assessing interest will be a bit different.

Picture 3:



First, her old loan had a flat rate, while her new loan has a declining rate.

Second, Auntie's new loan has an interest rate that is assessed by the <u>year,</u> rather than the <u>month.</u> Even though the interest rate <u>looks</u> higher, the cost will be LESS – if all other charges are the same.

Now, Auntie will pay interest only on the amount she has remaining – not the full capital!

Step 3: Challenge – 20 minutes

When you have finished telling the story, pose the following questions to participants. Make sure to continue to display the pictures where everyone can see them. Ask:

- **What happened in this story? Describe it in your own words**. *[Auntie Need-a-Loan was ready to take an individual loan, so she went to her MFI to talk to the loan officer. When she found out the new interest rate, she was surprised and confused. However, the loan officer explained to her the difference between flat and declining interest, and helped her understand.]*

- **What did Auntie think was going to happen with the cost of her loan?** *[She thought the cost would increase a lot with the individual loan.]*

Using the flat vs. declining poster, show participants the cost difference between Auntie's new and old loans. Explain that for this example, you will assume that Auntie pays back both loans in 5 months, and that she has borrowed 100,000 "DOLLARS". Each counter is worth 1,000 "DOLLARS". Explain that to make the calculations easier, you are adjusting some of the calculations for declining interest.

Ask a volunteer to place the counters in the correct spot. Say:

	Flat: 2%	Declining: 20%
Month 1	❍❍	❍
Month 2	❍❍	❍
Month 3	❍❍	❍
Month 4	❍❍	❍
Month 5	❍❍	❍

For her flat loan of 2%, Auntie repaid 2,000 "DOLLARS" every month on her original balance.

For her new loan of 20%, with declining interest, the MFI will assess the interest on the amount she stays with. Because we don't have smaller counters, I adjusted these a bit. **We won't calculate the declining rate together. We will also assume – like in the last lesson – that the bank has adjusted the interest so you pay the same amount each month.**

Just as your loan officer would, I have done the calculations for you.

- **What is the total cost of Auntie's flat rate loan?** *[10,000.]*
- **What is the total cost of Auntie's declining rate loan?** *[5,000.]*
- **What is the difference between the two loans?** *[The declining rate loan will cost 5,000 less than – or HALF as much - as the flat rate loan in the end.]*
- **What could you do with 5,000 extra "DOLLARS" in your pocket?**

Allow several volunteers to answer. Explain:

Even though the interest rate for the individual loan looked MUCH higher, in the end, it actually cost less.

NOTE TO TRAINER:

There are many reasons for the use of declining interest rates, and many reasons that people give for flat interest rates. Some of these reasons are listed below:

For FLAT	For DECLINING
• It allows the financial institution to make enough money to cover costs without scaring clients with a high interest rate	• It is an accurate reflection of the cost of borrowing – borrowers only pay interest on money they have
• If other institutions in the market use flat, you must use flat as well to compete – otherwise, your interest rates will appear too high	• Declining interest shows a price closer to the actual price of borrowing – flat sounds lower than it is, but declining is closer to the interest a borrower will pay
• It is easy and straightforward to calculate	• If one method is used – for instance, declining – borrowers can compare between loans

For your information as the trainer, we have included the calculations for both flat and declining interest below and on the next page. You can refer to this to help you understand how the interest rate in Step 3 was calculated.

For a full discussion of flat vs. declining interest rates, please see the article "Flat vs. Declining Balance Interest Rates: What is the Difference?". This article can be found at www.mftransparency.org.

Calculation of FLAT Interest Rate and Total Cost of Borrowing

Basic Loan Conditions

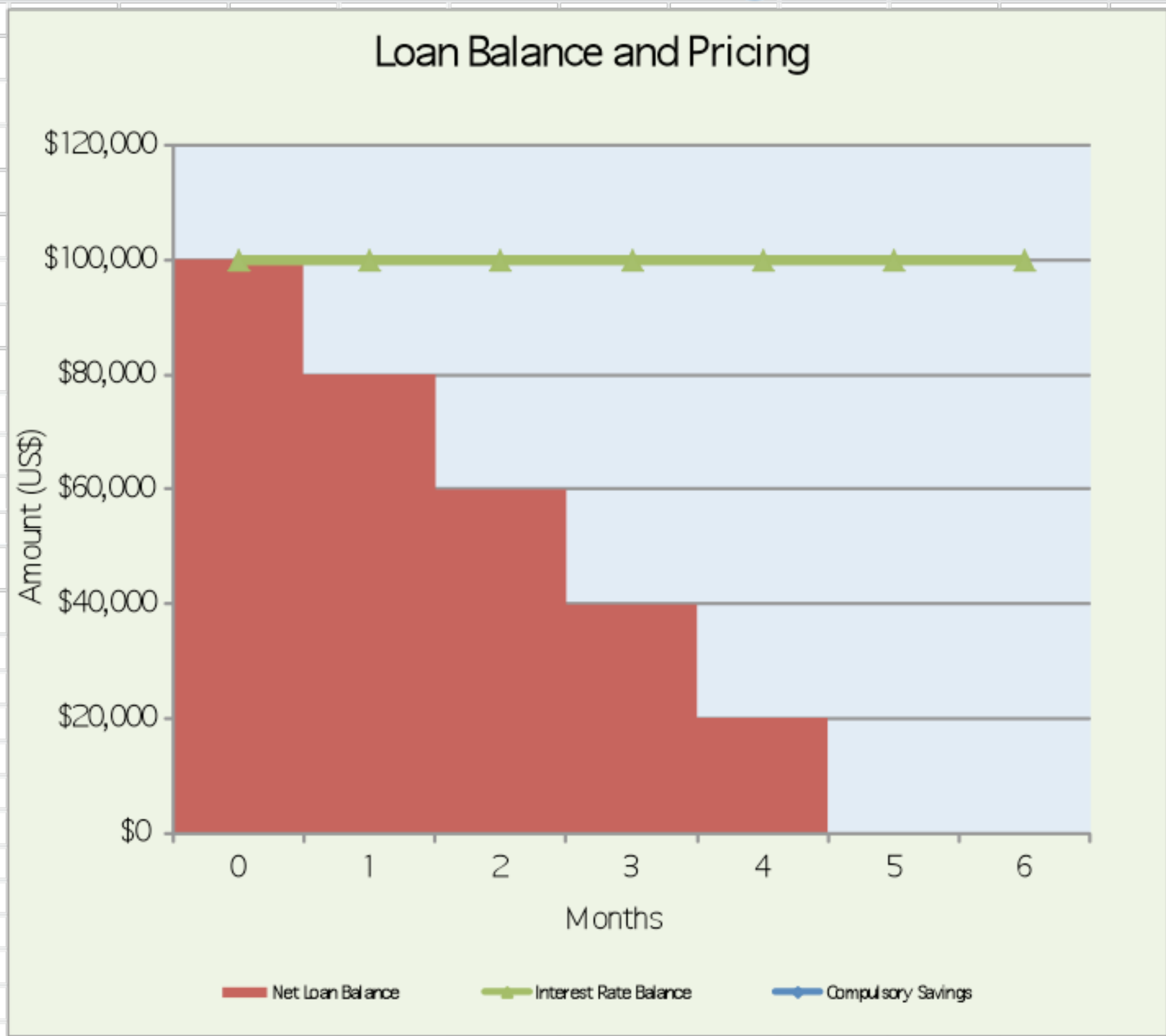
Loan Amount	$100,000	
Loan Term in Months	5	Months

