DOCUMENT RESUME

ED 117 558 CE 006 271

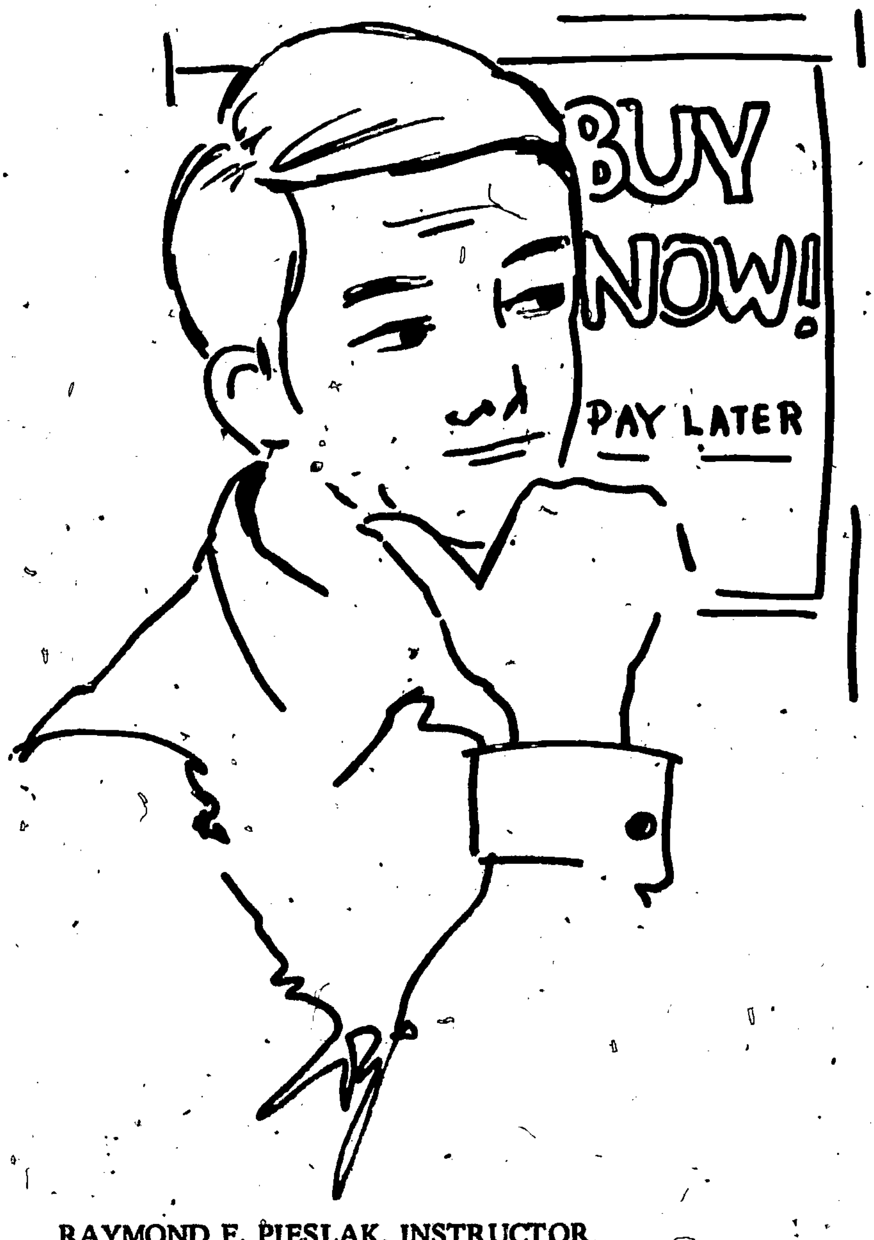
AUTHOR	Pieslak, Raymond F.
TITLE	About Buying on Credit.
INSTITUTION	Rutgers, The State Univ., New Brunswick, N.J. Curriculum Lab.
SPONS AGENCY	New Jersey State Dept. of Education, Trenton. Div. of Vocational Education.
REPORT NO	VT-102-449
PUB DATE	Oct 75
NOTE	35p.; For related documents, see CE 006 266-267
AVAILABLE FROM	Vocational Technical Curriculum Laboratory, Rutgers, The State University, Building 4103, Kilmer Campus, New Brunswick, New Jersey 08903 ($2.00)
EDRS PRICE	MF-$0.83 HC-$2.06 Plus Postage
DESCRIPTORS	Consumer Education; Course Content; *Credit (Finance); *Deaf Education; High School Students; *Money Management; *Secondary Education; Special Education; *Study Guides

ABSTRACT

The student manual for high school level special needs students was prepared to provide deaf students with basic information about how to buy on credit. It gives the student the sense of establishing credit capacity by developing a spending plan based on individual needs, values and goals, and income. Two units cover the areas of: (1) buying things on credit and (2) loans. They were carefully written for easy reading and comprehension, and provide information, vocabulary, and assignment questions for the specific topics covered. (Author/LJ)

STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF VOCATIONAL EDUCATION

ABOUT BUYING ON CREDIT



RAYMOND F. PIESLAK, INSTRUCTOR
MARIE H. KATZENBACH SCHOOL FOR THE DEAF
WEST TRENTON, NEW JERSEY

State of New Jersey
Department of Education
Division of Vocational Education

ABOUT BUYING ON CREDIT

Raymond F. Pieslak, Instructor
Illustrations by Berminna Solem

Charles M. Jochem, Superintendent
Marie H. Katzenbach School for the Deaf
West Trenton, New Jersey

