

# Money Talks



To Young Adults  
and their families

Brought to you by your local bank and the ABA Education Foundation

## Quick Tips to Help Your Young Adult Save Money!



### Pack Lunch

Although it's tempting to buy lunch every day once out in the workforce, suggest bringing a lunch from home. Help your young adult plan meals in advance so there is some variety.

### Make a Budget

Encourage your young adult to start a budget so she doesn't spend more than she has — very tempting when she has more money coming into her account with a steady job.

### Note Spending

In order to develop a budget, have your young adult write down everything she spends for an entire month. Suggest she keep a notebook in her pocket or purse so nothing is forgotten.

### Direct Deposit

Suggest automatic savings — many employers will allow automatic payroll deductions that are deposited directly into a savings account.

## The Four C's of CREDIT

Credit is a useful tool to pay for college tuition, vocational or trade school, or a car. It's important for your young adult to shop around and find out what kind of loan candidate he is.

**Bankers look at the 4 C's of credit to determine if someone is eligible for a loan.**

### 1 Character

The banker will need proof of steady employment and regular rent or mortgage payments, if available. Any signs of stability and reliability are important.

### 2 Collateral

This is a condition of some loans. The banker may require your young adult to back up his loan with something of value. When purchasing a car, the car itself is collateral.

### 3 Capacity

This is the ability to repay the loan over time. A steady job with a regular paycheck is very important.

### 4 Credit

If your adult child has a credit card or other type of loan already, the banker will consider payment history and amount of funds outstanding. A history of paying bills on-time, even utility bills, is essential.



Additionally, the value of a co-signer, such as a parent or guardian, is helpful since most young adults do not have collateral or much credit history. If you, as a parent, decide to co-sign on your child's loan, be aware that if he is unable to pay, you will have to assume full responsibility to repay the loan or risk damaging your credit as well.

If approved for a loan, encourage your young adult to treat credit as a privilege, based on his successful fulfillment of the characteristics above.

## Loan Types:

# Secured and Unsecured Loans

A loan is not free money. It comes with responsibility. Knowing about credit and being able to differentiate between secured and unsecured loans is critical for young adults.



A secured loan is backed by one of the four C's of credit — collateral. Auto loans are secured loans. If you fail to make the payments on your car loan, the bank can take the car away in order to recover what is owed. Other types of secured loans are mortgages and home equity loans — both use the home purchased as collateral.

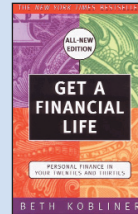
Unsecured loans are not backed by collateral. A credit card is an unsecured loan. Each time your young adult makes a purchase with a credit card, remind her that she is taking out a small loan from the bank that issued the card and has an obligation to repay. Since there is nothing to back up this loan, it is riskier for lenders to approve.

Credit card loans allow the card holder to repay the loan in full each month at no charge, or over time with interest charges. The rate of interest that the bank charges on a credit card account is usually higher than that of a secured loan because it lacks collateral. Interest rates for secured loans are usually lower than the credit card rate because the bank has the option of repossessing the item of value if the loan goes unpaid.

Your young adult's understanding of the different types of loans will help her learn how to use credit wisely right from the start.

## Check Out These Books!

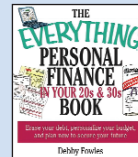
Visit your local library or bookstore ...



### Get a Financial Life: Personal Finance in Your Twenties and Thirties

By Beth Kobliner

An excellent collection of basic money management principles specially tailored to the interests of this age group, from an under-30 author.



### The Everything Personal Finance in Your 20s & 30s Book

Erase Your Debt, Personalize Your Budget and Plan Now to Secure Your Future

By Debby Fowles

This step-by-step book shows young adults how to become financially independent. From paying off student loans to planning for a new car or home, Fowles instructs how to manage, save and invest wisely.

## Click Your Mouse Here



**[www.consumerjungle.org](http://www.consumerjungle.org)** (Sponsor: Young Adult Consumer Education Trust)

This site includes quizzes and worksheets to help your teen or young adult become an educated consumer. The topics covered include credit, buying a car, living independently, and even choosing the right cell phone carrier and plan. It also includes sections for teachers and parents.

**[www.fdic.gov/consumers/consumer/news/cnspr05](http://www.fdic.gov/consumers/consumer/news/cnspr05)**

(Sponsor: Federal Deposit Insurance Corporation)

The FDIC issues newsletters to consumers on a regular basis. In the Spring of 2005, they released "Taking Control of Your Finances: A Special Guide for Young Adults." This resource includes articles on everything from buying a home to recognizing common personal finance mistakes young adults make.



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