Warm - Up

Pg 207 1-7

PENNYLICIOUS

5-3 Credit Management Keeping Credit Costs Down

Objectives

- Wise use of credit
- Save by understanding loan terms

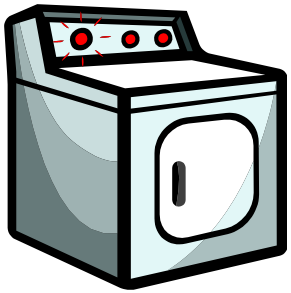
Guidelines for using credit wisely

- 1. Limit installment debt to 15-20% of take-home pay.
  - Less than 1/3 of your **discretionary income**
    - **Income you have left after paying for basic needs such as food, shelter, and clothing.**

Guidelines for using credit wisely

- 2. Purchase durable products that will outlast the payment period.

  - Household appliances
  - Cars (beware of lemons)
  - Ex: You do not want to make payments on a car for three years if the car only lasts for one year.



If you are thinking about borrowing money:

- First, determine the cost of borrowing money or opening a charge account.
- Can you afford it?

- **SHOP AROUND FOR THE BEST CREDIT TERMS**

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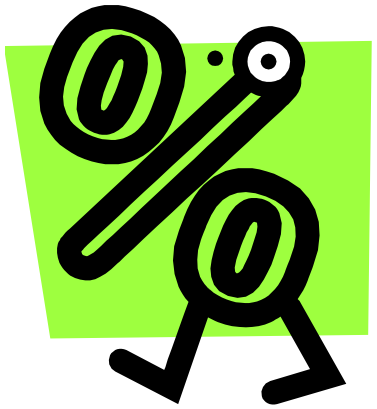
"You don't qualify for a loan or a credit card. We can however, offer you a free bank calendar."

Ways to Reduce the Cost of Installment Loans

- 1. Select a short payment period
- 2. Compare interest rates
- 3. Make a large down payment



Ask Yourself

- What are two guidelines for using credit wisely?
  - Limit to 15-20% of take-home pay; use credit only for durable goods

- What should you consider first if you are thinking about borrowing money?
  - Determine cost and decide if it is affordable

- What are three ways to reduce the cost of installment loans?
  - Select a short payment period; compare interest rates; make a large down payment

