Teaching Things You Don't Learn In School

Life After 18

What to Look for in Common Financial Contracts

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It's a fact that when you turn 18, your signature is LAW. That means that anytime you sign your name on any piece of paper, that piece of paper becomes a legally binding contract.

This article explores a few financial situations for which you might sign a contract and some of the details you should look for and completely understand. Before we dive into the details, I want you to know the three most important things about all contracts:

1. First, if you don't understand something, ask as many questions as you'd like until you do understand.
2. Second, you have no legal obligation to sign anything no matter how long you've been sitting there discussing it.
3. Lastly, if you don't like what you're hearing or reading in a contract, you can always get up and leave; you are not glued to the chair.

Now let's explore what to look for in four of the most common types of financial contracts.

Apartments

What to look for and ask about:

1. **Is the apartment rental agreement a Lease or a Month-to-Month contract?** Leases tend to have a rental term attached to them such as six months to a year or so. That means if you choose to move out before the lease ends, you are legally obligated to pay rent for the remaining months of that lease. Yes, you read that correctly, even if you move out. On the upside, if you sign one-year lease for instance, your rent will not go up for that year. That's always nice.

   Month-to-month agreements mean that you can pretty much leave at your convenience, provided you meet the proper "notice to vacate requirement."

2. **Notice to Vacate Requirements:** Most apartment rental agreements require you to let management know, in writing, 30 days ahead of time when you plan to move out. Some say one month. Keeping in mind that some months are shorter than others, you may want to make sure you are clear on this requirement. One common penalty for not giving adequate notice to vacate is that you automatically lose all your deposits.

   Oh, there may be some exceptions such as a prolonged illness, military relocation, job loss (*and can no longer pay rent*), or death. Always ask about these, if any, exceptions.

3. **Deposits:** Almost all apartments require deposits of some sort. Always ask and be clear on these points:
   - What are they for?
   - Are they refundable and how?
   - If not, why not?

Small Loans for Furniture or Appliances

Either in preparation for your first apartment, or you're already there, you may find yourself in the situation where you need to buy your first couch or refrigerator but you don't have enough cash on hand. At that point you'll most likely end up by financing it through the store.

What to look for and ask about:

1. Cash upfront requirements. This is usually called a "deposit."
2. Any extra fees that might get added onto the balance you owe other than sales tax.

    - Administration fee
    - Processing fee
    - Insurance fees
    - "Just for the heck of it fee" because they can

3. How long do you have to pay it off?
4. What is the interest rate? (*It should always be fixed, as in, it won't ever go up or down throughout the length of the loan.*)
5. Sometimes you'll see these kinds of advertisements that can be a great incentive for you to "buy now:" 30-days (*90-days, 12 months, etc.*) same as cash. In that case, you should always ask what happens to the interest if you don't pay off the loan in that period of time. There are two options:

    - Interest for the previous 90 days or 12 months will be calculated and added to what you now owe, or,
    - No interest is added for the previous time frame; they will just start calculating it now and add it as the months go by.

    Be sure to *be clear* on which option this store is offering *for this deal.*

Financing a New Car

When looking at a new car, you have to figure out which of these two options is best for you:

1. Should you lease a new car? Which, by the way, is like renting it for a certain period of time.
2. Or should you buy it? Let's take a quick look at the main differences.

Leasing a New Vehicle

A lease usually gives you smaller payments for however long the lease lasts. Most leases are usually three to four years. However, once the lease is up, you will still owe a huge amount of money at the end. That's known as a "balloon" payment. At that time, you have two choices: either turn the car into the dealer and walk away, or get a loan for the next few years and keep the car.

Oh, and by the way, you can usually only lease brand-new vehicles.

What to look for and ask about:

1. The actual price of the car. This helps you to figure out how much more you'd be paying for the car at the end of the lease if you decide to pay off the balloon payment.
2. How many years is the lease?
3. How much is the balloon payment?
4. Is there a mileage restriction? What that means is how many miles can you drive the car each year? And if you go over, how much will you have to pay per mile once you turn the car in? The most common is about 20 cents per mile.
5. Is the mileage restriction waived if you choose to pay off the balloon payment and keep the car?

Buying a New Vehicle

When you buy a car, rather than lease it, you'll own it after the loan is paid off. (*Personally, I think that's a good thing.*) Remember, you can always go to your bank and get a loan before you go to the dealer to buy a car. But if you choose to get a loan with the dealer, these are the things about which **you need to ask and completely understand.**

1. The actual price of the car.
2. What interest rate is the seller offering?
3. How many years will you be making payments?
4. Does the seller require any cash up-front such as:
   - A down payment
   - Any extra fees that might get added on to the balance of the loan in addition to sales tax.
     - Warranties
     - Administration fees
     - Processing fee
     - Insurance fees
     - "Just for the heck of it fee" because they can (*A lot of finance companies get pretty creative with these. Beware!*)
     - Will they pay the first year registration?
     - Are any of these add-on fees included as part of your down payment or will they be added to your loan?

If any of these fees are added to your loan, keep in mind that you are paying interest on them (*aka, financing them*) for the length of the loan, which could be up to six years. That's a lot of interest on your first year's registration.

Student Loans

These can be as ugly as the bad loans that caused the housing market to crash in 2008. My daughter and daughter-in-law both have student loans, and both are as different as night and day.

Here are a few of the most important things to look for and question before you sign on the dotted line. Some can be very confusing and that makes it really easy for lenders and salespeople to convince highly motivated and excited students and parents to sign the contract before they completely understand it.

1. What is the interest rate?
   - Is it locked in (*fixed*) for the life of the loan? (*Financially speaking, this is the best option.*)
   - How is the "life of the loan" determined?
   - Or does the interest rate go up and down at various times due to various situations throughout the life of the loan? (*This is called a "variable" rate and, financially speaking, is the worst option.*)
     - If yes to a variable rate, what are the time frames or situations that would cause it to change? For example, does the interest rate lock in at the current fed rate (*get frozen or fixed*) when you start making payments?
     - Or does it keep changing with the change in the fed rate?

2. When do you have to start making payments on the loan? You may see a few of the following options for this. But these are not the only options I've learned about.
   - The month you sign the loan document.
   - The day you graduate
   - The day you start working after graduation

3. What will the payments be?
4. Do the payments or the interest rate change depending on when you start making payments?
5. When is the payoff date of this loan?

Let's Wrap it Up

These are just a few of the various types of financial contracts that you'll probably run across in your life. Others may include but not be limited to cell phone agreements, credit card applications, savings or checking accounts, and retirement accounts.

There are also a variety of service agreements you should really examine closely before signing such as military enlistment, new hire agreements for employment, and short-term contractor work.

Keep in mind, that whoever is trying to convince you to sign on the dotted line, is trying to either make money or meet a quota. Although it's unethical, I've come across many salespeople who will tell you anything, including stretching the truth or telling outright lies in order to get you to sign. Your signature is gold and they know it!

So, no matter what type of contract you're looking at, remember these three basic guidelines:

1. **Always ask as many questions** as you'd like until you completely understand everything in a contract.
2. **You are *never* obligated to sign a contract** no matter how long you've been discussing it.
3. If you are uncomfortable, confused, or just don't like the deal, **you can walk away anytime.**

I hope this information helps you to avoid getting into a bad financial situation.
Many of these financial contracts are also discussed in the lessons presented on my site:
https://LifeAfter18.com

If you have any questions, comments, or suggestions, feel free to send me an email:
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Sincerely,

Jan