

Personal Finance © 2012

Chapter 8: Consumer Credit

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Consumer credit, such as a retail credit card, is the use of credit for personal needs.
2. Closed-end credit is a one-time loan that you will pay back over a specified period of time in payments of equal amount. Open-end credit is a loan with a certain limit on the amount of money you can borrow for a variety of goods and services.
3. A debit card is like a credit card but draws on the money already in your account; a smart card is a credit card with a computer chip that can store information, including medical records, and track transactions; and a T&E card is a credit card that is due in full each month.

Higher Order Thinking

4. Sample answer: tip number 2 is most important as it stresses the need to compare credit cards and their terms from several different banks before making an informed decision.

English Language Arts

5. **Fighting Temptation** Reports will vary but students should offer logical reasoning to defend their answer. A student may say he would ask for more than the minimum because he has a part-time job for income and he has worked out a budget to determine that he can afford to make the monthly payments.

Mathematics

6. **Loan Cost** Interest charged month 1 = $(\$5000 \times 6.5\%) / 12 = \27.08 ; Balance after month 1 = $\$5,000 + \$27.08 - \$300 = \$4,727.08$; Interest charged month 2 = $(\$4,727.08 \times 6.5\%) / 12 = \25.61 ; Balance after month 2 = $\$4,727.08 + \$25.61 - \$300 = \$4,452.69$; Interest charged month 3 = $(\$4,452.69 \times 6.5\%) / 12 = \24.12 ; Balance after month 3 = $\$4,452.69 + \$24.12 - \$300 = \$4,176.81$.

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.

Section 3

Review Key Concepts

1. Be sure that your card is always returned after a purchase and keep a record of your credit card number separate from your card. You can also only use secure sites for online transactions and pay using PayPal or other secure payment method.

2. Contact the credit bureaus, contact the creditor, and file a police report.

3. Five consumer credit protection laws include the Credit Card Accountability and Responsibility and Disclosure Act, the Truth in Lending and Consumer Leasing Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Credit Reporting Act, and the Consumer Credit Reporting Reform Act.

Higher Order Thinking

4. Students should understand that if you dispute information on your credit report and the credit bureau cannot prove it is accurate, then they must remove the information from your report. Prior to the law, the information would have remained on the report until you could prove it was inaccurate.

English Language Arts

5. **Write a Letter** Letters will vary. A sample letter may read: I received my credit card statement for account #0000-0000-0000-0001 on 1/31/10 and noticed a charge of \$26.90 at Department Store XYA. I did not make this purchase and respectfully request that the charge be removed my account.

Mathematics

6. Credit Card Billing Interest charge = $(19.00\% / 12) \times \$120 = \1.90 ; Calculated Balance = $\$120 + \$45 + \$25 + \$20 + \$1.90 = \211.90 ; Balance variance = $\$225.35 - \$211.90 = \$13.45$; There is a discrepancy of \$13.45 on the statement.

Section 4

Review Key Concepts

1. Answers may include any five of the following: you make only the minimum monthly payments; you have trouble making the minimum monthly payment; the total balance on your credit cards increases each month; you miss payments or often pay late; you use savings to pay for necessities; you borrow money to pay off old debts; you exceed the credit limits on your credit cards; or you have been denied credit.

2. The CCCS aides families with serious debt problems and helps people prevent indebtedness.

3. A person may declare Chapter 7 bankruptcy, which is a straight bankruptcy, or Chapter 13 bankruptcy, which is a wage-earner plan bankruptcy.

Higher Order Thinking

4. Someone who has filed Chapter 13 bankruptcy will repay some of his or her debts so a creditor may take this as proof of character.

21st Century Skills

5. **Access and Evaluate Information** Charts will vary based on services available in your area. For example, the info for CCCS might list their Web site and toll-free number for contact, services offered would include working with creditors to lower monthly payments and reduce interest charges, combining all monthly payments into one deposit, using direct deposit for on-time payments, and education to help prevent future debt accumulation.

Mathematics

6. Managing Debt Monthly salary = $\$26,000 / 12 = \$2,166.67$; Current monthly net income = $\$2,166.67 - \$600 - \$175 - \$80 = \$1,311.67$; Current monthly net income = $\$2,166.67 - \$600 - \$375 - \$80 = \$1,111.67$; Debt payment-to-income ratio after car purchase = $(\$600 + \$375 + \$80) / \$2,166.67 = 49.0\%$; Based on the 20% rule learned in section 2, Jameel should not purchase the car.