	Inputs
	Flat
Annual Interest Rate	24.0%
Nominal Interest Rate	2.0%

Total Financial Cost to the Client

Total Cost	$10,000	in 5 Months

In this chart, you will see how Auntie Need-a-Loan's balance declines each month – that is show by the RED block.
The interest Auntie will pay remains the same each month with her flat rate of 2.0%. This is shown by the GREEN line.



For more information on calculating interest rates, see the Understanding Interest Rates Tool, designed by Chuck Waterfield. The tool, along with instructions on how to use it, can be found at [www.mftransparency.org.](http://www.mftransparency.org)

Calculation of DECLINING Interest Rate and Total Cost of Borrowing

Basic Loan Conditions

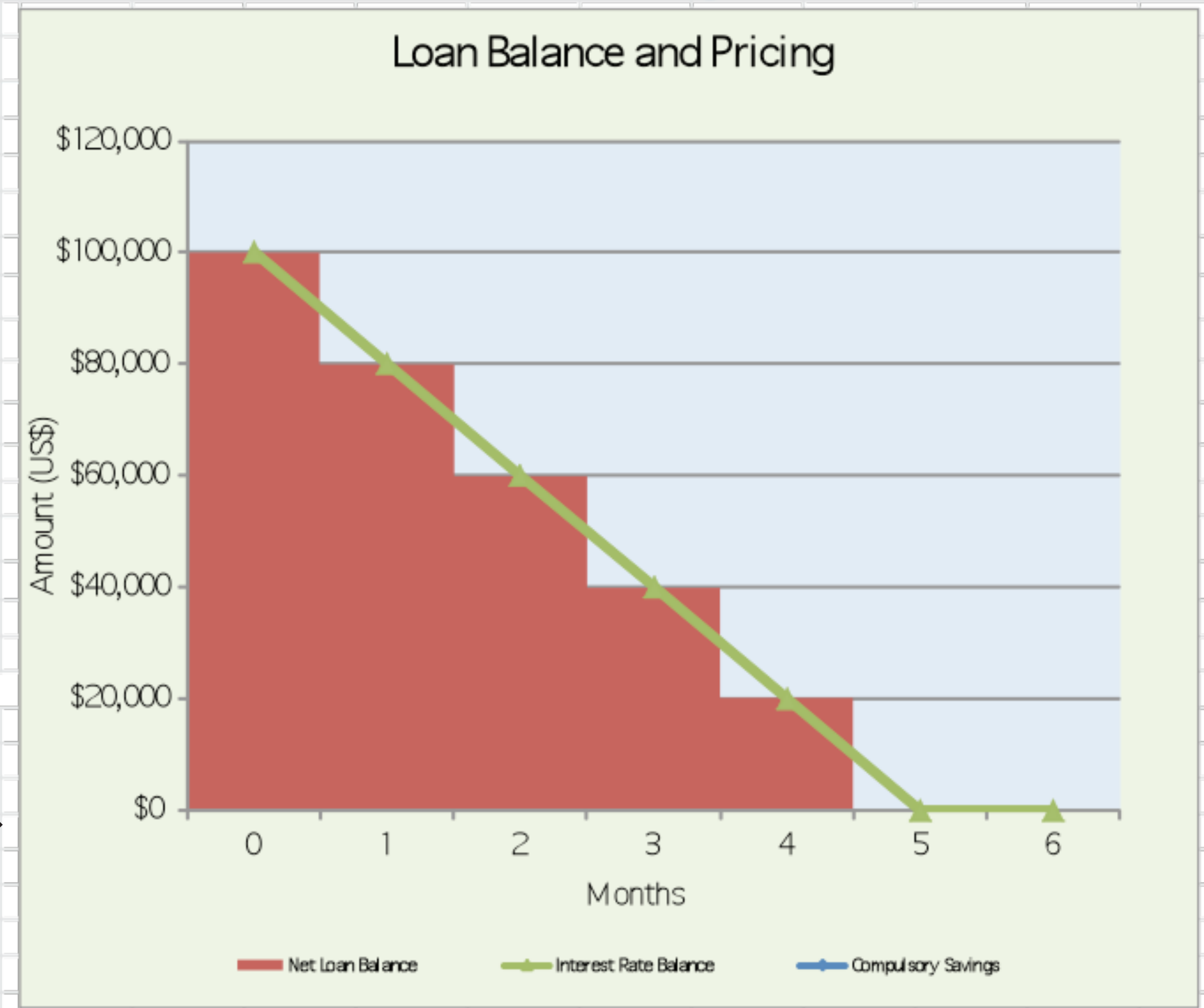
Loan Amount:	$100,000	
Term & Repay Freq.	5	Months

