Week One

Introduction to Consumer Education

Teens have tremendous purchasing power. According to Teenage Research Unlimited, teens spend an average of $103 per week or $5,356 per year. How does the average teenager spend that much in a year, you ask? And what does all the money go towards? Larger-ticket items may include a car or cell phone and smaller-ticket items may include eating out, movies, school activities and clothes. Most importantly, the consumer habits developed as a teenager carryover into adulthood. Sadly, each year, more young people file for bankruptcy than graduate from college. This fact alone demonstrates that consumer education in America is woefully inadequate.

Young adults first need to think about “why” they are making a purchase.

Let’s take a new car purchase as an example. There are many reasons why you might want to buy a car such as convenience or independence. Likewise there are many reasons why you might not need to buy a car such as the ability to use public transportation or catch a ride with a family member or friend.

Always ask yourself, “Do I really need to make this purchase?” Once you understand why you are buying, determine “How” you are going to pay for it. Do I have the money in the bank and can I use a check, debit card or cash to pay for it? Does the item cost more than the amount of money I have to spend, and am I considering using credit to pay for it?

Becoming a smart consumer takes time to research and evaluate your options, alternatives, rights, and responsibilities. This six-week in-paper series on consumer education will cover tips on buying the two most wanted items by teenagers: a car and a cell phone. Other topics will include how to use credit responsibly, avoiding credit card debt, and the basics of living on your own and budgeting. In the next six weeks, this program will help young adults to make purchases with the confidence that they are getting a good deal and not getting ripped off. Often it is what you don’t know that will hurt you.

Consumer Education is not only teaching about budgeting and checking accounts, it’s also about teaching the skills you need to be successful in your daily life. The increasing importance of maintaining good credit, making wise decisions, knowing your rights and responsibilities, and learning how to live independently makes good consumer education a necessity. While the appeal of credit cards and the ease in which one can get credit might not change, knowing what to do, how to be responsible and what might happen if you are not responsible could be life changing if not life saving.
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Week Two
Cars

Research is by far the most important element of buying a car. Give yourself some time to do the research and think about the purchase overnight. Do not allow yourself to be pressured into making a quick and uninformed decision. Most people find researching online to be the most convenient option, check out the following online resources:

Auto Manufacturers
Remember that the main purpose of auto sites is to promote their own vehicles.

Pricing Web sites
Find out retail prices, dealer invoices, incentives and other pricing variables.

Fuel Economy Web sites
Research vehicles miles per gallon (mpg) for city, highway and combined.

Safety Web sites
Review safety and crash ratings.

Once you are armed with information and have narrowed down your list of cars, take some time to drive and inspect the car in person. Shopping for a vehicle can be an exhausting process, so plan on driving three to four cars in a day. You don’t want to be tired at the end of the day and just ready to get the process over with — and then make a less-than-ideal purchase.

Test-drive the car for at least 10 minutes and 10 miles. The test drive is when you should drive normal travel routes, listen for noises and drive a variety of roads. Have a qualified friend or mechanic check out the car for soundness of brakes, engine, transmission, etc.

When you’ve determined the car and the price, then it is time to think about how you are going to pay for the car. If at all possible, save up and pay cash for your car. If you can’t do this, minimize the amount you borrow. The cost of the financing often exceeds the price of the car. You can get financing quotes at multiple sources including:

1) your bank or credit union
2) online lenders or
3) dealerships

Remember, financing arrangements are often the greatest source of profit for car dealers. You will want to compare the interest rate (APR) and the length of the loan. You MUST think beyond the monthly payment. The biggest mistake that people make when they buy a car is to say, “I want to pay no more than $250 dollars per month.” The total cost of the car is much more important than the monthly payment. Remember the total cost of the car is the base amount plus interest that you pay over the life of the loan. The Truth in Lending statement will show you the total amount of interest you will pay over the life of the loan, and this will give you the true cost of the car. Every financial institution must give you a TILA statement showing the total interest you will pay.

