

Chapter 3
Consumer Credit

Section 3-1

Introduction to Credit

Objective:

Compute

Identify

Example 1

Heather wants to purchase an electric guitar. The price of the guitar with tax is \$2,240. If she can save \$90 per month, how long will it take her to save up for the guitar?

of time periods =

**Steps to find the Total Interest Paid
(Total Finance Fee)
(With a Down Payment)**

a) Find the down payment.

down payment =

original principal x % down(converted)

b) Determine the monthly payment.

- It is given to you

- Use a table: $\text{table \#} \cdot \frac{\text{amount borrowed}}{1,000}$

- Use a formula:

M =

P =

(Original – Down)

r =

t =

$$M = \frac{P \left(\frac{r}{12} \right) \left(1 + \frac{r}{12} \right)^{12t}}{\left(1 + \frac{r}{12} \right)^{12t} - 1}$$

c) Find the total monthly payments.

total monthly payments =

monthly payment x # of years x 12

d. Find the total paid.

total paid =

total monthly payments + down payment

e) Find the total finance fees (interest).

total interest =

total paid – original principal

Example 2

Heather speaks to the salesperson at the music store who suggests that she buy the \$2,240 guitar on the installment plan.

- The plan requires a 15% down payment.
- The remainder, plus an additional finance charge, is paid back on a monthly basis.
- It is a two year installment plan.
- The monthly payment is \$88.75.

a. What is the down payment?

Down payment =

b. Monthly payment?

c. How much will she pay in just the monthly payments?

Total monthly payments =

d. How much will she pay in total?

Total paid =

e. How much will she pay in finance fees?

Total interest =

Example 3

At Carpet King all purchases can be paid on the installment plan with no interest, as long as the total is paid in full within six months.

- There is a \$20 minimum monthly payment required.
- The Schuster family buys carpeting totalling \$2,134.
- They will make only the minimum payment for five months.



How much will they have to pay in the sixth month in order to avoid paying interest?

Step 1:

Total of first few payments =

Step 2:

Amount owed =

Example 4

Cecilia purchased \$4,322 worth of home appliances on Appliance Depot's deferred payment plan.

- The plan allows the customer to make no down payment.
➤ There is no payment at all for 3 months.
➤ If the entire \$4,322 is paid in full before the 3 months is up, there is no interest.
➤ If it is not paid in full within the 3 months, there is a finance charge with an APR of 21.6% applied each month going back to the first month.

Cecilia loses track of time and makes the full payment one day after the 3 months expired. How much is the interest charge?

I =
p =
r =
n =
t =

I = P(1 + r/n)^nt - P

Paying one day late cost her \$_____!!!!

Your Credit Score

- Your credit score is like a credit
• Your credit score determines the amount of
• If you have bad credit there is a greater risk that you will
• Companies need a higher return (interest rate) to compensate for

Credit Score Analysis

- 800 to 850 =
700 to 799 =
680 to 699 =
620 to 679 =
580 to 619 =
300 to 579 =

Example 6

Mike has a credit rating of 720.
Tyler has a credit rating of 620.
Chuck has a credit rating of 520.

All three apply for identical loans to build a home for \$200,000. It is for one year with simple interest and principal due at the end of one year.

- Mike is approved for a loan at 3.2% interest.
➤ Tyler is approved for a loan at 8.2% because of his inferior credit rating.
➤ Chuck does not get approved for a loan.
a. What did Tyler's bad credit score cost him?

It cost him \$_____ in ONE year!!!!

- b. What did Chuck's bad credit score cost him?

Assignment 3-1

Read Pages 146 to 153
Do Page 154: # 2, 3, 4a-d, 6-8, 10, 11f-v, 12, 13a-b, 15, 17a-h