

Credit and Debt

Complete each sentence by writing the correct word in the space provided.

credit

credit bureau

credit rating

collateral

finance charges

annual percentage rate

Truth in Lending laws

1. If you use your car as _____ (property used to secure a loan), and you do not pay the loan back, the creditor has the right to repossess your car.
2. When a bank extends you _____, it allows you to borrow money and pay it back later with interest.
3. The _____ require lenders to disclose the monthly interest rates and the method they use to calculate finance charges.
4. The kind of organization that maintains a record of your past borrowing and bill-paying habits is a _____.
5. Creditors use your ability to repay debt and your history of borrowing and repayment to give you a _____ which is their evaluation of your credit worthiness.
6. When you pay your credit-card bills, you pay back not only the principal but also interest and fees, which together are called _____.

Paying Off Debt

You have a \$3,000 balance on a credit card with an 18% APR, now you suddenly come into a \$3,000 windfall. Should you pay off your debt or invest in the booming stock market? Examine the following chart, then answer the questions that follow.

| | Stocks at 12% per year | Credit card at 18% per year |
|-----------|------------------------|-----------------------------|
| At Launch | \$3,000 | \$3,000 |
| Year 1 | \$3,360 | \$3,540 |
| Year 5 | \$5,287 | \$6,863 |
| Year 10 | \$9,317 | \$15,701 |

7. After five years, how much greater would that original \$3,000 debt be?

8. How much would your \$3,000 have earned in the stock market after 10 years?

9. Which do you think is a wiser choice—investing in the stock market or paying off debt? Explain.

Reading a Credit Report

Information about how you use your credit is reported to credit bureaus, which compile the information into a credit report. Lenders will review your credit report when you apply for a credit card, and potential employers may review it when you apply for a job. Review the sample credit report below, then answer the questions that follow.

| Credit Report | | | | | | |
|--|-------------|-------------------------------------|--------------------------|--|---|--------------------------------------|
| Prepared for: Maria Hill | | | | Social Security Number: 123-45-6789 | | |
| Source | Date opened | Type/Terms/ Monthly Payment | Responsibility | Credit limit or original amount/ High balance | Recent balance/ Recent payment | Status |
| First City Bank 100 Elm St. Anytown, TX | 2-2004 | installment/ 24 months/ \$150 | signer with John Hill | \$3217/ NA | \$3217 as of 2/2004 | open/ never late |
| Morgans Dept. Store PO Box 3176 Anycity, CA | 4-2002 | revolving/ NA/ \$20 | individual | \$500/ \$127 | \$0/ \$0 | paid/ never late |
| University Bank PO Box 78 Sometown, NY | 3-2002 | revolving/ NA/ \$67 | individual | \$5000/ \$4703 | \$3662/ \$67 | open/paid 3 times 30 days late |
| Educational Loan Corp. 1125 Smart St. Mytown, NC | 8-2002 | installment/ 118 months/ \$63 | individual | \$4988/ NA | \$3723/ \$63 | open/ never late |

10. According to this report, how much total debt does Maria Hill carry?

11. Which account has Maria paid off? What was the largest balance she had on that account?

12. Which account has Maria been late in paying? How late was she?

13. Installment loans have a fixed number of payments and are often used for large purchases, such as a car. How much money has Maria borrowed in installment loans?

14. A co-signer is a person with good credit who guarantees that a loan will be paid if the original borrower is unable to make payments. Which loan did Maria have a co-signer on? How much debt will the co-signer have to pay off if Maria is unable to?