Dealers can easily stretch out the number of years that you finance a car to accommodate the amount you want to pay per month, but in the end, you’ll pay more for the car. The average car loan is five years; we recommend taking on a loan for no more than three and a half to four years or you’ll end up upside down in your loan. Upside down means that you owe more on the car than what it is worth. Again, if buying a used car, consider paying cash and buying directly from the owner. You will save a lot of money, know the person and their ethics, and know the driving and maintenance history of the car.

Activities

Activity 1 - In the newspaper classifieds section, locate ads for a used vehicle that you would like to own. Research what the vehicle would cost if it were new. Then figure out what the payments would be for a loan on either vehicle (new or used).

Activity 2 - Make a list of the reasons for and against driving a car. Consider convenience, economic factors and environmental impact as you create your list. Compare these reasons with your classmates and debate whether or not owning a car is a necessity.
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Week Three

Wireless Phones

To teenagers, cell phones are perhaps the most sought-after possession. The initial question should be answered, “Do I really need a cell phone, or do I just want one?” According to a 2005 Pew Internet and American Life Project survey, 45% of teenagers, ages 12 to 17, owned a cell phone in the U.S. The most common reason was to use it in case of an emergency. Parents like to be able to reach their mobile teenagers at anytime. But cell phone bills for a young person can be a huge ongoing expense. Can using a payphone or walkie-talkie work just as well at a fraction of the expense?

If you decided you had to have a cell phone, the safest and most economical choice for parents and a teenager paying their own bills is a TracFone. TracFones have a known expense, a known number of minutes and have no monthly bills to pay with hidden taxes and charges. It is a great way to test the need for a cell phone without having to sign a two-year contract. Most national carriers offer a prepaid plan with no annual contract that allows you to pay for minutes or as-you-go. Prepaid cell phones can be purchased online and at most electronic stores.

If you are shopping for a more fancy cell phone with a long-term plan, there are three steps that you should take versus being lured by advertisements for a hot, new phone “free when you sign-up for a 2-year plan.”

1. Select a Carrier

The most important question is: “Does the carrier offer good coverage where I live, work, study and play?” In order to get the answer, ask people who use this carrier’s service how their service is. You can find maps of the carriers’ approximate coverage areas and dead zones on their Web sites, but first-hand experience will always be your best bet.

2. Select a Phone Plan

Carriers create plans based on combinations of peak minutes and off-peak minutes. Start and stop times for peak minutes vary and there are a variety of terms for calling people who use the same carrier such as Mobile-to-Mobile and In-Network Minutes. Cell phones get expensive when you exceed the number of plan minutes and have to pay rates of $1.45 for each minute above your plan. At the same time, you don’t want to overestimate and waste your money for unused minutes every month. A family plan is when two or more individuals have shared minutes under a single phone bill. One family member may use more minutes than another, which is fine, just as long as the group doesn’t exceed the total bucket of minutes.

3. Select a Phone

The final step is to select a phone. Most often, a basic phone comes with a plan when you sign up, but there is always the option to upgrade. Just remember; a free phone is not “free.” The charge for the phone is hidden in the contract charges you will pay. The more fancy the phone you choose, the longer the contract you will have to sign.

If cell phone charges were just about making phone calls, that would be the end of the story. But now cell phones can do so much more. That is why it is important to evaluate all the extras that can significantly boost your monthly cell phone bill. Extras include custom ring tones, music, text messaging, instant messaging, web browsing, e-mail access, wallpaper, screensavers, games, photos and videos. More than likely, at least one of these extras is going to be a must-have on top of the basic cell service for a teenager. Tolls, taxes, surcharges and other fees will add between 6% and 28% to your bill.

