**3.1 Notes**

Introduction to Consumer Credit

*Become familiar with the basic vocabulary of credit and types of lending institutions.*

*Compute finance charges for installment purchases.*

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| **Word** | **Definition** |
| **Debtor** |  |
| **Creditor** |  |
| **Credit Rating** | A credit report card that shows how well a user of credit meets their financial \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_; these records are used by creditors when they decide to issue \_\_\_\_\_\_\_\_\_. |
| **FICO Score** | A score that summarizes the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that a debtor will pay a debt and is a reliable way that creditors judge credit \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

***What do you need to know before using credit?***

***Why does credit compel people to overspend?***

***Have you ever seen an advertisement about obtaining your credit score on TV, on radio, or in print media?***

***How is your credit score like a credit “report card”?***

**Example 1:** Jake wants to purchase a car. The price of the car with tax is $15,250. If he can save $1,500 per month, how long will it take him to save up for the car?

**Example 2:** If the bank offers to finance Jake’s car in Example 1 with an installment plan, Jake would only need to put 10% of the price down, and he could finance the rest by paying $525 per month for three years.

1. What is the down payment?
2. What is the sum of the monthly payments?
3. What is the finance charge?

**Example 3:** Barbara wants to buy a washing machine. She finds a store that has a promotion where they will finance the washing machine with no money down and no interest if paid in full within 18 months. The minimum monthly payment is $30 per month. If the washing machine costs $3,500 and Barbara makes only the minimum payment, how much will she have to pay at the end of the 18 months?



***Credit Scores***

Your credit changes as new \_\_\_\_\_\_\_ becomes available.

The \_\_\_\_\_\_\_\_\_\_ your credit score, the better interest rates you will receive.

Those below 620 are considered a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to the creditor, so they will not get the best interest rates.



**Example 4:** Joe and Sarah are both getting loans at a bank. Sarah’s credit score is 515 and Joe's credit score is 730. Joe is approved for a loan at 5.6% and Sarah must pay 4 percentage points higher because of her credit rating.

1. What interest rate is Sarah charged?
2. How much extra in interest does Sarah pay if both were getting a loan for $1,500 for 6 years?

|  |  |
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| **SARAH** | **JOE** |
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Practice:

**1:** Sally wants to purchase a car. The price of the car with tax is $28,460. If she can save $920 per month, how long will it take her to save up for the car?

**2:** If the bank offers to finance Sally’s car in Example 1 with an installment plan, Sally would only need to put 15% of the price down, and she could finance the rest by paying $403.18 per month for six years.

1. What is the down payment?
2. What is the sum of the monthly payments?
3. What is the finance charge?

**3:** Charlie wants to buy a new couch. He finds a store that has a promotion where they will finance the couch with no money down and no interest if paid in full within 24 months. The minimum monthly payment is $35 per month. If the couch costs $4,200 and Charlie makes only the minimum payment, how much will he have to pay at the end of the 24 months?

**4:** Bill and Sydnie are both getting loans at a bank. Bill’s credit score is 610 and Sydnie's credit score is 820. Bill is approved for a loan at 7.2% and Sydnie pays 5 percentage points lower because of her credit rating.

1. What interest rate is Sydnie charged?
2. How much extra in interest does Bill pay if both were getting a loan for $8,250 for 4 years?