

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What is a personal loan? What factors affect the amount of a personal loan for which you may be approved?
2. How is a secured loan different from a personal loan? Give two examples of secured loans.
3. Explain how a fixed rate mortgage differs from an adjustable rate mortgage.
4. What is a balloon payment? Why might this type of payment be included in a loan agreement?
5. What types of fees are typically included in loan closing costs?
6. What is the purpose of a mortgage calculator?
7. What is the purpose of a student loan? From what sources are student loans available?
8. Describe how a rent-to-own agreement works. What are the advantages and disadvantages of this purchase method?

**EXCEL PROBLEMS**

Use Excel to solve the problems below and email the spreadsheet as an attachment.
MAKE SURE TO USE FORMULAS IN YOUR WORK!
(don't just type the answers)

Compare Buying and Leasing Options

Consumers often do not have enough money to pay the full price of items they want or need to buy. Using credit makes buying these items possible. Different forms of credit have different costs. In this activity, you will compare paying for an item using a credit card, renting to own an item, and leasing an item.

1. You have decided you need a laptop computer. The purchase price of the computer is \$1,200. You can charge this item on your credit card and pay for it over the course of 1 year. The interest rate is 18.99 percent. Each month for 11 months, you will pay \$110. In the last month, you will pay the remainder of the outstanding balance. (For the purposes of this problem, assume there will be no other charges or fees on the credit card bill.) The credit card company uses the adjusted balance method to compute interest. What is the total amount (purchase price plus interest) that you will pay if you use this method to buy the computer?
2. Another option for buying the computer is to get it from a rent-to-own company. With this type of arrangement, you pay fixed monthly rental payments. At this point, you are renting the computer; you do not own it. You can stop renting and return the item at any time. If you continue renting until you have paid a certain set amount, you will own the computer (and make no more rental payments). You must pay a monthly rental fee of \$200. You will own the computer after you make 12 payments. What is the total you will pay for the computer using this option?
3. Another option you can choose is to lease a computer for 1 year. You will be required to make monthly payments of \$125 for 1 year. At the end of that time, you can return the computer to the leasing company, lease it for another year, or lease a newer computer instead. What is the total amount that you will pay for 1 year if you choose this option?
4. Which of the three options—charge to a credit card, rent-to-own, or lease—would you choose? Why would you choose this option?

Loan Amortization Table

Use the loan amortization table that follows to answer the questions below.

1. What is the principal of the loan?
2. What is the loan interest rate?
3. How many monthly payments will be made to repay the loan?
4. For payment 1, how much of the payment is for repaying the loan principal? How much is for paying loan interest?
5. For payment 15, how much of the payment is for repaying the loan principal? How much is for paying loan interest?
6. For payment 36, how much of the payment is for repaying the loan principal? How much is for paying loan interest?