Loan Pricing	**Inputs**
Interest Type	Balance
Annual Interest Rate	20.0%

Total Financial Cost to the Client

Total Cost (less Sec.Dep. int):	$5,000	in 5 Months

In this chart, you will see how Auntie Need-a-Loan's balance declines each month – that is show by the RED block.
The interest Auntie will pay declines each month. This is shown by the GREEN line.
However, even though her interest is assessed on the capital remaining each month, the bank can still make sure she has even payments – like in Auntie's example.



For more information on calculating interest rates, see the Understanding Interest Rates Tool, designed by Chuck Waterfield. The tool, along with instructions on how to use it, can be found at www.mftransparency.org.

Step 4: Change – 10 minutes

Ask (while displaying the Rule of Thumb poster):

- **What was today's Rules of Thumb?** *[Declining Interest: It's Lower than It Looks.]*

Explain:

We want you, as borrowers – or future borrowers – to understand the different types of interest rates that come with loans, and the best questions to ask ***before*** you borrow. Asking the right questions, and understanding the answers, will help you to ask for your rights as a borrower and to exercise your responsibilities.

As I mentioned before, in our country, different institutions have different ways of calculating interest. There can even be more than one way to advertise interest in one institution, depending on the product. The important thing is to know which one you are being charged.

Finally, many institutions are changing to charge declining instead of flat interest, at least for individual loans. Flat interest may be easier to calculate, and so some institutions will continue to use flat. However, other institutions feel that it is more fair to charge declining interest, as the client is only charged on the remaining balance.

Ask the following questions, and explain any answers given that participants do not mention:

- **Why do you think that the interest rate becomes higher when it is declining?** *[Because the interest is sometimes calculated by year instead of on each repayment, or by month, and because the institutions still must cover their costs for lending. Therefore, they cannot lower the total cost so much that they cannot continue to be in business.]*

- **When you go to take a loan, and find out the interest rate, what other questions will you ask?**
  [1. Is the rate for this loan flat or declining?
  2. How is the interest rate calculated over time? By month, by year, etc.
  3. What will the total cost of this loan be, in terms of interest?]

Thank everyone for their participation!

SESSION 4: DON’T FORGET THE FEES AND COMMISSIONS
Why Are We Teaching This Content?

PURPOSE
To emphasize the importance of knowing all fees and charges before borrowing.

OBJECTIVES
By the end of the activity, participants will have:

STEP 1. Recited the fourth Rule of Thumb: “Don’t Forget the Fees and Commissions”

STEP 2. Placed a story in the correct order using pictures

STEP 3. Analyzed the problems that occur when you borrow without knowing the fees and commissions, and proposed good practices for borrowing

STEP 4. Discussed how borrowers can avoid being surprised by fees and commissions

What Is Needed for This Session?

MATERIALS
=/=

PICTURES / POSTERS
- “Rules of Thumb” Poster
- Headshot: Auntie Need-a-Loan
- Poster: MFI 1 vs. MFI 2
- Story Pictures: Auntie Need-a-Loan Forgets the Fees
- Headshot: Chantal
- Picture Cards: Good Practices

TIME
1 hour

Adaptation Reminders:

- ✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
- ✓ Have you checked the stories to make sure that they are realistic in your context?
- ✓ Have you double checked the interest rates in Step 1 to be sure that they are realistic and reflect how interest rates are advertised in your context?
- ✓ Have you changed the type of currency from the “dollar” to the currency used in your country?
- ✓ Have you recalculated the amounts so that they are realistic for borrowers in your context?

Step 1: Connection – 10 minutes

Welcome everyone to the learning session. Explain to participants that you will talk about fees and commissions today. Show the signs for MFI 1 and MFI 2, and the headshot of Auntie Need-a-Loan.

MFI 1	MFI 2
100,000 DOLLARS 18.0% declining	100,000 DOLLARS 20.0% declining
covered	*covered*

Today we're going to talk about the fees and commissions that are sometimes part of a loan. But first, I'm going to ask you some short questions. As you remember from earlier sessions, we like to compare loans!

Auntie Need-a-Loan needs a loan! She compares the interest rates at MFI 1 and MFI 2. She finds that both are declining. Both loans are the same amount of time, 5 months. The interest rates are given on a yearly – or annual – basis, just like in our last session.

BUT, MFI 1's rate is 18%, and MFI 2's rate is 20%!

Ask:

➤ **Which loan should Auntie choose?**

Allow 2-3 volunteers to answer. Uncover the covered section of the posters. Then say:

MFI 1	MFI 2
100,000 DOLLARS	100,000 DOLLARS
18.0% declining Total Interest: 4,500	20.0% declining Total Interest: 5,000
Opening Fee: 5,000 Commission: 5,000	Opening Fee: 2,000 Commission: 1,000

I will do the math for you to give you total cost of interest. In MFI 1, Auntie will pay 4,500 "DOLLARS". In MFI 2, she will pay back 5,000 "DOLLARS". HOWEVER, there are some other charges.

