MODULE 2

FINANCE

WIRTSCHAFTSWISSEN

FÜR JEDERMANN LEICHT GEMACHT

SINCERE

WELCOME

Do you feel the same?

You have financial difficulties. This is about how you deal with the money you earn.

In this brochure you can inform yourself and make yourself smarter in the economic area

"Money is the opposite of the weather.

Nobody talks about it, but everyone does something with it."

Rebecca Johnson

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THE WIWI PROJECT IS A FINANCIAL PROJECT.
IN THIS TRAINING PROGRAM YOU CAN LEARN IMPORTANT INFORMATION THAT WILL EXPAND YOUR FINANCIAL KNOWLEDGE.

01

CHARACTERS

NOTES

MAIN CHARACTERS

In all modules we show figures.

The figures are all from the Middle Ages. It's more fun and more interesting.

The farmer

That’s you, if you are male.

The midwife

That’s you, when you are female.

The mayor

The mayor always comes to explain difficult technical things.
EXACTLY / SPECIFIC

The judge

The judge always explains something important to you with:
„IMPORTANT!“

The Knight

The knight always explains to you what you have to watch out for: **“DANGER / CAUTION“.**

02

THE CREDIT

THE CREDIT

a credit

it is a money loan.

You borrow money for a specific purpose.

A company lends you the money – this is your loan.

All countries have very precise laws for credit transactions.

Important: Only take out a loan from a **bank** because they have to comply with the law!

DANGER / CAUTION!

Unfortunately, there are many dangerous private individuals, groups and associations that lend money. They make their own rules of the contract. You will get into a big personal problems if you don't do it or if you can't pay it back on time.

The bank that gives you a loan wants a lot of data from you. This is the credit check (= rating). With this, the bank wants to check whether you can repay a loan at all. In addition, the amount of interest that you have to pay depends on your assessment.

The bank needs the following data for the assessment [rating] of you:

1. Name, age, place of birth, nationality
2. Profession
3. Income (How much do you earn?)
4. Loan amount (How much money do you want to borrow?)
5. Purpose of credit (What do you want to buy with the money?)
6. Run Loan (How much time will it take you to repay the loan?)
7. Other Information

All of this information comes in the loan application. You have to sign it.

DANGER / CAUTION!

There are many pages in the loan agreement with small print notes and instructions in the appendix. Therefore only sign your loan contract with a reputable bank.

Credit contracts exist for many different things and therefore these contracts are also different. Now, We present them here:

PURCHASE CREDIT

The purchase loan is a loan for consumable items such as furniture, travel, used cars or expensive electrical items. You can get this loan from a bank or directly from your retailer where you shop, e.g. the electronics retailer with the television. If you take out the purchase loan from your dealer, there is also a bank behind it - at least with the big dealers.

"Consumption" refers to everything that people "consume" in everyday things, such as food. This also includes clothing, furniture or cars, things that you don't eat but use. ... When people consume, they spend money. When there is a lot of consumption, people buy a lot of things.

IMPORTANT

Take a close look at the dealer and ask who you are signing the loan agreement with. At a used car dealership on a major street outside of town, it may be that they want to make a loan agreement with you directly. Please don't do that. It's not a bank!

How does a loan or borrowing money work?

A classic loan is for a certain amount and you have to pay it back within a certain period of time (e.g. €2000 in 18 months). You also have to pay interest on it. These can be very high. Especially with purchase credits that you take out directly when buying furniture or electrical items, you can quickly add up to 20% a year. 20% means that the television will not cost you €1,000 it says on the price tag, but €1,200 after just one year.

How does a loan or borrowing money work?

A classic loan is for a certain amount and you have to pay it back within a certain period of time (e.g. €2000 in 18 months). You also have to pay interest on it. These can be very high.

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Should I take out a loan? Then I can buy new things. I want to have a big LED TV like that now. Also, I don't like the way I set up my living room anymore. Take a look at these great brochures here.