Avoiding Cell-Phone Gotchas

As a consumer, you must take advantage of the trial period. During the trial period, use your phone everywhere you go to see if the coverage meets your expectations and the carrier’s advertised promise. Most national carriers offer trial periods of two weeks to a month. You will be charged for the calls that you make during the trial period, possibly an activation fee for the phone and any damage incurred to the wireless phone. However, using the trial period will help you know that the phone service is for you and will help you avoid paying for an early termination fee down the road. Always try and sign a 1-year contract as opposed to a 2-year contract to avoid the early-termination fee and give you maximum flexibility.

Activities

Activity 1 - Think about the reasons for and against getting a cell phone and make a list of these — try to identify whether your reasons for getting one qualify as needs or wants.

Activity 2 - In the newspaper locate advertisements for cell phones and phone plans (you might check the paper for several days to find a variety of ads) then compare and contrast them. Remember to look for the deals and any hidden costs that the ads may not mention. Create a graphic organizer that demonstrates the differences between the ads.

The Washington Times
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Week Four
Credit - Part 1

What is Credit?
Credit is the ability to borrow money you don't have to pay for something you really want. It is a very useful tool if used wisely and extremely dangerous if used foolishly. Interest is the rent you pay for the money you borrow. Every person should know that “Your credit past is your credit future” which is why it is essential to build a strong, financially-sound credit history. Your credit history and your credit (FICO) score – the number between 350 and 850 that sums up your credit history – are looked at by a variety of people including:

- Credit Card Issuers & Lenders – to determine your APR, (the interest rate you pay on borrowed money.)
- Auto Insurers – to determine premium.
- Employers – to determine if you are a worthy hire.
- Landlords – to determine if you are a reliable tenant.

The Three Cs of Credit
It is often said that there are three “Cs” in credit. How you manage your money is a reflection of your responsibility and lenders, insurers, employers and landlords all want to ensure that they are dealing with a responsible person.

1) Character is the way you handle money and have repaid debt in the past. Commonly reflected in your credit report and credit (FICO) score.

2) Capacity is your ability to pay the debt after considering other monthly expenses.

3) Capital is the value of your assets — or what you own.

Credit Cards
In colleges all across the United States credit card companies set up booths full of free giveaways and easy-to-fill-out forms making that new laptop or camera cell phone just a signature away. Little is said about the responsibilities that come along with the signature. It takes responsibility to decide how you want to spend and save your money. You only have a finite amount of money to cover your basic needs and satisfy your wants. So, what is the difference between needs and wants? Needs are essentials, such as food, shelter, clothing and reliable transportation to get to work or school. Wants are all the extras on top of the basics. It is easy to confuse a want with a need or exaggerate a need until it becomes a want. One example: food is a basic need but eating out all the time to satisfy that need makes it a want (because you want to eat out instead of preparing food at home). Preparing food at home will help you save money and will probably be healthier for you too.

The key is to live within your means, which can be difficult in our “want more” society. Too often when someone wants more than they can afford, they bridge the gap with a credit card. For awhile a credit card will help you live above your means, but eventually debt catches up to you and you’ll have to live below your means to pay back the money. The best course is to always live within your means and avoid the roller-coaster ride of using a credit card to buy things you can’t afford to pay off at the end of the month. Now that’s not to say that using a credit card is bad, it’s not. Using a credit card is an essential part of building a credit history and the number one stated advantage of using a credit card is convenience. Disadvantages of a credit card are that it doesn’t seem like real money and it is easy to overspend.

Next week we’ll talk more about credit, including the rules of credit and payday loans.

Activities

Activity 1 - In the newspaper find an ad for something you think you would like to purchase. Then research how much interest you would pay on this item if you purchased it on a credit card — find interest rates for different credit cards and compare the cost of the item after 6 months on each of the different cards.

Activity 2 - After reading this week’s article, write a one-paragraph summary of what you have learned about using credit wisely.

The Washington Times
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Look for more next week!
Week Five
Credit - Part 2

The Rules of Using Credit
If possible, only use the credit card for emergencies, and pay cash, or use a debit card for your purchases. That way, you will never get into financial trouble. However, if you use your credit card for other expenses, it is really quite safe when you follow these five steps.