Explain each amount – opening fee, commission – for each MFI to participants. Then ask:

➤ **Which loan do you think Auntie should choose now?**

Guide participants through adding the total interest and charges together. MFI 1 will cost 14,500 "DOLLARS" in the end, and MFI 2 will cost 8,000 "DOLLARS" and is cheaper. Then say:

➤ **Like Auntie, have you – or has someone you know – ever been surprised by a fee or commission charged for a loan? Describe what happened.**

➤ **Why were you – or your friend – surprised?**

Allow 2-3 volunteers to give examples from their own experience. Continue by explaining:

Sometimes, like Auntie Need-a-Loan in our previous stories, we are in such a hurry to get the loan that all we think about is the money. We do not take into account the fees and commissions we will be charged.

When we borrow, we have both ***rights*** and ***responsibilities :***

- We have the ***right*** to ask the bank to tell and show us all of the charges of the loan, AND
- We have the ***responsibility*** to understand these charges before we borrow.

*Then present the fourth **RULE OF THUMB**. Show the Rule of Thumb poster and point to #4:*

Let us save ourselves from a shock at the end of our loan. Our fourth Rule of Thumb is **"Don't Forget the Fees and Commissions!"**

Step 2: Content – 20 minutes

Remember to keep the story moving

Say:

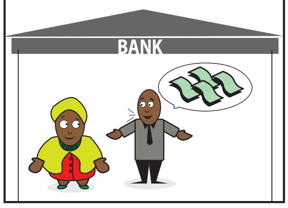
> I have five pictures with me. We will take a look at the pictures together, and then I will ask you to put them together, in the best order. You can work together to do this! Remember Auntie Need-a-Loan?

Show the picture (headshot) of Auntie Need-a-Loan. Then show the pictures below to participants in this order. Tell participants that the pictures are NOT in the correct order now. Use the explanations given to guide participants through the activity.

Picture 5:

Auntie goes to discuss the loan with her loan officer.

He shows her the costs associated with her loan on her contract. She did not count on the opening fee and commission!



Picture 4:

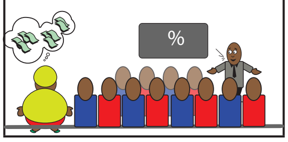
Auntie rushes to Chantal to tell her that her loan cost more than she expected.

Chantal tells Auntie to go and talk to her loan officer.

Picture 1:

Auntie has decided to take a loan, and attends the orientation meeting.

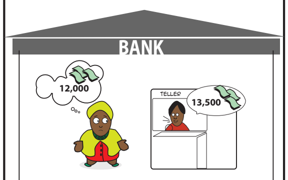
During the meeting, Auntie can only think about her loan that she will Auntie has rushed to Chantal. She is confused and her pockets (or wallet, or purse) are empty. Chantal is telling Auntie to go to the bank and talk to her loan officer.



Picture 3:

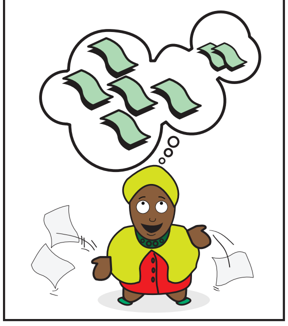
Auntie goes to make her repayment and expects to pay 12,000 dollars.

However, her repayment is 13,500 dollars.



Picture 2:

Auntie receives her loan contract, and puts it away without reading it.



When you have finished explaining the pictures, say:

> Can I have one volunteer to come next to me, to move the pictures? Together, let us put these events for Auntie Need-a-Loan in order, from the first thing that happened to the last.

Allow participants to discuss the sequence of events together, and guide them as they talk together. Allow several volunteers to come and move the pictures – DO NOT move them for participants.

Make sure everyone can see the pictures. For each one, ask participants questions such as:

- **What happened first?**
- **What happened next?**

Step 3: Challenge – 20 minutes

When participants have deduced the correct order of events, discuss the following questions together.

Ask:

- **What happened in this story? Describe it in your own words.** *[Auntie Need-a-Loan took a loan, but she did pay attention during the orientation, review her loan contract, or account for the fees and charges and insurance that came with her loan. She told her friend Chantal, who advised her to talk to her loan officer. When she went to pay her loan her repayment was higher than expected.]*

- **What charges did Auntie have to pay that she didn't expect?** *[Account opening fee, and commission.]*

- **What caused the problem for Auntie Need-a-Loan?** *[She didn't pay attention to all of the costs or realize her responsibilities as a borrower.]*

Remind participants of their stories of being surprised by charges and fees from Step 1. Now, show the headshot of Chantal.

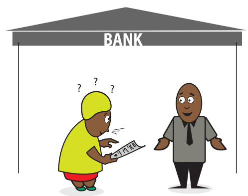
- **Do you remember Chantal, Auntie's best friend? If you were Chantal, what advice would you give Auntie Need-a-Loan?** *[Pay close attention during the loan meeting to the costs of the loan, revise your loan contract to know the costs, and ask your loan officer or group committee members to explain any fees or charges or insurance to you.]*

As participants name each good practice or piece of advice, display the "Good Practice" picture card that they have mentioned. When participants have finished giving their ideas, show them any remaining cards to prompt them to recognize the rest of the good practices.

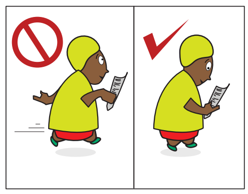
Pay Close Attention:

Read the Contract:

Ask Questions:



Slow Down!:



Then say:

Sometimes it seems unfair or unjust for an institution to charge fees for your account and insurance. However, there are many reasons that these charges are made and that insurance is an important addition to the loan.

When a financial institution lends money to borrowers like you and me, they incur costs they have to pay for. Because they have to pay their staff, pay for their offices and materials, pay to visit, train and help clients, and still keep lending to other people, they must recover their costs through the interest, the fees and other charges.

