

BUILDING BLOCKS STUDENT WORKSHEET

Sonya explains the Military Lending Act

Many people have financial problems at some point in their lives. Sometimes people find it hard to repay loans, especially when they have a high interest rate. The Military Lending Act provides key financial protections for active duty servicemembers.

INSTRUCTIONS

- 1 Complete the “Emergency relief & researching” topic at <https://mimm.gov/>.
- 2 Read the “What is the Military Lending Act and what are my rights?” handout.
- 3 Complete the “Learning from Sonya’s experience” questions below.
 - If you’re working with another person or in a group, discuss the questions and answer them together.
 - If you’re working alone, answer the questions on your own.
- 4 Calculate the interest charged, total amount owed, and monthly payments for Marquise to answer questions in the “Digging deeper” section.
- 5 Answer the reflection questions on your own.

Learning from Sonya’s experience

Reflect on what you’ve learned from Sonya’s story and the “What is the Military Lending Act and what are my rights?” handout and write your answers below.

1. How does the Military Lending Act help Marquise with his loan?

2. Describe two other protections that the Military Lending Act offers.



3. What help is available for active duty servicemembers who want to learn more about the Military Lending Act and whether it applies to their loan? How can they access that help?

Digging deeper

High interest rates can impact a person’s financial security and ability to get loans. A simple formula can help you understand how interest rates affect how much loans actually cost.

For purposes of explaining how interest can add to the cost of an original purchase amount, Marquise can use a simple interest formula – Interest = Principal x Rate x Time ($I = P \times R \times T$) – to help him make informed comparisons.

- I = Interest: the amount of simple interest
- P = Principal: the original amount borrowed
- R = Rate: the interest rate of the loan
- T = Time: the term (length) of the loan, expressed in years (from the start of the loan to full repayment, with periods less than 1 year computed on the basis of 365 days/year)

Use this formula to answer the questions below about what different interest rates mean for Marquise.

To calculate the “Interest charged” column:	To calculate the “Total amount paid” column:	To calculate the “Monthly payment” column:
$I = P \times R \times T$ The number in the “principal” column multiplied by the number in the “rate” column (expressed as a decimal) multiplied by the number in the “term” column	Add the number in the “principal” column and the number in the “interest charged” column	The term is expressed in years. To find the monthly payment, calculate the number of months in the term. Divide the number in the “Total amount paid” column by the number of months.

Review the answers for Scenario 1 and then do the calculations for Scenarios 2 and 3.

	Principal	Rate	Term	Interest charged	Total amount paid	Monthly payment
Scenario 1	\$8,000	80%	5 years	\$32,000	\$40,000	\$667
Scenario 2	\$8,000	50%	5 years			
Scenario 3	\$8,000	36%	5 years			

Reflection questions

Many factors go into determining interest rates for loans, including the principal amount, the loan term, and the borrower's credit history. Answer the reflection questions below to help you think about what might be important to you when securing a loan.

1. What might have influenced Marquise's decision to take out a loan with a high interest rate?

2. If you took out a high-interest loan, what could you do to pay it off quickly?