Vocational-Technical
Curriculum Laboratory
Rutgers — The State University
Building 4103 — Kilmer Campus
New Brunswick, New Jersey

October 1975

NEW JERSEY DEPARTMENT OF EDUCATION – FRED G. BURKE, COMMISSIONER

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CURRICULUM LABORATORY
RUTGERS – THE STATE UNIVERSITY
BUILDING 4103 – KILMER CAMPUS
NEW BRUNSWICK, NEW JERSEY

FOREWORD

BUYING ON CREDIT has been prepared to provide students with basic information on how to buy on credit – "Buy now and pay later." It gives the student the sense of establishing credit capacity: developing a spending plan based on individual needs, values and goals, and income. The students should be made aware of the need to manage consumer credit dollars. They should be able to decide when to use credit and when not to. They must be told that when shopping for credit, they should look for the best plan to meet their individual needs and requirements. This involves analyzing financial situations in terms of money earned and expenses that must be met.

In view of the particular needs of the students for whom this manual has been written, the lessons contained herein have been carefully written for ease of reading and comprehension.

Raymond F. Pieslak

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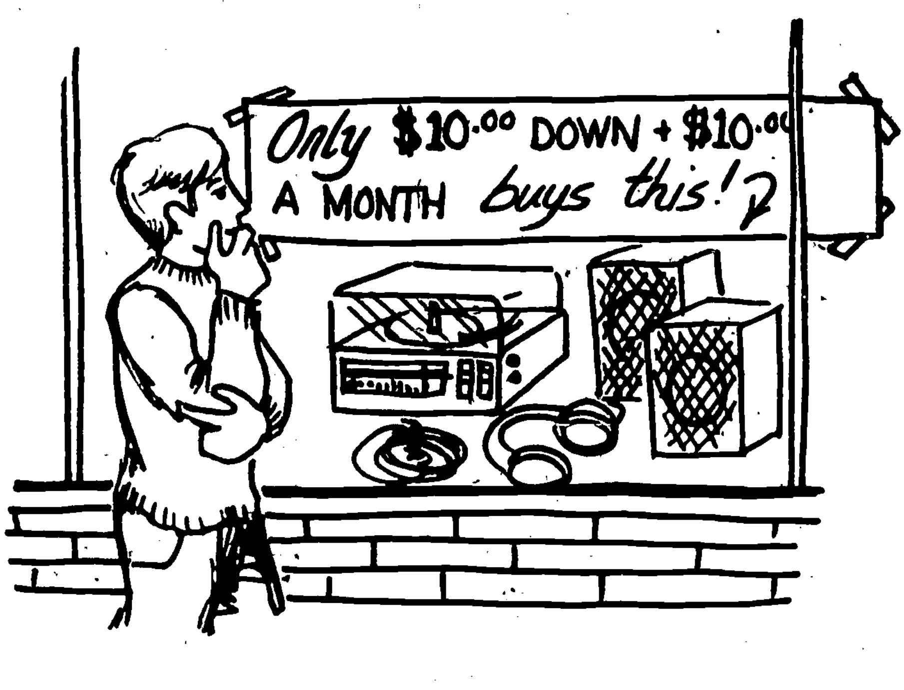
UNIT I
BUYING THINGS ON CREDIT

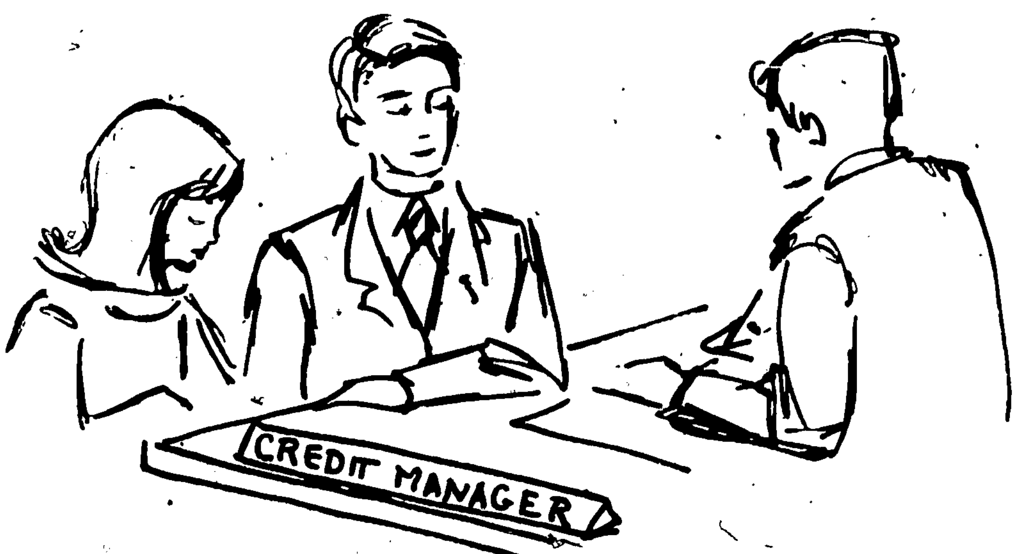


The Meaning of Credit | Lesson 1

INFORMATION: Buying on credit means buying now and promising to pay at some time in the future. Anyone who buys on credit is known as a credit customer or debtor. Anyone who sells on credit is known as a creditor. A business that buys and sells on credit is both a debtor and a creditor. A debtor must pay for what he buys just as surely as someone who buys for cash; but he pays later, not at the time the purchase is made.

