

Chapter 3
Consumer Credit

Section 3-4

Loan Calculations

Objective:
Calculate

Create

Example 2

Claude wants to borrow \$25,000 to purchase a car. After looking at his monthly budget, he realizes that all he can afford to pay per month is \$300. The bank is offering a 5.9% loan. What would need to be the length of his loan be so that he can stay within his budget?

M =
P =
r =
t =

Example 2 – Now You Try It!

In Example 2, what impact would an increase in the monthly payment of \$50 have on the length of the loan?

M =
P =
r =
t =

Example 3

John does not have a very good credit rating. He found a lending institution that was willing to loan him \$100,000 for 15 years at a higher than normal interest rate of 7.5% because of his poor credit rating.

- a. What will his payment be?
<http://www.bankrate.com>
- Click on the 3 bars next to “Bankrate”
 - Select Loans
 - ⬇️Select Loan calculator

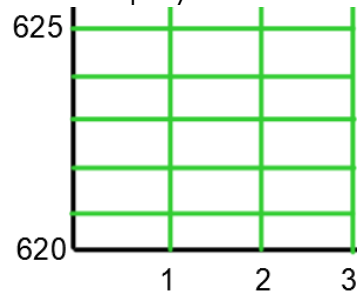
Loan Amount:
Loan term in years:
Interest **as a %**:
Push the “Calculate” button

- b. What will his balance be after one year?
⬇️Click on “Show Amortization Schedule”⬇️

c. Fill in the amortization schedule for the first 3 months.

Date	Principal	Interest	Balance

d. Plot the interest payments.



e. Why are you paying less interest each month?

Assignment 3-4

Read Pages 173 to 176
Do Page 177: # 2-5, 7-10, 11a-d, 12a-d