Yes Yes. That's how it works with advertising. Since you are made hot to buy something new. If you don't really need the stuff, it's better to save up for it. Buy this if you can afford it.

Loans are always expensive and make the television, furniture or travel much more expensive

Well - but that's only a few euros a month as a loan installment.

It's correct. But then a lot comes together quickly. Nobody gives anything away! And the bank anyway.”

DISPOSITION CREDIT

In module 1 we introduced the account. It makes sense if you have a disposition credit on your account - this is a credit for account overdrafts. It is simply called Dispo.
You can also use 1 month's salary as a loan, which means that your account can go into the red by up to one month's salary.

Of course, you also have to pay interest (interest = money you pay for borrowing money). But that's cheaper than over drafting your account without the loan. If your account goes into the red, it gets really expensive with overdraft interest.

IMPORTANT

The disposition credit should only be used for emergencies. So if you buy something big or suddenly you have a high bill. Always try to bring your account back into the black (positive) as quickly as possible by spending less in the following months..

You can simply apply for an overdraft facility for your account at your bank. This usually happens immediately after opening an account or after a few months, when the bank has seen that regular income is coming. In some countries you can apply online or you have to call the bank.

CAR LOAN

Buying a car is always expensive. Most people don't have that much money saved, and buy the new or used car with a loan. That's not a problem either. You just have to take a few things into account.

Who can I get a car loan from?

Car loans from car dealers of the major car brands are mostly provided through the car brand's bank, e.g. Volkswagen-Bank.

With your car dealer, you can use it to finance a new car or a year-old car relatively cheaply. This bank belongs to the car manufacturer. These banks have better terms with lower interest rates than your bank account. Your monthly income is transferred to the bank account by your employer.

What types of car loans are there?

Most car loans are **3-way financing**.

Sounds complex, but it stands for:

1. Step: deposit
2. Step: monthly installments
3. Step: final rate

In contrast, a **classic car loan** actually has only one step:

Monthly rate

Because you pay a down payment and a high final installment with 3-way financing for your car, the monthly installments are much lower than a classic car loan.

You can also omit the down payment with 3-way financing, but then the other installments are more expensive. Then that would be a 2-way financing.

Or you return the car to the dealer before the final installment and do a new 3-way financing with a new car.

Now we will show you an example of a 3-way financing because these are also the usual car loans.

Here is an example of a 3-way car loan for a new VW Golf:

Volkswagen Financial Services

Bank. Leasing. Versicherung. Mobilität.*

Profitieren Sie von der günstigen 0,99 %-Finanzierung für unsere Golf Jahreswagen von Volkswagen. Entdecken Sie ausgewählte Jahreswagen der Golf-Familie mit der günstigen 0,99 %-Finanzierung.

z.B. Golf Comfortline 1.0 TSI OPF, 85 kW (115 PS), 6-Gang-Schaltgetriebe
EZ 07/2019, 7.087 km, urspr. UVP des Herstellers 28.705,01 €
Das Finanzierungsbeispiel basiert auf einer jährlichen Fahrleistung von 10.000 km.

Fahrzeugpreis	18.793,74 €
Anzahlung	4.823,67 €
Nettodarlehensbetrag	13.969,87€
Sollzinssatz (gebunden) p.a.	0,99 %
Effektiver Jahreszins	0,99 %
Laufzeit	48 Monate
Schlussrate	9.197,08 €
Gesamtbetrag	14.429,08 €
48 mtl. Finanzierungsraten à	109,00 €

VOLKSWAGEN FINANCIAL SERVICES
THE KEY TO MOBILITY

Example financing Golf Comfort-Line 1.0 TSI, 85kW (115PS), 6-speed manual transmission. Annual driving performance: 10,000 km

Price	18.793,74 €
Mileage per year	10.000 km
down payment	4.823,67 €
Net Loan Amount	13.969,87 €
Effective interest rate	0,99%
Running time	48 Months (4 Years)
Closing-Rate	9.197,05 €
Installments for 48 months	109,00 €
Total amount of all installments	14.429,05€

With an interest rate of 0.99%, the financing - i.e. the credit costs - is actually very cheap. And a monthly rate of €109 is not very high either.