AMORTIZATION TABLE

Loan Amount	\$25,000.00											
Loan Term	3 Years											
Loan Interest Rate	5%											
Monthly Payments	\$749.27											
Payment No.	1	2	3	4	5	6	7	8	9	10	11	12
Payment Amount	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27
Principal Paid	\$645.11	\$647.79	\$650.49	\$653.20	\$655.92	\$658.66	\$661.40	\$664.16	\$666.93	\$669.70	\$672.49	\$675.30
Interest Paid	\$104.17	\$101.48	\$98.78	\$96.07	\$93.35	\$90.61	\$87.87	\$85.11	\$82.35	\$79.57	\$76.78	\$73.98
Total Interest Paid	\$104.17	\$205.65	\$304.42	\$400.49	\$493.84	\$584.46	\$672.33	\$757.44	\$839.79	\$919.36	\$996.13	\$1,070.11
Balance	\$24,354.89	\$23,707.10	\$23,056.61	\$22,403.40	\$21,747.48	\$21,088.82	\$20,427.42	\$19,763.26	\$19,096.34	\$18,426.63	\$17,754.14	\$17,078.84
Payment No.	13	14	15	16	17	18	19	20	21	22	23	24
Payment Amount	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27
Principal Paid	\$678.11	\$680.94	\$683.77	\$686.62	\$689.48	\$692.36	\$695.24	\$698.14	\$701.05	\$703.97	\$706.90	\$709.85
Interest Paid	\$71.16	\$68.34	\$65.50	\$62.65	\$59.79	\$56.92	\$54.03	\$51.13	\$48.23	\$45.30	\$42.37	\$39.43
Total Interest Paid	\$1,141.27	\$1,209.61	\$1,275.11	\$1,337.76	\$1,397.55	\$1,454.46	\$1,508.49	\$1,559.63	\$1,607.85	\$1,653.16	\$1,695.53	\$1,734.96
Balance	\$16,400.73	\$15,719.79	\$15,036.02	\$14,349.40	\$13,659.91	\$12,967.56	\$12,272.32	\$11,574.18	\$10,873.13	\$10,169.16	\$9,462.26	\$8,752.42
Payment No.	25	26	27	28	29	30	31	32	33	34	35	36
Payment Amount	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27	\$749.27
Principal Paid	\$712.80	\$715.77	\$718.76	\$721.75	\$724.76	\$727.78	\$730.81	\$733.86	\$736.91	\$739.98	\$743.07	\$746.16
Interest Paid	\$36.47	\$33.50	\$30.52	\$27.52	\$24.51	\$21.49	\$18.46	\$15.42	\$12.36	\$9.29	\$6.21	\$3.11
Total Interest Paid	\$1,771.42	\$1,804.92	\$1,835.44	\$1,862.96	\$1,887.47	\$1,908.97	\$1,927.43	\$1,942.85	\$1,955.20	\$1,964.49	\$1,970.70	\$1,973.81
Balance	\$8,039.61	\$7,323.84	\$6,605.08	\$5,883.33	\$5,158.57	\$4,430.79	\$3,699.98	\$2,966.13	\$2,229.21	\$1,489.23	\$746.16	\$0.00

Reviewing a Credit Report

A credit report for Keko Yung appears on the following pages. Review the report and answer these questions:

1. What is Keko's current address?
2. How many credit accounts does Keko currently have open?
3. Do any credit accounts show late payments?
4. Has Keko ever filed for bankruptcy?
5. What is Keko's last reported salary?
6. Do you think Keko is a good credit risk? Why or why not?

PERSONAL CREDIT REPORT

<i>Prepared for</i>	<i>Report Date</i>	<i>Report No.</i>	Summary of Information
Keko Yung	September 1, 2006	108881	Potentially negative items: Public records: 2 Accounts with creditors: 2 Accounts in good standing: 3

Public Record Information

<i>Source</i>	<i>Date</i>	<i>Responsibility</i>	<i>Liability Amount</i>	<i>Comments</i>
1. Jess County Courthouse	2/2005	Joint	\$5,000	District Court complaint (defendant)
2. U.S. District Court	6/2002	Joint	\$85,000	Bankruptcy discharged 11/1999

Credit Information

<i>Source</i>	<i>Date Opened Last Report</i>	<i>Responsibility</i>	<i>Type/ Payment</i>	<i>High Amount</i>	<i>Status</i>
3. Fidelity Bank (Visa)	6/2001	Individual	Revolv. \$100 min.	\$5,000	Late 2 pmts.
4. CC&C Credit	10/2002	Individual	Install. \$200/mo.	\$8,500	Late charges: 3
5. U.S. Finance Co.	3/2006	Joint	Install. \$350/mo.	\$18,000	Current

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Personal Information

<i>Name</i>	<i>Social Security Number</i>
Keko Yung Keko J. Yung K.J. Yung	000-00-0000

<i>Residences</i>	
1870 Western Avenue Los Angeles, CA 90006-1870 Single-family house (owned)	72 Broadway Newark, NJ 07104-4488 Condominium (rental)

<i>Date of Birth</i>	<i>Driver's License Number</i>
9/23/1963	CA000000

<i>Spouse's Name</i>	<i>Telephone Numbers</i>
John Yung	323-555-0134 973-555-0123

<i>Employers</i>	
Cranston Bakery (Partner) 4480 West Palm Beach Los Angeles, CA 90022-4480	\$48,000 salary, reported 3/2006
McGraw School District 42 Maple Wood Clinton, NY 13323-0042	\$37,000 salary, reported 2/2001