However – you should still compare institutions. Maybe you will save a little money!

Step 4: Change – 10 minutes

Ask (while showing the Rules of Thumb Poster):

- **What were our last 3 Rules of Thumb, before today?**
  [1.Know Your Loan Term ABCs,
  2. Interest: Ask if Your Rate is Flat or Declining,
  3. Declining Interest: It's Lower than it Looks.]

- **What was today's Rule of Thumb?** *[Don't Forget the Fees and Charges!]*

Say:

Once again, it is important to know our rights and fulfill our responsibilities as borrowers, and get to know the fees and commissions we will be charged.

By comparing different loans – when that is possible for us – we will be able to plan to use our money well, and make good borrowing decisions.

Sometimes, all of the fees and commissions are not presented before we borrow. So, it is important to ask questions about ALL fees and commissions before borrowing. Do not just look at the interest rate!

Ask:

- **How can you protect yourself from paying surprise fees and commissions?**
  [Pay attention during the orientation meeting (group or individual), review your loan contract, ask questions about late fees and penalties to your loan officer and someone you trust, like a current client.]

Point once again to the Good Practice pictures.

- **What will you do before you take your next loan?**

Allow a number of volunteers to answer. Thank everyone for their participation!

SESSION 5: INSURANCE: A LITTLE NOW CAN SAVE A LOT LATER

Why Are We Teaching This Content?

PURPOSE

To explain the concept of insurance and explain why insurance for a loan comes with a non-refundable charge.

OBJECTIVES

By the end of the activity, participants will have:

STEP 1. Recited the fifth Rule of Thumb: "Insurance: A Little Now Can Save a Lot Later"

STEP 2. Described what happens when a borrower does not have insurance and experiences an emergency through a picture story

STEP 3. Contrasted the difference in costs between a borrower with insurance and a borrower without insurance

STEP 4. Linked the concept of insurance and protecting against possible loss with other common practices

What Is Needed for This Session?

MATERIALS

- Counters (i.e. any small, round item such as small stones or bottle caps)

PICTURES / POSTERS

- "Rules of Thumb" Poster
- Headshot: Auntie Need-a-Loan
- Headshot: Chantal
- Story Pictures: A Fire In Town
- Graph: Auntie's Costs vs. Chantal's Costs

TIME

1 hour

Adaptation Reminders:

- ✓ Have you looked at the emergencies and risks people face, and added local examples?
- ✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
- ✓ Have you checked the stories to make sure that they are realistic in your context?
- ✓ Have you verified that insurance is often part of a loan product in your context? If so, what type?
- ✓ Have you changed the type of currency from the "dollar" to the currency used in your country?
- ✓ Have you recalculated the amounts so that they are realistic for borrowers in your context?

Step 1: Connection – 10 minutes

Welcome everyone to the learning session. Explain to participants that you have just talked about fees and commissions, but now you will talk about one more cost that is part of a loan – insurance.

Taking out a loan comes with a number of considerations. The first time you take a loan, these can seem like too much to think about. However, if you and your family decide a loan is right for you, and you take one, these will become much easier with time and practice.

Today we are going to talk about insurance, which is another charge that sometime comes with a loan. It is not always part of a loan, but as you will see, it can be a very good tool.

Ask:

- **What risks or emergencies could you experience that would make it difficult to repay a loan?** *[Fires, floods, droughts, other natural disasters, collapse or poor performance of a business, a fuel crisis, rising prices for your merchandise, death, injury or accident, sickness in the family, theft, etc.]*

Allow 2-3 volunteers to answer. Then say:

There are many things that can happen that make it difficult or impossible to repay a loan!

- **When someone encounters an emergency, and cannot repay a loan, what can happen?** *[They lose their collateral, their group must repay, they must ask friends or family members for money, they are forced to go to a moneylender to borrow. If they die, their family is obliged to repay. People often feel ashamed and desperate.]*

Continue by explaining:

Because banks and MFIs know that many risks are common, they have designed something that helps to protect people. They want to avoid the problems that come when someone must default, go to a moneylender, or borrow from friends and family. This is called **insurance.**

Insurance is a form of protection against the possibility of loss. It is like taking an umbrella out to protect you against rain, when you see dark clouds coming!

In many cases, insurance only protects against the death of the borrower, but there are other products available that protect against bad weather, crop loss, and other emergencies.

*Then present the fifth **RULE OF THUMB**. Show the Rule of Thumb poster and point to #5:*

Let us save ourselves from a shock at the end of our loan. Our fifth Rule of Thumb is **"Insurance: A Little Now Can Save a Lot Later!"**

Step 2: Content – 20 minutes

Show the headshots of Auntie Need-a-Loan and Chantal. Explain:

> I have another story for you about our good friends Auntie Need-a-Loan and Chantal. You are going to look at the pictures, and describe to me what is going on. I will help you. Let's go!

Lead participants through the following story by showing them the pictures and asking them to describe what is happening in each picture. As you show each picture, ask:

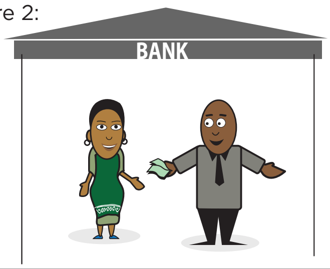
➤ **What is happening here? Please describe the picture.**

Picture 1:

1. Auntie Need-a-Loan and Chantal both borrowed money to expand their small businesses several months ago.

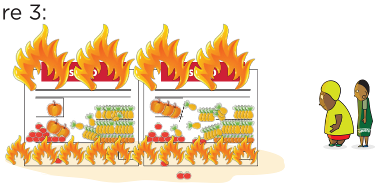
Auntie decided that the fees, charges, and insurance were too complicated, and went to a local moneylender to borrow 100,000 "DOLLARS". She was not happy to hear that if you do not use your insurance, you lose it at the end of the loan. If you borrow again, you must take another policy.