Every year billions of dollars' worth of goods and services are bought on credit by people, by businessmen, by government, and by other organizations.

Credit makes it possible for persons to enjoy many high-priced things while paying for them. Because of credit, few people now wait until they have the full amount of cash before buying something. The use of credit increases the number of business transactions. Few businesses could operate without the use of credit.



1. Before business will give credit to a customer, it must consider (think about) the *three C's* of credit.

2. The first is Character.
A merchant will try to find out if the customer has a good reputation for paying his bills when they become due. A merchant will not ask a person who wants credit if he pays his bills on time, but he will ask for the names of other companies where the customer has bought on credit. The merchant can then find out from these businesses whether the person pays his bills on time.

3. The second is **Capacity**.
Capacity is another name for *ability* – will the customer *be able* to pay his bills? What is the person's income? Is the customer's income large enough so that he can continue to pay his bills on time? If his income is too small, it may not be wise to give him additional credit even though he has had credit before because he may not be able to pay all his bills.

4. The third is **Capital**.
How much does the customer own? Capital is *the money and property owned by a person.* If a person owns the house he lives in, that house is part of his capital. Does a person have a checking account and a savings account? Knowing that the customer has capital is a good way of making sure that he will be able to pay his bills.

5. There are credit bureaus which keep files on all the people in an area who have used credit. Their information is used by merchants who are deciding whether to allow a customer to buy on credit. These files contain facts about a person's capital, earnings, and how promptly he has paid his bills in the past.
A merchant can get the answers to his questions about a customer by checking with a credit bureau.
When a person moves to a new area, the credit record will follow him as soon as he asks someone for credit in his new area.

VOCABULARY:

debtor (DET–er) – a person who owes money to someone
creditor (CRED–i–ter) – a person or organization to whom money is owed
transaction (trans–AK–shun) – a piece of business that includes paying for something
merchant (MER–chunt) – a person whose business is to buy and sell goods
reputation (rep–yoo–TAY–shun)– what people think and say about a person's behavior, character, or work
credit bureau (BYOO–roh) – an organization that keeps credit records on people
file – a collection of information about a person.

ASSIGNMENT:

1. A merchant who sells on credit is known as a ______________

2. A charge customer is known as a __________

3. An organization that keeps files on people's credit is called a __________

4. What are the three C's of credit? Explain what each means.

Why Buy on Credit? **Lesson 2**

INFORMATION: Giving credit is expensive for business. It requires a lot of bookkeeping to keep a record of each customer's account. A merchant sells on credit only because he believes that by allowing credit he can increase his sales and his profits more than enough to pay for all the bookkeeping.

A few merchants sell only for cash, but most merchants believe that their customers expect them to offer credit.

Customers buy on credit because:

1. *Buying on credit is convenient.*
It is easier to make several purchases from time to time in a department store with the understanding that all will be paid for when he gets a bill. The customer who buys on credit does not have to worry about carrying a lot of cash when shopping.

2. *Credit customers may get better service than cash customers.*
If goods that have been bought on credit are not right, it is often easier to exchange or return them than if they had been purchased for cash.

3. *Credit customers may receive* advance *notice of sales.*
Many stores send out notices of a sale to their credit customers several days before they advertise the sale in the newspapers. The stores can do this because they have the names and the addresses of their credit customers, but they usually have no records on cash customers.

4. *Buying on credit gives a person a good* credit rating.
When a person buys on credit and pays his bills on time, this information goes to a credit bureau, and he gets a good credit reputation. This is called a good credit rating.

If a person buys for cash only, he will never get a credit rating. A good credit rating is helpful if you have to borrow money at some time.

5. *The customer may be short of cash.*
No matter how carefully you plan to spend your money, there are times when you may have to make an unplanned but necessary purchase. For example, if a tire blew out on your car and you did not have the money to pay for a new one, you could charge it.

VOCABULARY:

advance (ad–VANS) – ahead of time; ahead of others

credit rating (RAYT–ing) – a reputation for paying your bills – on time or not on time

charge (CHARJ) – buy something on credit

ASSIGNMENT:

1. A reputation for paying bills on time is known as a good ________ ________

2. Why does a merchant sell on credit?

3. Give three reasons why customers buy on credit.

4. If a person always buys for cash, can he set up a credit rating?

Charge Accounts

INFORMATION: The charge account is one form of credit. The consumer buys things without paying for them, and pays the whole amount later, when he gets a bill from the store.

1. To open a charge account in a store, you must go to the credit manager. If the store is small, you must see the owner or manager.

2. You will be asked to fill in an application form for credit. The form will have questions about you – for example, your name and address, the name and address of your employer, what your job is, how long you have been working at your present job, the name and address of your bank, and whether you have charge accounts in other stores.

3. When you are accepted as a charge customer, your charge account will be opened.

4. You will be given a "charge plate," which is a small metal tag. A charge plate usually shows the customer's name and address, his account number, and his signature.

5. Each time you make a purchase on credit, you use this plate. You give it to the salesperson and he uses it to put your name and address on the sales slip. He asks you to sign the sales slip. The salesman then compares your signature with your signature on the charge plate.

6. One copy of the sales slip will be given to you, to keep as a record of your purchase. The other copies will be kept by the store. On your billing date (or at the end of the month), you will receive a bill with all your purchases listed for one month, and the total amount due. This is called a monthly statement.

7. Usually if you pay the whole amount before a certain date, there will be no extra charges. Many stores allow a whole month to pay.

8. It is good to have a charge account, but you must use it wisely. Many times people will spend more than they can afford because it is so easy to say "charge it."

