Chapter 11 – Credit and Debt

I-Study

In this chapter you learned about credit and debt. Credit is an arrangement to receive cash, goods, or services now and pay later. The fee creditors charge for a loan or credit is called interest. Open-end credit is credit that can be increased by continuing to purchase goods or services on credit. Closed-end credit is credit given for a specific amount of money. A secured loan is a loan that is backed up by property, called collateral, which the creditor can take if the loan is not repaid. A security interest is a creditor's right to collateral. The main types of collateral are goods, fixtures, equipment, inventory, and farm products.

Whenever take out a loan to buy something such as a vehicle, you should know all the costs involved, including the finance charge and annual percentage rate, or APR. When you use a credit card, you are borrowing money. You can go deeply into debt, or even bankrupt, if you do not use your credit card carefully. If you need to borrow money to finance a college education, both government and private loans are available to students. To apply for government student loans, students fill out a FAFSA, or Free Application for Federal Student Aid.

I-Quiz

1. The party who sells goods or lends money on credit is called
A. the creditor.
B. the debtor.
C. the provider.

2. Borrowing money to buy a car and paying for it in installments is a type of
A. closed-end credit.
B. open-end credit.
C. security interest.

3. Property used to secure a loan that can be taken if the loan is not repaid is
A. a surety.
B. collateral.
C. interest.

4. Failure to make timely payments on a loan is called
A. delinquency.
B. bankruptcy.
C. default.

Answer Key

1. A
2. A
3. B
4. C