Picture 2:



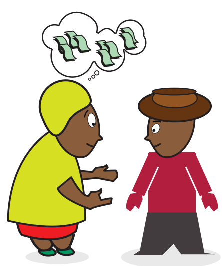
2. Chantal went to her local MFI. She attended an orientation session and learned about the fees, charges, and insurance. She also borrowed 100,000 "DOLLARS". Chantal paid 3,000 "DOLLARS" for the insurance on her loan, after she and her family discussed that it would be a good idea.

Picture 3:



3. Unfortunately, the two women had terrible luck! Rain did not come on time, and everything was SO dry. A fire swept through the town, burning everything in its way. Both women still owed 20,000 "DOLLARS" on their loans.

Picture 4:



4. Auntie lost everything, and had to ask her old employer to lend her money to repay the loan. Now, she still owes 20,000 "DOLLARS" to her old boss, and she does not know where to get it.

Picture 5:

5. Chantal went to her loan officer, and reported her loss. The loan officer helped her by aiding her with the paperwork, and her loan was repaid in full.

Step 3: Challenge – 20 minutes

Display the poster with two columns: 1 for Auntie Need-a-Loan, and 1 for Chantal. Take out the counters, and explain that each is worth 1,000 "DOLLARS". Ask a volunteer to help you with the counters. Instruct the volunteer to place the correct number of counters in the corresponding box – Auntie or Chantal – when the questions are answered:

Auntie	Chantel
	○○○

- **How much did Auntie pay to protect her loan before she borrowed?** *[Nothing]*
- **How much did Chantal pay to protect her loan before she borrowed?** *[3,000 "DOLLARS"]*
- **How much money did Auntie have to repay to the moneylender after the fire destroyed her business?** *[20,000 "DOLLARS"]*
- **How much money did Chantal have to pay?** *[Nothing – her insurance covered the loss. She only paid the 3,000 in the beginning to protect her.]*

Auntie	**Chantel**
○○○○○ ○○○○○ ○○○○○ ○○○○○	○○○

- **When did Chantal have to pay a small amount more money for her loan?** *[At the beginning. She paid for insurance when she first took out the loan.]*
- **In the end, who paid less for her loan?** [Chantal paid less than Auntie did.]
- **In your opinion, who made the better decision: Auntie or Chantal?**

Allow participants to talk to a neighbor or someone seated next to them before opening up the question to the large group. When participants have had a few minutes to discuss with a neighbor, allow several to offer their opinions.

Then explain:

Just like Auntie, many people find insurance hard to understand. It adds a cost to the loan, and you can ONLY use it if the emergency or risk it covers happens to you DURING the life of your loan.

However, many risks and emergencies do happen to us in daily life. These are things that we cannot predict or expect. It is for this reason that insurance exists as a part of many loans. That way, depending on the type of insurance, if you die, are injured, or face a difficulty you cannot overcome, you and your family will not be stuck with the extra burden of paying back a loan.

Again, insurance is a form of protection against the possibility of loss. When you are going to take out a loan with insurance, it is important for you to ask these questions of your loan officer:

1) What does my insurance cover? For example, does it cover death, injury, sickness? AND
2) How do I claim my insurance (or my family) if something covered happens?

Step 4: Change – 10 minutes

Ask (while holding up the Rules of Thumb poster):

- **What were our last 4 Rules of Thumb, before today?**
  [1.Know Your Loan Term ABCs,
  2. Interest: Ask if Your Rate is Flat or Declining,
  3. Declining Interest: It's Lower than it Looks,
  4. Don't Forget the Fees and Commission.]

- **What was today's Rule of Thumb?** *[Insurance: A Little Now Can Save a Lot Later!]*

Say:

There are many reasons that people do not like insurance, but as we have seen, a small cost in the beginning can save a big cost later. Some insurance is even mandatory – like health insurance in some countries, and motor vehicle insurance for drivers.

Insurance is like taking an umbrella out during the rainy season – even when you are not sure it is going to rain, carrying something small with you can help you to avoid getting wet!

Ask:

- **What other things do people do "just in case" to protect themselves from a <u>possible</u> risk or emergency?** *[Wear a helmet when riding a motorcycle, using a seatbelt in a car, burglar bars on windows, a fence around the house, money in a purse instead of in your hand or pocket, etc.]*

Allow several volunteers to give their answers. Say:

These things are just like insurance! They are things we do <u>before</u> something happens, to protect ourselves and our families. Next time you hear the word **<u>insurance,</u>** think of your example!

Close the session by asking:

- **Finally, what questions should you ask to be sure you understand and use your insurance?**
  [1. What does my insurance cover? For example, does it cover death, injury, sick ness? AND
  2. How do I claim my insurance (or my family) if something covered happens?]

Thank everyone for their participation!

SESSION 6: COMPARE APPLES TO ORANGES WITH APR (OR EIR)

NOTE: This session will only be used in contexts where either APR or EIR is used.

Why Are We Teaching This Content?

PURPOSE

To introduce and explain the concepts of APR and EIR and discuss why they are helpful and important in comparing loans of different terms, types and sizes.

OBJECTIVES

By the end of the activity, participants will have:

STEP 1. Recited the sixth Rule of Thumb: "Compare Apples to Oranges with APR"

STEP 2. Linked the idea of borrowing money with the concept of renting – taking out a loan is like "renting" money

STEP 3. Compared two loans of different terms and interest rates using APR

STEP 4. Discussed common myths about the APR method of advertising interest rates

What Is Needed for This Session?