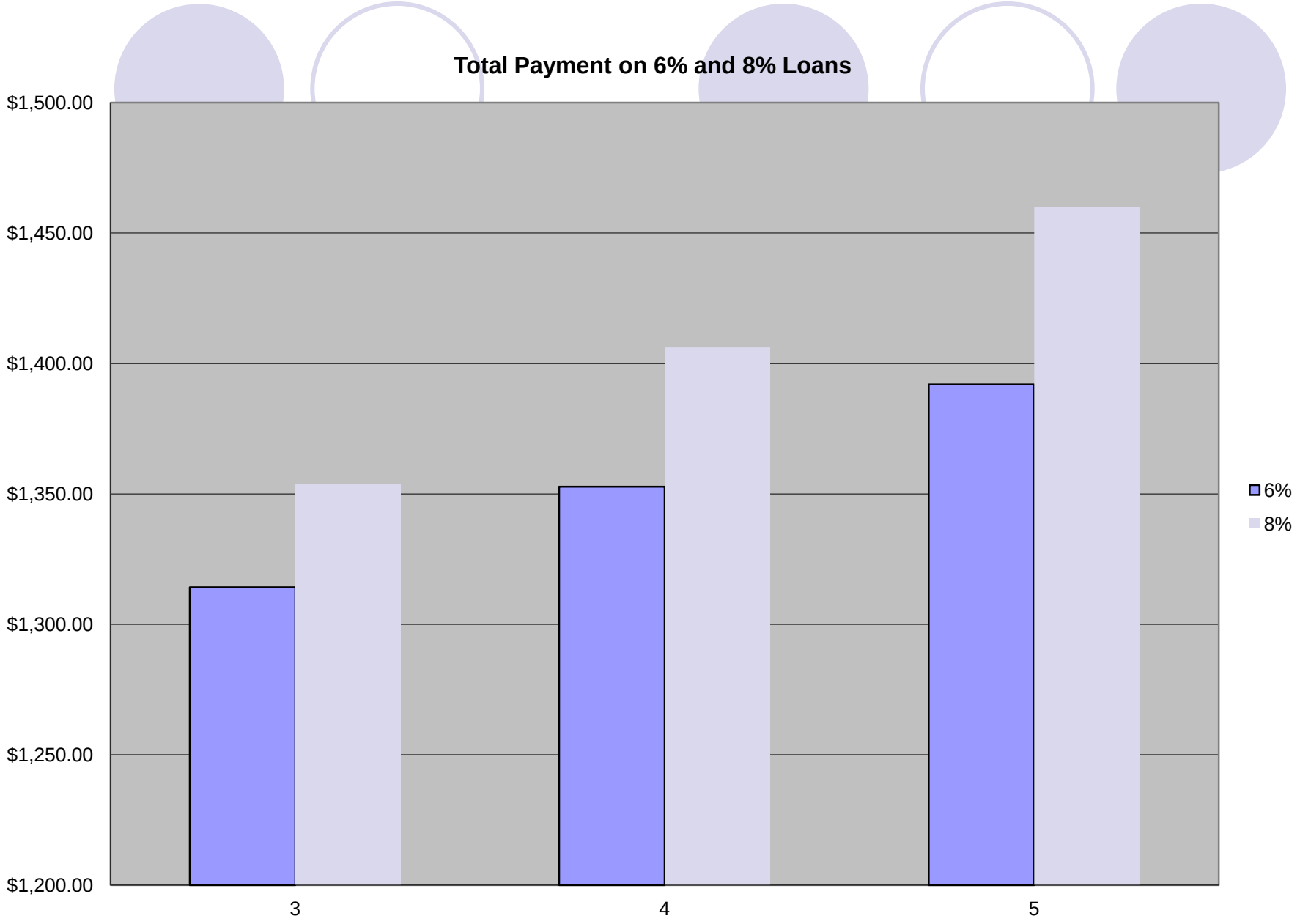
Skill 1

- Compare a loan for a 1992 Oldsmobile Achieva for $1200 at 6% vs 8% over 3 yrs.

Monthly Payment at 6%	Total Payment at 6%	Monthly Payment at 8%	Total Payment at 8%	Total Savings

Monthly Payment at 6%	Total Payment at 6%	Monthly Payment at 8%	Total Payment at 8%	Total Savings
$36.50	$1314.23	$37.60	$1353.73	$39.50

- Remember to use the ANS Key on your calculator to find total payments. Use exact amounts to find total savings.


Total Payment on 6% and 8% Loans
$1,500.00
$1,450.00
$1,400.00
$1,350.00
$1,300.00
$1,250.00
$1,200.00
3
4
5
6%
8%

- Total payments and total costs are lower when the interest rate is lower

Skill 2 Loans with Down Payments

- $D = rC$
  - Where:

D = down payment

r = percent for down payment

C= cost

Skill 2

- What is the down payment on a car for $25,000 if they want to put 10% down?

- D = r C
  = .10(25000)
  = 2,500

The total down payment is $2,500.

Loan Amount

- P = C – D
  - Where

    P = loan amount

    C = cost

    D = down payment

- What is the loan amount after they make a of 10% down payment?

- P = C – D

  = 25000 – 2500

  = 22,500

The total loan amount is $22,500.

Total Amount

- T = n*M + D

- Where T = total amount

  n = number of payments

  M = monthly payment

  D = down payment

- **Find the total amount paid for the $25,000 car. The loan is for 5 yrs at 12% interest.**
- First we must find the monthly payment.

M= $500.50

nM = $30,030.00

T = nM + D

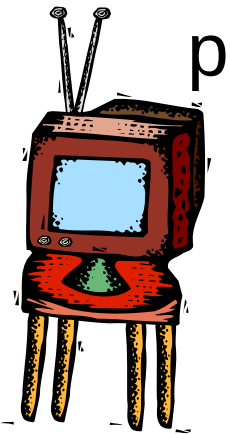
= 2500 + 30,030 = 32,530.00

The total amount paid is $ 30,530.00.

Example 2

- Barney is considering buying a Samsung 3-D TV for $1,894. He can amortize his loan over 1 or 2 yrs. He can finance it at 12% or 15% and he can make a 10% or 20% down payment.

- We want to know which combination of amortization period, interest rate, and down payment yields the lowest total payments.



# of yrs	% down	D	P	T at12%	T at 15%
1	10%				
2	10%				
1	20%				
2	20%				

# of yrs	% down	D	P	T at12%	T at 15%
1	10%	$189.40	$1704.60	$2006.81	$2035.65
2	10%	189.40	1704.60	2115.19	2173.00
1	20%	378.80	1515.20	1994.26	2019.91
2	20%	378.80	1515.20	2090.62	2142.01

"You misunderstood. Our ad says that we can help you get out of *debt.*"

- Assignment
- P213-215
- #1-20