**3.2 Notes**

Loans

*Compute monthly payments using a formula. Compute finance charges on loans.*

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| **Word** | **Definition** |
| **Promissory Note** | An agreement which states the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of a loan; a borrower's signature confirms a \_\_\_\_\_\_\_\_\_\_\_\_\_ to pay back the loan as outlined in the agreement. |
| **Prepayment Privilege** | An agreement that allows the borrower to make payments \_\_\_\_\_\_\_\_\_\_\_\_ the due date to reduce the amount of interest. |
| **Wage Garnishment** |  |
| **Balloon Payment** | The\_\_\_\_\_\_\_\_ monthly payment on some loans that is \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_ than the previous payments. |
| **Collateral** |  |

***What information do you need to know before taking out a loan?***

What should you see on your promissory note?

Cosigner

|  |  |
| --- | --- |
| **Lending Institutions** | |
| Banks | *Savings Banks* |
| *Commercial Banks* |
| Credit Unions |  |
| Consumer Finance Companies |  |
| Life Insurance Companies |  |
| Pawnshops |  |

**ACTS:**

Truth in Lending Act:

Equal Credit Opportunity Act:

Fair Credit Reporting Act:

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**Example 1:**

What is the monthly payment for a $4,000 three-year loan with an APR of 10.25%?

1. Find the APR under the Rate column and the number of years that the loan will be for, where the two meet is what the monthly payment would be for a loan of $1,000. ***What is that number?***
2. Since our loan is not for $1,000, figure out how many $1,000 increments there are in our loan. We divide our principal by $1,000.
3. Now we can multiply our answer by the amount we found in the table. This will give us our monthly payment using the table method.

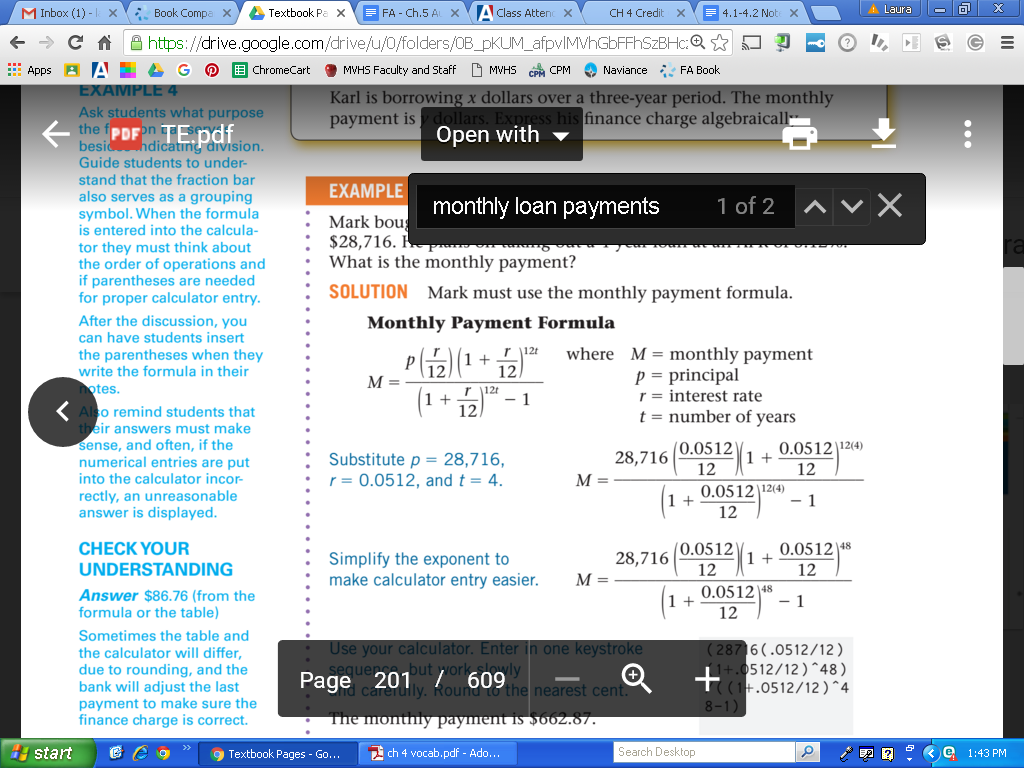
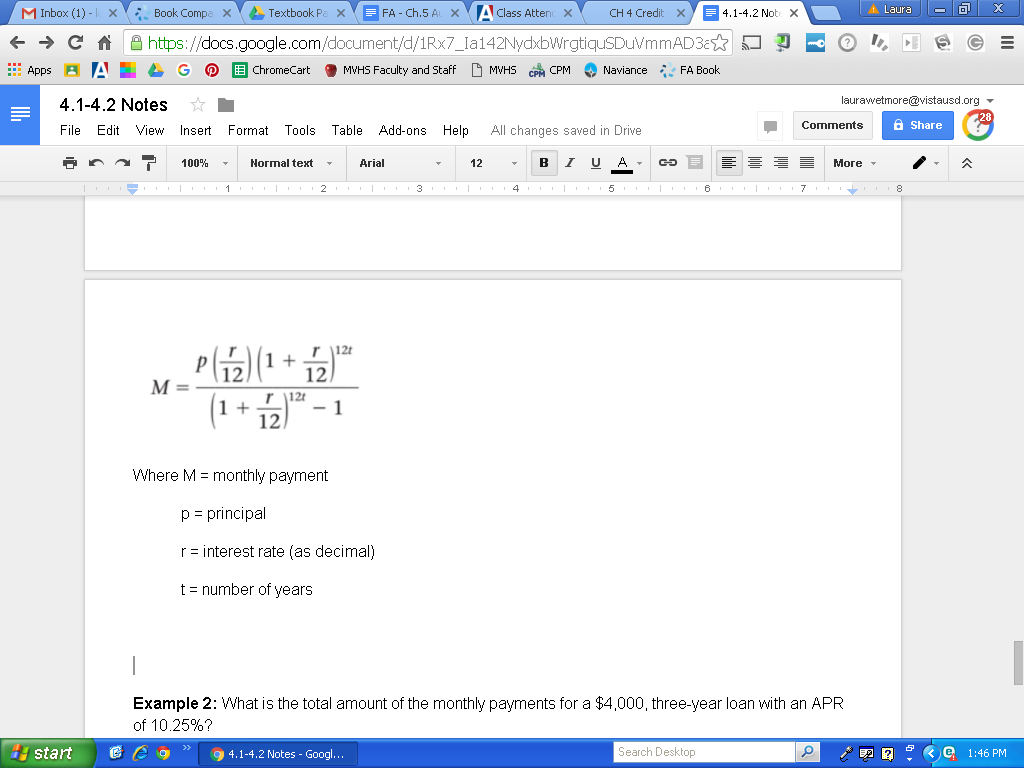
**Example 2:** What is the total amount of the monthly payments for a $4,000, three-year loan with an APR of 10.25%?