VOCABULARY:

charge account (a–KOUNT) – a credit plan under which the total amount due is usually paid within a month
due (DYOO) – owed; to be paid
application form (ap–li–KAY–shun FORM) – a paper with questions on it that you answer when you ask for something, like credit, or a job
accept (ak–SEPT) – say yes
signature (SIG–nə–choor) – your name as you usually write it (not printed)
statement (STAYT–ment) – a paper telling how much money is owed and for what it is owed; a bill

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ASSIGNMENT:

1. A credit plan under which the total amount due is usually paid within a month is known as a __________ __________

2. Before you may open a charge account, what must you do?

3. If you are accepted as a charge customer, a charge account will be opened, and you will be given a __________ __________ which is used each time you make a purchase.

Other Store Credit Plans Lesson 4

INFORMATION: A credit plan means a kind of agreement we make with the store to pay what we owe. Most department stores and some other stores offer several kinds of credit plans.

1. Some department stores offer revolving credit plans.

2. Under this plan the customer is allowed credit up to a certain amount. For example, if he is allowed a credit limit of $200, he may buy one thing for $200, or he may buy many cheaper things, so long as the total amount due is no more than $200.

3. He then agrees to make monthly payments on the amount due.

4. He may make new purchases, if his unpaid balance does not go over his credit limit.

5. The store makes an extra charge for this plan. It usually is 1½% a month on the unpaid balance. This is called interest.

6. Other names sometimes given to this kind of credit plan are personalized budget plan, all-purpose account, or option account.

7. Many department stores let the customer use a charge account as a revolving credit account.

8. If the customer pays the whole bill within the time limit (25 or 30 days), there are no extra charges. But if the customer pays only part of the amount due, then he must pay interest on the rest.

9. Some merchants offer budget plans, which spread the cost of expensive items over 90 days (usually). This may be called a 3-pay plan.

10. The customer charges the item and then pays for it in three equal payments over 3 months. He does not have to pay any extra charges.

11. The lay-away plan is used many times by customers to buy gifts, clothing, or other goods that are not needed immediately.

12. Under this plan the customer picks what he wants and the merchant saves the goods for the customer. The customer makes payments on it.

13. When the goods are paid for, they are given to the customer.

14. Most of the time there is no extra charge for lay-away service.

VOCABULARY:

revolving credit plan (ree–VOLV–ing) – The customer buys goods up to a credit limit, makes monthly payments, and is charged interest on the unpaid balance.
limit (LIM–it) – the greatest amount allowed
balance (BAL–əns) – the amount remaining in an account
interest (IN–trest) – money paid for the use of someone else's money for a time
budget plan (BUDJ–it) – the customer pays for expensive items in equal payments over 3 months, without paying any interest.
item (EYE–tem) – one single thing
lay-away plan – The merchant holds the buyer's goods, which are given to him when they have been paid for.

ASSIGNMENT:

1. The plan where the customer buys goods up to a certain dollar limit, makes monthly payments, and is charged interest on the unpaid balance is called a ________ ________ ________

2. The plan where a merchant holds the goods, which are given to the customer when they have been paid for, is known as the ______ ______

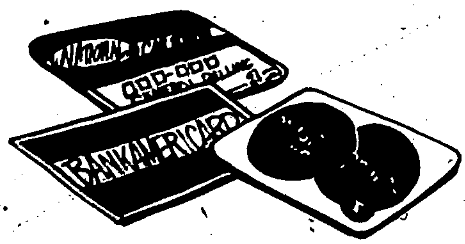
3. The plan where the customer is given 90 days to pay for an expensive item, with no charge for interest, is called a ________ ________ ________

4. What is the usual interest charge each month for revolving credit plan service? ______% on the ________ balance.

5. This comes to ______% a year.

Credit Cards | Lesson 5

INFORMATION: More and more people are using credit cards to pay for things. These are plastic cards that look like department-store charge cards but may be used to pay for many different things in many different places. They may be used to buy goods in stores, to pay for motel rooms and restaurant meals, to rent cars, to pay for railroad and airplane tickets, to buy gifts and flowers, even to pay taxes in some places! Credit cards will be issued to people who have good credit ratings. There are many different kinds of credit cards.



1. Oil companies give credit cards. These may be used at their gas stations all over the country to buy gas, oil, tires, other goods, and for repairs. They are issued free of charge.

2. Credit cards are issued by airlines, motels, car-rental companies, and so on. These can be used instead of cash for these particular uses. They are also free.

3. Cards are issued by some companies for use mostly during travel, to pay hotel and restaurant bills. Some popular cards are American Express, Carte Blanche, and Diners Club. The user pays for these cards.

4. The restaurants and hotels and motels get the bills paid by the card issuers, but they do not get the whole amount due. They get 5% or 7% less than the whole amount of the bill. This is called a **discount.**

5. The most popular cards of all are issued by banks. Some of these are Bank Americard, Master Charge, and Uni-Card. There are many others.

6. The bank credit cards can be used in many stores and are also good in many restaurants and hotels.

7. The user gets the bank cards free. The merchants pay a discount of about 5% to the banks when they get their money.

8. Every credit-card issuer sends a monthly statement to the card-holder. It lists all the purchases and amounts paid during the month.

9. The card-holder pays no interest charges if he pays the whole amount due within a certain number of days (usually about 25).

10. If he pays only part of the bill, then he must pay interest on the unpaid part – usually 1½% a month.

11. If a credit card is lost or stolen, the owner must notify the issuer at once. Then he will not have to pay the bills if someone else uses the card.