But you can see from this example that you have to make a down payment when you buy and after 4 years (48 months) you still have to pay a high final rate.

But with the first deposit, you already own “a part” of the car. And with the final installment, you finally own the "whole" car.

IMPORTANT

Take a close look at what is calculated on the car loan. The first loan offer often looks good because the monthly installments are low. But if you have to finance everything - i.e. don't want to make a down payment or final payment - it suddenly becomes much more expensive. Sometimes, the 3-way financing is also an illusion because the low monthly rates are advertised.

There is also an annual mileage of 10,000 km. If you drive a lot more or a lot less kilometers, you have to say so when you apply for a loan. Then they calculate it again. If this changes within the 4 years of your loan, the loan must be recalculated. Then suddenly it's a lot more than the 0.99%.

Even if the loan conditions look good at the beginning, this can change quickly if you take a closer look at the loan conditions. And rarely does that suit you exactly, as in this advertising example from VW..

LEASING

Leasing for private individuals is most common for cars.
If the car loan or a 3-way financing as above does not really fit, the car salesman will be happy to offer you leasing.

Leasing means:

Using instead of owning

You have to know that you do not own the car for the entire duration of the lease. That still belongs to the manufacturer (VW) or the seller.

EXACTLY/ SPECIFIC

Leasing means that you rent the vehicle for a certain period of time. You pay a monthly rate. You are not the owner of the car, just the holder and you can drive and use the car as you wish in. At the end of the term, you return the vehicle to the leasing company or dealer. Your right to use the car has then expired and you can lease a new vehicle if necessary.
The difference between leasing and purchase credit is that you always have to return the vehicle after the leasing period has expired. With the purchase loan, you own the car at the end of the last installment.
With 3-way financing, you can ultimately decide between the options of purchase, return or follow-up financing with a new car.

Here is the leasing offer for the same VW Golf as above

Volkswagen Financial Services

Bank. Leasing. Versicherung. Mobilität.*

Mit unseren attraktiven Sonderleasing-Angeboten können Sie unsere Jahreswagen von Volkswagen jetzt besonders günstig leasen.

Und so könnte Ihr individuelles Angebot aussehen:

z.B. Golf Comfortline 1.0 TSI OPF, 85 kW (115 PS), 6-Gang-Schaltgetriebe
EZ 10/2019, 7.928 km, urspr. UVP des Herstellers 28.705,00 €

Nettodarlehensbetrag (Anschaffungspreis)	18.793,74 €
Sonderzahlung	0,00 €
Sollzinssatz (gebunden) p. a.	1,14 %
Effektiver Jahreszins	1,14 %
Laufzeit	42 Monate
Jährliche Fahrleistung	10.000 km
Gesamtbetrag	8.442,00 €
42 mtl. Leasingraten à	201,00 €

Ein Angebot der Volkswagen Leasing GmbH, Gifhorner Str. 57, 38112 Braunschweig, bei ihrem teilnehmenden Volkswagen Partner[1].

VOLKSWAGEN FINANCIAL SERVICES
THE KEY TO MOBILITY

Example financing Golf Comfortline 1.0 TSI, 85kW (115PS), 6-speed manual transmission. Annual mileage: 10,000 km

vehicle price	18.793,74,- €
Mileage per year	10.000 km
down payment	0,00,- €
Effective interest rate	1,14%
Running time	42 Months (4 Years)
Closing-Rate	0,00 €
Installments for 42 Months	201,00 €
Total amount of installments	8.442,00 €

As you can see, you don't need a down payment or final payment when leasing. You only have to pay the leasing rate every month. That's because you don't own the car. You rent it for the term – here 4 years – like your apartment. It's not yours either.
The interest rate is higher than the car loan. That's because you haven't paid anything.
At the end of the term, you could buy the car. And now it's getting difficult and you have to read the fine print carefully again.