MATERIALS

- Simplified Loan Worksheet

PICTURES / POSTERS

- "Rules of Thumb" Poster
- Bags of Rice Sign: Equal Sizes, Different Costs
- Bags of Rice Sign: Different Sizes, Different Costs
- Headshot: Auntie Need-a-Loan
- Headshot: Chantal
- Poster: Auntie's Loan vs. Chantal's Loan

TIME

1 hour

Adaptation Reminders:

- ✓ Are the pictures provided appropriate for your context? If not, have you made new illustrations and prepared them for the session?
- ✓ Have you checked the stories to make sure that they are realistic in your context?
- ✓ Have you checked to see that Annual Percentage Rate (APR) or Effective Interest Rate (EIR) is used in your context?
- ✓ Do you understand what goes into the calculations for APR or EIR and why?
- ✓ Have you changed the type of currency from the "dollar" to the currency used in your country?
- ✓ Have you recalculated the amounts so that they are realistic for borrowers in your context?

Step 1: Connection – 10 minutes

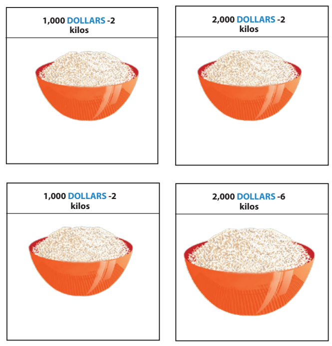
Welcome everyone to the learning session. Say:

> In our last session, we talked about the terms and conditions of borrowing. Now, we are going to talk about the interest rate that is required in our country *[insert the name of the interest rate calculation here, APR, EIR, or other],* and how to best understand it.

*Then present the final **RULE OF THUMB**. Show the Rule of Thumb poster and point to #6, on the palm of the hand:*

> Let us save ourselves from a shock at the end of our loan. Our sixth and final Rule of Thumb is **"Compare Apples to Oranges with APR!"** Apples and oranges are both fruits, both sweet, both small and round – but they are not the same. Just like some loans are longer, some are shorter, some have higher interest rates, and some have lower interest rates – we can compare "apples" and "oranges" using APR!
>
> In the past in our country, financial institutions told consumers like us about interest rates using many different methods. There were many things we had to look at to make good borrowing decisions – the interest rate, the fees, the insurance, the total cost, and the time we had to pay the loan back. This made it difficult for us to compare different loans, and sometimes even made it more expensive for us to borrow. Let's look at a quick example together.

Start by holding up a picture showing two bags of rice and two prices. Ask:



- **Let's say you are going to buy a bag of rice. Between these two bags of rice, which one will you choose?**

Allow 2-3 volunteers to share their answers and continue with the next example. Ask:

- **Now which bag of rice will you choose?**
- **Why did you make that choice? Which bits of information did you consider?** *[Cost, size, family size, how much rice you need and for how long.]*

Say:

> When you compare loans from different financial institutions before you borrow, it is like you are comparing two bags of rice with different costs and sizes. There are a number of different factors you need to consider. The important thing is to consider these factors for you and your family, and make a decision based on those before you borrow.
>
> APR can help you to look at loans with different costs and sizes, and compare them. Simply put, APR – or "Annual Percentage Rate" – should tell you how much your loan will cost you in one calendar year.

Step 2: Content – 15 minutes

Show the headshots of Auntie and Chantal, and tell the following story to orient participants. Say:

> Auntie Need-a-Loan wants to rent a parcel of land near her home. She talks to the landowner, agrees upon the amount of money she will pay for the land and other fees. She will pay 100,000 "DOLLARS"" for the land. She rushes to Chantal to express her good luck – 100,000 "DOLLARS" is a great price for land!
>
> Chantal stops Auntie in her tracks and says: "Don't sign anything until you ask the next important question!"

Ask:

- **What question is Chantal referring to?** *[How long can Auntie rent the land for 100,000 "DOLLARS"?]*

- **Why is this question important?** *[The term is important before you rent land – just as it is when you "rent" money. For example, 100,000 "DOLLARS" might be a good deal if Auntie can rent the land for a year, but not if she can only rent for a month.]*

Say:

> Nice thinking! As we have discussed before, interest is like rent – it is rent you are paying for the money you are using, just like you might pay rent for a parcel of land, a house, a bicycle or a car. It is important to know that interest rate is a percentage of the money you borrow.
>
> Interest is the fee that the bank or MFI charges you to lend you money, and it is a very important part of borrowing. Without interest, the bank cannot pay its workers to help you, buy the materials it needs to track your loan and keep it safe, and pay for the branch to keep operating. It cannot grow and lend money to other people.

Hold up a picture comparing two loans. Part of the information will be covered – be sure to uncover it step by step. Say:

Auntie's Loan	Chantal's Loan
18% APR Total Cost: 3,000 "DOLLARS"	10% APR Total Cost: 8,000 "DOLLARS"
covered	*covered*

> Auntie Need-a-Loan and Chantal are comparing loans. Let's say that they are each going to borrow 100,000 RWF. Chantal's loan has an interest rate of 10%, and Auntie's of 18%. Auntie's has a total cost of 3,000 "DOLLARS", while Chantal's has a total cost of 8,000 "DOLLARS".

Ask:

- **Which loan do you prefer?** *[Most will say A, because it has a lower cost.]*

- **Do you have all of the information you need to make a good decision here? Think about Chantal's advice to Auntie about renting land.** *[Answers will be mixed – many will probably talk about other factors like wait time, grace period, length of the loan term, amount of repayment, etc. Acknowledge their answers – different people have different borrowing needs, so there are not "right" and "wrong" answers yet.]*

Step 3: Challenge – 15 minutes

Auntie's loan 18% APR	Chantal's Loan 10% APR
Total Cost: 3,000 dollars Term: 3 months Grace Period: none Monthly repayment: 34,000 dollars	Total Cost: 8,000 dollars Term: 12 months Grace Period: 6 months Monthly repayment: 9,000 dollars

Say:

Let's take a closer look at these two loans.