12. It is so easy to use credit cards that some people find they buy too many things. Then they have a hard time paying the bills. A person must be careful not to over-spend, because with credit cards it is very easy to do this.

VOCABULARY:

credit card – a small, plastic card that is good for credit in many different places
issue (ISH–yoo) – give out, send out – either for a payment or for free. The person or company that issues something is an issuer (ISH–yoo–er)
discount (DIS–kount) – a part of a payment subtracted from the whole amount
notify (NOTE–i–fy) – let someone know; inform; tell

ASSIGNMENT:

1. A plastic card that can be used to make many different purchases on credit is called a __________ __________

2. In most cases, the user pays __________ for the card.

3. The stores pay the issuer about a 5%__________

4. Each month the issuer sends the card-holder a __________

5. If the user does not pay the whole amount, he must pay__________ on the unpaid part.

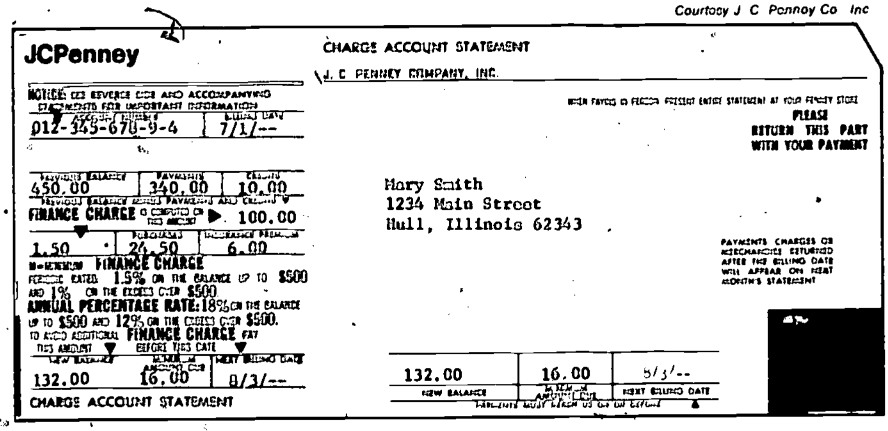
6. If, a credit card is lost or stolen, the holder must __________ the company immediately.

UNIT I – BUYING THINGS ON CREDIT

Statement of Account **Lesson 6**

INFORMATION: Customers who owe on charge accounts or budget accounts or credit-card accounts receive a record known as a statement of account or statement each month. It is not possible to send statements to all customers at the end of each month. Many stores have a way of sending these, known as cycle billing. The accounts are divided alphabetically and spread throughout the month. For example, statements for customers whose names begin with "A" to "F" are made out on the first 9 days of the month. Statements for those customers whose names begin with "G" to "Q" are made out from the 10th to the 22nd days; for "R" to "V", from the 23rd to the 28th days; and "W" to "Z" on the 29th day.

Courtesy J C Penney Co Inc


JCPenney
CHARGE ACCOUNT STATEMENT
J. C. PENNEY COMPANY, INC.

PLEASE RETURN THIS PART WITH YOUR PAYMENT

012-345-678-9-4 7/1/--

450.00 340.00 10.00

FINANCE CHARGE 100.00

1.50 24.50 6.00

FINANCE CHARGE 1.5% ON THE BALANCE UP TO $500 AND 1% ON THE EXCESS OVER $500

ANNUAL PERCENTAGE RATE: 18% ON THE BALANCE UP TO $500 AND 12% ON THE EXCESS OVER $500.

132.00 16.00 8/3/--

CHARGE ACCOUNT STATEMENT

Mary Smith
1234 Main Street
Hull, Illinois 62343

132.00 16.00 8/3/--

NEW BALANCE NEXT BILLING DATE

1. A statement of account shows:
   a. The balance that was due when the last statement was mailed.
   b. The amounts charged to the customer during the month for merchandise sold to him.
   c. The amounts credited to the customer during the month for payments made or for goods returned to the store.
   d. The balance owed. This is the balance from the previous statement, *plus* the amounts *charged* to the customer, and *less* the amounts *credited* to the customer.
   e. The interest (finance charge) and any other charges.
   f. The smallest amount that the customer needs to pay – the minimum amount.

2. Many times copies of sales slips are mailed with the statements.

3. A statement gives the customer a complete record of his business transactions with the company.

4. The customer can compare his statement with his copies of sales tickets and with his record of payments. If an error is found, the customer should notify the merchant, so that it can be corrected.

5. When payment is made, the date and the way payment was made should be written on the face of the statement. If paid by check, the number of the check should be noted.

6. All sales tickets and statements should be kept as a record of the transactions.

7. Here is a monthly statement from the credit-card department of a bank.

BANKAMERICARD — DIRECT INQUIRIES TO 7584634

TO PAY YOUR ACCOUNT — IN INSTALLMENTS / IN FULL

			NEW BALANCE
.00	10.00	10.00	147.30

STATEMENT DATE 04-03-71 — DATE PAYMENT DUE 04-28-71

445-123-456-789 ACCOUNT NUMBER — AMOUNT PAID ________

PLEASE NOTE ANY CHANGE OF ADDRESS

Mr. John E. Doe
456 Main Street
Anytown, U.S.A. 40001

PLEASE RETURN THIS PORTION AND CHECK PAYABLE TO ABOVE NAMED BANK.