Only Buy What You Can Afford. It doesn't matter what form of payment you use – cash, credit card or a check. If you have the money in the bank to pay for it, you'll never go wrong. Just remember that a credit card has a grace period that gives you extra time before you pay off your balance so you've got to keep the money in the bank and not spend it on something else.

Pay the Balance Due in Full Every Month. One temptation of using a credit card is to only pay the 3% - 5% that the credit card company requires. This is a terrible trap that will lead to disaster. Although it seems like paying less will give you more money, it actually will rob you of much more money in the future once you've paid off the interest. Let's say that you went on a date that cost a total of $57: Dinner: $30, Movie: $17, Dessert/Drinks: $10. If you went on 10 dates at $57 each, you would owe a total of $570. Assuming you only paid the minimum, it would take you eight years and one month to pay off the $570, plus you'd be paying another $470 in interest at an interest rate of 18%. Many cards have interest rates far in excess of 18%.

Limit the Number of Cards You Have. You should have only one credit card, at most two. At the checkout stand when you are offered to save 10% on your purchase that day if you open up a card, don't do it! A wallet packed full of store cards means more paperwork and payment due dates to remember, and a greater likelihood of huge late fees and service charges.

Always Pay on Time. Late payments have the biggest negative impact on your credit score. Plus you are charged a minimum of $35 for sending in a late payment. The best way to avoid late fees is to send your payment in right after you receive your statement. If you wait until the date it's due, it will be late.

Choose a Low Rate. If you pay off your credit card balance every month, the interest rate will not matter. But if you are not 100% sure that you will pay off the balance every month, then choosing a low interest rate is essential. 0% is sometimes offered as an introductory rate to suck you in, but be careful because the 0% only lasts for an introductory period or ends as soon as you make a late payment. See www.bankrate.com for a Web site that gives you the latest comparison of credit card interest rates.

By following these five steps, you'll master using a credit card. However, buying the bigger things in life requires that you use credit – not credit cards – to make the purchase, and that is when your positive history of using a credit card and establishing a credit history will work to your benefit.

There are only three things you should buy using credit: an education, a car or a house. You'll be using credit wisely when you take out student loans to pay for higher education, take out a loan to buy a car or take out a mortgage to buy a home. An education is an investment in your future and a home is usually the biggest single investment that someone makes. A car is usually the second biggest purchase that someone makes and, while it is not an investment, using credit to buy a car is acceptable if used wisely at a low interest rate for not more than three years.

Payday Loans
The worst form of credit is a payday loan. So what is a payday loan? A payday loan is a short-term cash loan based off your paycheck that carries an extremely high interest rate. All you have to do is post-date a check and show proof of employment and you have instant cash. However, the immediate cash comes at a high price. In Washington State, the interest you pay on a payday loan can be equivalent to a whopping 391% APR. That the legislature allows this is astonishing when one considers that, in Washington State, the maximum interest rate on a personal loan is 12%. Compare that to a home loan where most people are paying about 6% on their loan, or certificate of deposit (CD) paying around 5%, or a mutual fund yielding between 7% and 10%. The biggest problem with payday loans is that they are not long-term cash solutions and borrowers get trapped in a payday loan cycle-of-debt where they take out loan after loan.

The key to sound financial health is to save your money for the things that you want to buy whether it is a video iPod, a car or going to college. Saving for something big will mean forgoing more small things along the way. A simple budget will help you set priorities and achieve what's important to you. Part of your budget goes towards saving for the future – and you get to decide what is in your future.

Activities

Activity 1 - In the newspaper archive, look up recent stories on payday loans. Choose one article to read, then write a paragraph summarizing the main points of this article. Share these stories together as a class.

Activity 2 - Create a poster for your classroom showing what the five rules for using credit wisely are. Then look for images in the newspaper that help illustrate your poster.