Uncover the covered sections on the signs, and explain the new information to participants. Say:

Auntie's loan costs 3,000 DOLLARS over a term of 3 months. She has no grace period to use the money without being charged interest. Chantal's loan costs 8,000 DOLLARS, and she has 12 months to repay the loan. What is more, she gets 6 months to use the money without being charged interest!

Ask:

➤ **Now that you know the other terms and conditions, what are the advantages of Auntie's loan?** *[It costs less overall.]*

➤ **What are the advantages of Chantal's loan?** *[She has time to use the money before she pays interest, she has more time to repay. Emphasize that Chantal's repayments will be smaller as well – participants may not realize this. Auntie's repayments will be just above 34,000 per month, while Chantal's will be just under 9,000.]*

➤ **Now that you know more about these loans, which do you prefer? Why?** *[Most will answer Chantal's loan now. Some may still say that Auntie's is better, because they don't want to pay a loan over a long period of time. However, you can validate their answers, and talk more about money and time below.]*

Say:

There are some complicated calculations that are part of figuring out the APR [or other method] for your loan, and I will not teach you these calculations today. The government has done those for you! However, this APR, while it looks expensive, helps you to learn something quickly about a loan.

- **Advantage 1:** In the past, you had to do a lot of math yourself to understand how much a loan might cost. There were interest, time, insurance, fees – and sometimes even more costs! APR takes all of these other costs and fees – except penalties – into account. It saves you a lot of calculations!

- **Advantage 2:** In the past, some loans had interest rates called "flat" rates. You might remember seeing rates of 2.5% or 3.0% - they looked so low! However, these loans required borrowers to pay interest on the original amount they borrowed – or "capital" – over the life of the loan. Our government is using APR, which is a declining rate instead. Now, the rates look higher, but they include more hidden fee and costs, and you only pay interest on the money you have left to use.

- **Advantage 3:** The APR helps you look at more than just cost – it also looks at time. While the total cost is important, it is not enough information to help you make a good borrowing decision. For example, a loan with a low total cost, but a very short loan term, gives you less time to use the money, and requires you to make larger monthly or bi-weekly payments. These can be difficult – even though you will pay less money in the end!

Remember, I explained earlier that a loan is like "renting" money – like you would rent a parcel of land, or a house. If you see two houses that cost 10,000 DOLLARS, but one is per day, and the other per month, the cost is the same but the value is certainly very different! It is the same with loans.

A good way to be sure you know how much you will pay for your loan is to know your APR, and then consider the other terms and conditions associated with the loan. "Knowledge is power – but only when we put it to good use!"

Step 4: Change – 15 minutes

Say:

> You have mentioned a number of factors other than cost or interest rate that are important to you when you make decisions about borrowing. It is good for you to think all of these things through before making your final choice. However, I'd like to discuss a few myths about borrowing briefly in our session.

Ask:

➤ **Knowing what you know now, what are some myths about borrowing that you can name?**

Allow several volunteers to offer their ideas. Then, move on to explain the following myths. Keep things active by asking participants who DISAGREE with each statement to stand, and those who AGREE to stay seated. Explain:

- **Statement 1:** A loan with a lower total (or overall) cost is ALWAYS best.

➤ **Why is this statement a myth?** *[A borrower cannot just consider cost – time and terms and conditions are also important. If you pay a lower cost, but the time is also low, you might not be able to use the money to its full advantage and your repayments will be high.]*

Continue to the second statement.

- **Statement 2:** It is better to quickly finish one loan and then take another.

➤ **Why is this statement a myth?** *[While it may feel good to finish a loan and be free of debt, many people finish a short loan and then immediately take another – and are really never free of debt! While taking a longer term loan means you will have to manage your loan longer, it also can make your repayments smaller, and give you more time to productively use your money.]*

Continue to the third statement.

- **Statement 3:** You have to have studied complicated math to understand loans and their interest rates.

➤ **Why is this statement a myth?** *[Our government is encouraging the use of APR to help us make good borrowing decisions without doing a lot of calculations that we may not be able to understand. You can use published APRs, along with information about terms and conditions, to make a good borrowing choice. Loans can be effective tools to meet goals and grow businesses, and it is just important not to be guided by the voice in your head saying "Give me the money right now."]*

Continue to the fourth and final statement.

- **Statement 4:** Now that we use APR, our loans are too expensive.

➤ **Why is this statement a myth?** *[In reality, the use of APR – which helps us to compare different loans at different institutions – often makes the cost of our credit go down. Institutions are not able to hide costs by publishing low interest* *rates, and then adding on fees and extra charges. The interest rate number now includes things that were previously more difficult to see, and what is more, it helps us understand the value of the money we "rent" over time.]*

Say:

There are different types of loans that are good for different people, depending on your needs and your capability to repay. The important thing is to be patient – take some time to think about the loan before you borrow. What is more, don't be fooled by some of the myths that you hear. Now that you are informed, you can think about loans for yourself, and make the best use of your credit!

Ask (while holding up your right thumb):

➤ **What is our Rule of Thumb for today?** *[Compare Apples to Oranges with APR.]*

Sometimes you need to do a short, limited project and need a short, limited loan – like a short race or a sprint. A short project will usually mean a loan with a shorter grace period – or none – and a more limited term. Your APR will be higher. For a longer project – when you need the money longer – you need a loan with a lower APR. You can make your borrowed money work for you more effectively by paying attention to APR!

Just like two different fruits that you want to compare, you can compare apples and oranges – or different loans – with APR!

Thank everyone for their participation!

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