16201	3-12	Friendly Inn	25.60	
08426	3-16	Payment		40.45
12701	3-17	Fly Away Airlines	65.20	
17206	3-27	Golden Gourmet Restaurant	20.50	
46501	3-28	ABC Dept. Store	36.00	

CREDIT LIMIT TOTAL	CREDIT LIMIT UNUSED	PREVIOUS BALANCE	PAYMENTS	CREDITS	FINANCE CHARGE	PURCHASES & CASH ADVANCES NO.	AMOUNT	NEW BALANCE
500	353	40.45	40.45	.00	.00	4	147.30	147.30

ACCOUNT NUMBER	TIME BALANCE	STATEMENT DATE	DATE PAYMENT DUE	ANNUAL PERCENTAGE RATE	MINIMUM PAYMENT
445-123-456-789	.00	04-03-71	04-28-71	.00	10.00

Applicable rates used to compute your Finance Charge

	PURCHASES		CASH ADVANCES
PERIODIC RATE (ANNUAL PERCENTAGE RATE)	1.50(18.00)	1.00(12.00)	1.25(15.00)

*Payment in full of New Balance must be made by Date Payment Due to avoid additional Finance Charges.

NOTICE: See Reverse Side For Important Information

The Fifth Third Bank, Cincinnati, Ohio

VOCABULARY:

statement of account (STAYT–ment UV a–KOUNT) – a form sent to customers showing a complete record of business transactions for a period, such as one month
throughout (throo–OUT) – from the beginning to the end
credit – to enter an amount (in bookkeeping) to be added to an account
minimum (MIN–i–mum) – the smallest that a thing can be – minimum amount, minimum temperature, minimum size, and so on.

ASSIGNMENT:

1. A ______________ of ______________ is a form sent to customers showing a complete record of business transactions for a certain period, such as one month.

2. How can a customer find out whether the statement he receives is correct?

3. What should a customer do if he finds an error on a statement he receives from a merchant?

4. Why should a customer keep his statements and sales tickets?

Buying on Installments

Lesson 7

INFORMATION: In almost every newspaper you will see advertising statements such as: "$10 down, balance on easy payment plan"; "No money down – name your own monthly terms"; or "Only $9 down – up to 20 months to pay." Such advertisements make people want to buy now and pay for purchases over a period of weeks, months, or even years. Buying in this way is known as installment buying or buying on installments.

An installment account is opened in much the same way as a charge account, except that the buyer signs a contract.

1. A written agreement covering the terms of the purchase must be signed by the buyer.

2. The buyer receives the item at the time he buys, but does not *own* it until *all* payments have been made.

3. A payment of a part of the purchase price is usually made at the time of the purchase; this is known as the down payment.

4. In a way, the amount that remains unpaid is a loan from the merchant from whom the goods were bought.

5. The buyer promises to make regular payments at stated times. These payments are usually made weekly or monthly. For example, if a total of $60 is to be paid in 12 monthly installments, $5 is paid at the end of each one of the 23 months. These payments are called installments or time payments.

6. The merchant has the right to take back the goods if payments are not made as stated in the contract.

7. Payments must be made when due, because in some installment contracts all payments come due at once if one payment is missed.

8. Items bought on installments are usually expensive and durable, such as automobiles, furniture, television sets, refrigerators, and other household appliances.

9. This is what an installment contract might look like.

Seller's Name: ____________________ Contract # ________

RETAIL INSTALLMENT CONTRACT AND SECURITY AGREEMENT

The undersigned (herein called Purchaser, whether one or more) purchases from ____________ (Seller) and grants to ____________ a security interest in, subject to the terms and conditions hereof, the following described property.

QUANTITY	DESCRIPTION	AMOUNT	
	Description of Trade-in:		
	Sales Tax		
	Total		

PURCHASER'S NAME ____________

PURCHASER'S ADDRESS ____________

CITY ________ STATE ________ ZIP ________

1. CASH PRICE $________
2. LESS: CASH DOWN PAYMENT $________
3. TRADE-IN ________
4. TOTAL DOWN PAYMENT ________ $________
5. UNPAID BALANCE OF CASH PRICE $________
6. OTHER CHARGES: ________ $________
7. AMOUNT FINANCED $________
8. FINANCE CHARGE $________
9. TOTAL OF PAYMENTS $________
10. DEFERRED PAYMENT PRICE (1+6+8) $________
11. ANNUAL PERCENTAGE RATE ________%

Insurance Agreement

The purchase of insurance coverage is voluntary and not required for credit. (Type of Ins.) insurance coverage is available at a cost of $________ for the term of credit.

I desire insurance coverage

Signed ____________ Date ________

I do not desire insurance coverage

Signed ____________ Date ________

Purchaser hereby agrees to pay to ____________ at their offices shown above the "TOTAL OF PAYMENTS" shown above in ______ monthly installments of $______ (final payment to be $________) the first installment being payable ________ 19____, and all subsequent installments on the same day of each consecutive month until paid in full. The finance charge applies from (Date)

Signed ____________

Notice to Buyer: You are entitled to a copy of the contract you sign. You have the right to pay in advance the unpaid balance of this contract and obtain a partial refund of the finance charge based on the "Actuarial Method." [Any other method of computation may be so identified, for example, "Rule of 78's," "Sum of the Digits," etc.]

