

# **Business and Personal Finance © 2012**

## **Chapter 15: Consumer Credit**

### **Check Your Answers: Section Assessment**

#### **Section 2**

##### **Review Key Concepts**

- 1.** The 5 Cs of credit are character, capacity, capital, collateral, and conditions.
- 2.** You can use the Debt Payments-to-Income Ratio to determine if you can afford a loan and use the 20 percent rule to guide you once the ratio is determined.
- 3.** Open a checking or savings account, or both; apply for a local department store credit card; take out a small loan from your bank; and make payments on time.

##### **Higher Order Thinking**

- 4.** According to Figure 7, you can ask the creditor if you can provide additional information, apply to a different creditor, or work toward improving your creditworthiness and reapply. Students may also indicate that they might apply for a smaller loan and settle for a less expensive automobile.

##### **21st Century Skills**

- 5. Analyze Media** Answers might include that the organizations will contact all three credit agencies so you can get all the information with one call or click. Also, for a fee, these organizations usually offer to monitor your credit score and to help protect you against identity theft or fraud.

##### **Mathematics**

- 6. Debt Payments-to-Income Ratio** Debt payments-to-income ratio before =  $\$200 / \$1,200 = 16.67\%$ ; Debt payments-to-income ratio after =  $(\$200 + \$120) / \$1,200 = 26.67\%$ ; Based on the 20% rule, Seth should not go on vacation.