1. What is the amount for one monthly payment? (found in Example 1)
2. How many monthly payment are in this three year loan?
3. What is the sum of all the monthly payments?

**Example 3:** Find the finance charge for a $4,000, three-year loan with a 10.25% APR.

1. What is a finance charge?
2. Find the finance charge of the loan referred to in Examples 1 and 2.

**You can calculate monthly payments using a formula!!!**

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**Example 4:** Elroy bought a new car. The total amount he needs to borrow is $29,126. He plans on taking out a 5-year loan at an APR of 6.23%. What is the monthly payment?

**Example 5:** Judy bought a new dishwasher. The total amount she needs to borrow is $840. She plans to take out a 2-year loan at an APR of 4.2%. What is the monthly payment?

1. Arrange the following lending institutions in descending order according to their APRs for a $10,000, two-year loan.

Mission Vista Savings 9½%

Timberwolf Square Credit Union 9%

Wolf Trust 9 ⅜%

First Bank of Oceanside 9.45%

Oceanside Student Finance Corp. 9 9/16%

1. How many monthly payments must be made for a 2 ½ year loan?
2. Rachel has a $10,000, three-year loan with an APR of 7.25%.
   1. What is the monthly payment?
   2. What is the total amount of the monthly payments?
   3. What is the finance charge?
3. The policy of the Timberwolves Pawnshop is to lend up to 35% of the value of a borrower’s collateral. John wants to use a $3,000 ring and a $1,200 necklace as collateral for a loan. What is the maximum amount that he could borrow from Timberwolves?
4. Lavonda took out a $7,500 loan with an APR of 6.875% and agreed to pay it back monthly over six years. How many monthly payments did she make?
5. Jane has a $12,000, three-year loan with an APR of 6.5%. *(remember the table is per $1,000)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Rate | 1 yr | 2 yr | 3 yr | 4 yr |
| 6.50% | 86.30 | 44.55 | 30.65 | 23.71 |
| 6.75% | 86.41 | 44.66 | 30.76 | 23.83 |

* 1. What is the monthly payment using the table?
  2. How many monthly payments will Jane make?
  3. What is the sum of all the monthly payments?

1. Judy took out an $8,500 loan with an APR of 7.125% and agreed to pay it back monthly over five years. What is the monthly payment using the formula?