VOCABULARY:

installment buying (in–STAWL–ment BY–ing) – buying goods and promising to make weekly or monthly payments for them

contract (KON–tract) – a written agreement to do a certain thing. A contract has the force of law

terms – all the details that are included in an agreement

down payment – the part of the purchase price that is paid at the time of buying

state – to say or write exactly what is meant

durable (DOOR –ə–bl) – lasting a long time

appliance (a–PLY–əns) – a large tool that uses electricity or gas

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ASSIGNMENT:

1. Buying goods and promising to make weekly or monthly payments for them is known as ________________ buying.

2. The written agreement signed by a customer buying on the installment plan is called a. ________

3. The part of the purchase price paid at the time of buying is called the ____________ __________

4. If you make a purchase on the installment plan, when do you receive the article purchased?

5. List some items that consumers buy on the installment plan.

6. What can happen to goods bought on the stallment plan if the buyer does not make the payments he agreed to make?

Cost of Installment Plan Buying Lesson 8

INFORMATION: Why do installment purchases cost more than cash purchases? The merchant has the expense of collecting the buyer's money in small amounts and of recording the payments.

Also, when you buy on the installment plan, you are really borrowing money. You are really using the *merchant's* money. If you had paid cash, he could have put money in the bank and received interest on it. Or he could have used it in some other way to earn more money. He has the right to receive interest on his money.

1. You should know how much extra you are paying for being able to buy on the installment plan.

2. For example, a television set may cost \$184 – that is, if you are paying cash. The same television set on the installment plan may be \$204, with a down payment of \$24 and 10 months to pay the balance.

3. The installment price of the television set is . . . .\$204.
The cash price of the television set is . . . . 184.
The amount paid for installment credit is . . . . \$ 20.

This extra money that you pay is usually called the **carrying charge**.

4. If the installment price of the television set is $204 and you made a down payment of $24, you have borrowed $180 from the television store. You will pay a carrying charge of $20.

VOCABULARY:

carrying charge (KAR´–ri–ing CHARJ) – an extra charge to cover interest and the cost of record-keeping

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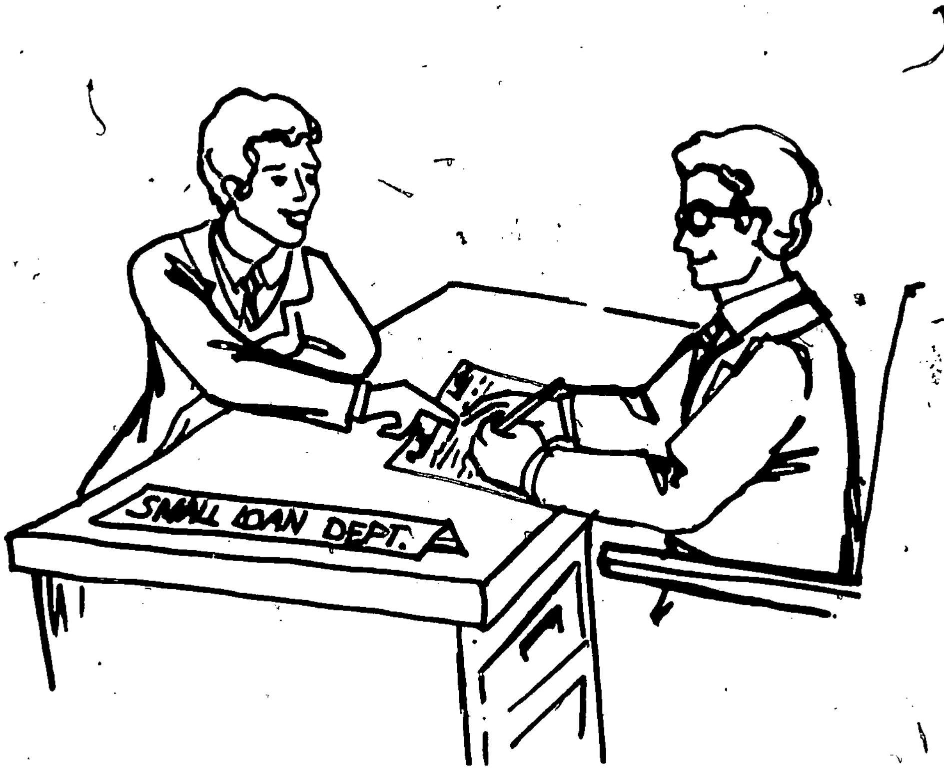
ASSIGNMENT:

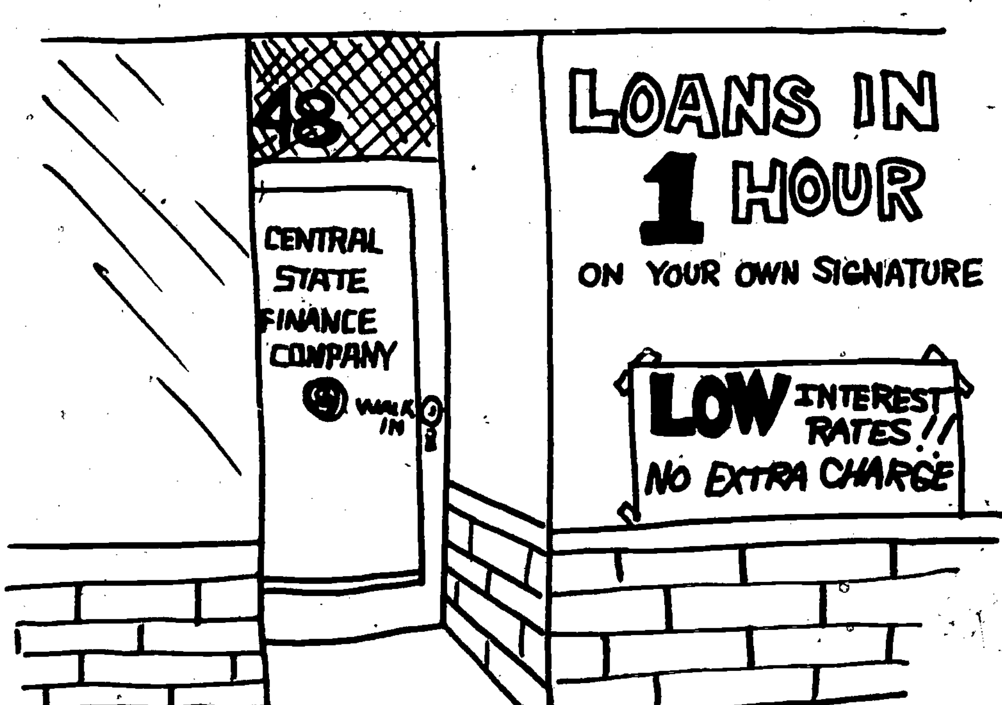
1. If a washing machine installment-purchase price is $240, with a down payment of $30, how much is each payment if it is to be paid for in 6 payments?