What is the difference between car loan, 3-way financing and leasing?

IMPORTANT

Leasing is heavily advertised by the manufacturers. In principle, that's not bad: use instead of owning. But the contracts are very strict, especially in terms of mileage and damage to the car. If you want to drive the car longer, don't know exactly how many kilometers per year and don't want to repair every little damage, you should buy the car on credit instead of leasing it.

NOTES

REAL ESTATE LOAN

If you no longer want to rent but buy an apartment or a house, then you have to take out a real estate loan. This is also the largest loan that you can take out privately. That's normal and actually everyone who buys a property takes it up.
It is always a very large sum because real estate is expensive.
Therefore, the real estate loans also run for a very long time from 10 to 30 years.

How does a real estate loan work?

A real estate loan is only intended for the purchase of real estate, i.e. for apartments or houses. You can only use the money for this. The bank that lends you the money gets collateral - that's the apartment or house you're buying. This security is called a mortgage. But you can also take out a real estate loan for the renovation (expansion and conversion) of your house.

Since all apartments and houses in Europe are registered in public registers, the bank's mortgage is also registered there. This register is the basic book. Therefore, the purchase and the mortgage of your real estate loan must be certified by a notary.

There are also costs for the notary, such as registering the mortgage and other purchase costs. Unfortunately, this makes buying a property more and more expensive. This is also called ancillary purchase costs.

What are additional purchase costs?

When you are buying a property, there are other costs in addition to the purchase price:

Notary fees - approx. 1.5% of the purchase price

Taxes: e.g. in Germany land transfer tax approx. 6.5%, in Belgium registration tax approx. 12.5%, etc.

Brokerage fees – if incurred, up to 3%

A number of costs quickly add to the purchase price of your property. The bank does not want to finance this with a real estate/mortgage loan. You either have to take out an additional installment loan for this or it is best if you have already saved the money for these additional costs.

EXACTLY/ SPECIFIC

A real estate loan is a loan that is tied to a specific use to finance a property. The real estate loan differs from conventional installment loans by various criteria:
The majority of money institutes only grant real estate loans from a minimum loan amount of €25,000. Another difference to a consumer loan is that you cannot use the money as you wish.
The loan amount may only be used for the purchase or construction of houses or apartments or for renovation or refurbishment. Therefore not for additional costs such as notary fees and taxes.
It is a loan where the bank protects itself heavily: through your salary, sometimes a bank guarantee, essential insurances such as fire on the property and above all a mortgage registered with the bank. This means that if you want to sell the house, the bank first gets the current remaining amount from the mortgage back. That is why the real estate loan is also called a mortgage loan.

Your home loan is a real estate loan that you use to finance the purchase of your home. Since you have lived as a tenant so far, as a homeowner you can then use your saved rent to pay off the installments for your real estate loan.
As an apartment owner, you benefit from this. Since your rent would likely increase in the coming years.

What does equity mean?

However, the bank will not fully finance your apartment or house with a mortgage loan (real estate loan). They want you to contribute a small part yourself. These are usually between 10%-15% of the purchase price. This is called equity – i.e. your own share of the purchase price. You can't get that financed in any other way from the bank. So you have to save up beforehand.

What is an annuity?

The monthly installment has two components: 1. The interest on the current loan amount and 2. The repayment of the loan - i.e. the repayment. Both together are called annuity. And this is always the same for the term of the mortgage loan.

First to the repayment - one part of the annuity:

The higher you make the repayment, the faster you pay off your mortgage loan. In principle very simple:

If you repay 2.5% per year, then you need about 40 years for it:

100% / 2.5% = 40

If you repay 3.5% per year, then you only need about 29 years:

100% / 3.5%=28.6

The decisive factor is how much you can pay for the installment each month. It is best to use your current rent as a guide. Then you don't have to pay anymore.

Then comes the interest - that's the other part of the annuity.