Look for more next week!
Week Six

Independent Living

A time comes for you to leave your parent's home to go to school or work. Leaving home is healthy for self-confidence, independence and better family relationships. When that time comes, it is important to know what you need in order to live on your own.

Renting an apartment or a house is bound to be in your future. As a tenant, it is up to you to know your own rights and responsibilities as well as the landlord's. A landlord is a person who owns property that is rented to a tenant. The tenant is the person who rents a house or apartment for a fixed period of time — also known as a lease or a month-to-month rental agreement.

If you are staying in the same area where you grew up, you probably already have an idea what rent will cost you. However if you are moving out of town, you will need to do some research into how much the rent will cost in the new city. The Bank Rate Web site has a “cost of living” calculator that lets you determine what the cost is from moving from one town to another. www.bankrate.com/brm/movecalc.asp

Craigslist is another great tool to use when looking for an apartment in another city. You can narrow down your search by city, the maximum amount you want to pay and whether or not the rental allows animals. Craigslist, www.craigslist.com, will be the most up-to-date resource for larger cities and suburbs. Newspapers are another great resource because not everyone who rents space is savvy about using the Internet.

Many landlords subject prospective tenants to a thorough screening process; checking credit, bankruptcy history, employment, income, rental history, eviction history and references.

An application fee covers the landlord's cost to check your credit and call your references. If you pay a deposit or an application fee for an apartment and decide not to rent it, you will not be refunded the application fee. Be prepared with names, addresses and dates to fill out a rental application.

Landlords are legally free to choose among prospective tenants as long as their decisions comply with these laws and are based on legitimate business criteria. For example, a landlord is entitled to reject someone with a poor credit history, insufficient income to pay the rent or past behavior — such as damaging property — that makes the person a bad risk. However, some types of housing discriminations are illegal according to the federal Fair Housing Act and Fair Housing Amendments Act which prohibit landlords from choosing tenants on the basis of a group characteristic such as: race, religion, ethnic background or national origin, sex, age, family status (i.e. you have kids) and mental or physical disability.

When it comes time to sign the lease, never sign an apartment lease on the spot. Take it home with you and read it. If you don’t understand something, put question marks next to the item and get an explanation. You want to make sure that the lease agreement doesn’t include giving up your right to defend yourself in court or a provision limiting the landlord’s liability for things they’re normally responsible for. Before you sign the lease, check with other tenants to see how they like the building and the landlord.

Leases and rental agreements should always be in writing because oral agreements often lead to disputes. Have your written lease reviewed by your parents or a knowledgeable friend. If a tenant and landlord later disagree about key agreements, such as whether or not the tenant can sublet, the end result is all too likely to be a court argument over who said what to whom, when and in what context. Damage deposits are a common area of dispute. Take dated photographs of the apartment to establish evidence of its condition before your occupancy.

Budget

Living on your own requires establishing a budget. The first category of establishing a budget is your income — that is, how much money you earn per month. One category of your budget should include savings. Your savings will be ready to help you out if you have an unexpected expense or if you want to spend the money on something fun. The next category of a budget is expenses and there are three types: fixed, variable, and discretionary. Your rent will be a significant part of your budget. It will be one of your fixed expenses — a cost that occurs regularly and doesn’t vary in amount. Variable costs occur regularly but may vary in amount and include electricity, water and garbage, telephone, gasoline and groceries.

The last category of expenses in your budget will include discretionary expenses. A cost determined by personal wants that may be controlled or limited are movies, videos, CDs, eating out, personal grooming and clothes, concerts, vacations and anything else that you do or buy for fun. Living on a budget, balancing a checkbook, watching your expenditures and saving at least 10% of your income, are all practices which can help to ensure a sound and happy financial future.

Activities

Activity 1 - Look in the newspaper for a job that you think you will be qualified for when you graduate from high school. Calculate what this job will pay each month after taxes. Next, create a fictional budget based on this salary, including the cost of renting an apartment. You'll find potential listings in The Seattle Times classifieds to see what you can afford.