This is then calculated based on the remaining outstanding loan amount.

Together, the annuity can be represented like this:

EXACTLY/ SPECIFIC

The most commonly used variant is the annuity loan. You can also get a mortgage loan approved as a bullet loan or as a payoff loan.
With the annuity installments of the repayment, you pay the same amount every month. This amount includes the interest for your real estate loan and also part of the repayment - repayment. This is called an annuity.
Because when the real estate loan begins, it is not yet paid off, most of the initial installment is interest. But over the years, you pay back a little of the loan with each installment. Therefore, you have to pay less and less interest on the rest. So over the years, the proportion of interest in the installment shifts more and more until the loan is paid off. With the last installment, this is practically just a down payment. This then works like a slider: At the beginning almost only interest in the installment - at the end almost only repayment. And this is what it looks like:

What does the bill for the real estate loan look like?

First comes the purchase price without additional costs. Your own capital – i.e. your own share – is now deducted from this.

Real estate loan	€
Price of the apartment (without agent's fee)	+ 217.000,- €
Your own capital	- 20.000,- €
Mortgage loan amount	197.000,- €
Your additional costs	
Land purchase tax Germany	+ 13.000,- €
Notary and land registry fees	+ 4.000,- €
Broker Fee	+ 6.000,- €

Now to your monthly loan installment – the annuity:

Your current rent is €790 per month. But you also want to save a little. And it is best to invest directly in the new apartment. So it's best to plan to pay €850 per month in installments right away. In addition, you are still quite young and take 30 years to run.

Unfortunately, now it gets a little complicated with the interest rate.

Fixed or variable interest rate

You can choose between a fixed interest rate for the entire term - e.g. 30 years. Or you agree on a fixed interest rate only for the first 10 years, for example. In year 11, the bank then continues to calculate with the current interest rate. But that's too risky for you. So you take a fixed interest rate for the entire term. Here it is now 2.1% per year and you choose a term of 25 years:

WHAT	
Term Credit	25 Yeras
Fixed rate for 30 years	2,1% per year
Repayment	ca. 4% per year
Monthly Rate	850 €

What happens if I sell the house or apartment in the meantime?

Incidentally, you can also sell the apartment or house before the mortgage loan expires. So in our calculation example before the end of the 25 years. A lot of people do that and then your mortgage is also canceled with the purchase price from the new buyer. Of course, you will not get the entire purchase price. The bank first gets their remaining debt on the mortgage at the time of sale. This is the amount that you have not yet repaid (paid off) with your installments up to this point in time.

But when property prices have gone up, you can even sell for a profit.

Here is a small example:

Your purchase price of an apartment without additional costs	217.000,- €
Real Estate Loan / Mortgage Loan	197.000,- €
Selling price of the apartment after 10 years	265.000,- €
Credit installments paid in 10 years (120*€850)	-102.000,- €
Own capital if purchased 10 years ago	-20.000,- €
Residual debt of the mortgage after 10 years	-129.600*,- €
Profit on sale after 10 years	+ 13.400,- €

DANGER / CAUTION!

If real estate prices don't go up and you have to sell the home before your mortgage loan expires, you can also lose money. Because you paid the interest on the loan with every installment for 10 years. And you won't get all your additional costs from the purchase back from the buyer.

Here's an example:

Your purchase price of an apartment without additional costs	**217.000,- €**
Real Estate Loan / Mortgage Loan	197.000,- €
Selling price of the apartment after 10 years	+ 210.000,- €
Credit installments paid in 10 years (120*850,- €)	-102.000,- €
Own capital if purchased 10 years ago	-20.000,- €
Residual debt of the mortgage after 10 years	-129.600,- €
Loss on sale after 10 years	-41.600,- €

EXACTLY/ SPECIFIC

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Erasmus+

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“This product has been funded with support from the European Commission.
The authors alone are responsible for the content of this publication; the Commission shall not be liable for any further use of the information contained therein."

ECONOMIC **KNOWLEDGE**
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