2. If the installment-purchase price of a radio is $75, and it is to be paid for in 10 months with no down payment, how much would you have to pay each month?



UNIT II

LOANS



UNIT II – LOANS

Loans **Lesson 1**

INFORMATION: People borrow money in order to pay for many kinds of goods and services. They borrow money to pay for houses, automobiles, hospital bills, and many other things. People may borrow money so that they can buy now instead of waiting for months or years until they have saved enough to make the purchase for cash. They would rather borrow the money than buy the item on the installment plan.

1. Consumers may get loans at banks, finance companies, savings and loan companies, or credit unions.

2. All of these organizations make a business of lending money. They charge interest on the loan.

3. These companies are willing to make loans to people whom they trust to repay the amount borrowed.

4. When a person borrows money, he must give a written promise to repay it at a certain time. A written promise of this kind is called a promissory note.

5. A promissory note may be in the form of a letter, or a printed paper that gives the necessary information.

$ 250.00 Trenton, N. J., December 5, *19--*
Ninety days *after date* I *promise to pay to*
the order of Mildred Lender
Two hundred fifty and no/100 *Dollars*
at People's Trust Co.
Value received
No. 72 *Due* May 5, Penny Borrower

6. A person with a good credit rating may be able to borrow money by just signing a note. Loans of this kind are sometimes called signature loans.

7. If a person does not have a very good credit rating, the signature of a second person may be demanded on a note. The second person is called a cosigner or co-maker. If the person who received the loan does not pay back as promised, then the cosigner must pay it.

8. In many cases the borrower of money will be asked to offer some kind of security to make sure that the money will be paid back.

9. If the borrower owns an automobile, a savings account, stocks or bonds, or other property of value, he may be able to offer it as security.

10. A borrower who has no property to offer as security may sign an agreement that gives the lender a right to collect part of the borrower's wages if the loan is not paid when it is due.

VOCABULARY:

finance company (fi–NANS KUM–pə–ni) – a company which makes small loans to people
credit union (YOON–yun) – a kind of bank for people who are workers in the same business, or members of the same union, or church, or club, etc. The purpose is to help the members save money and to lend money to those members who need to borrow.
promissory note (PROM–i–so–ree) – a written promise to repay borrowed money at a certain time
cosigner (KO–SINE–er) – a person who promises to pay a note if the borrower does not pay it
security (si–KYUR–i–tee) – something of value given as a promise that a person will pay back a loan

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ASSIGNMENT:

1. A written promise to pay back borrowed money at a certain time is a ______________

2. When a second person signs a note, he is called a __________

3. What can be offered as security for a loan?

4. What is a signature loan?

5. When you borrow money you must pay back the amount of the loan plus __________

UNIT II–LOANS

Cost of Loans **Lesson 2**

INFORMATION: The amount of money paid for the use of someone else's money is called interest. If a person has money in a savings account in a bank, the bank will pay *him* interest for the use of his money. But if he *borrows* money from the bank, then *he* must pay interest to the bank for the use of the bank's money.

The amount of interest depends on the amount of money borrowed, the amount of time for which it is borrowed, and the rate of interest he is charged.

1. The amount a person borrows is called the **principal**.

2. Interest is expressed as a certain part of a dollar. This part of a dollar, or percent, is called the rate of interest.

3. For example, an interest rate of 6% means that 6 cents must be paid for every dollar borrowed.

4. An annual rate of interest means the interest rate for one whole year. For example, if $100 is borrowed for 1 year at an annual rate of 5%, then the interest will be 5 cents for each dollar, or $5 for the $100.

5. If a person borrows $100 at a rate of 6% for 1 year, he must pay back the $100 plus 6% interest.
   If the money is borrowed for 2 years, he pays twice as much interest, or $12; for 3 years, he pays $18; and so on.

   Principal X Rate X Number of years = Interest

6. When figuring interest, you must change the percent rate to a decimal fraction.
   For example:
   - $200 borrowed at 6% for 1 year = $200 x .06 x 1 = $12.00
   - $500 borrowed at 5% for 2 years = $500 x .05 x 2 = $50.00
   - $750 borrowed at 8% for 3 years = $750 x .08 x 3 = $180.00

7. If money is borrowed for less than one year, the amount of interest is figured on the fractional part of the year. A month is one twelfth (1/12) of a year.

   Principal x Rate x $\frac{\text{Months}}{12}$ = Interest

8. For example:
   $200 borrowed at 6% for 1 month = $200 x .06 x 1/12 = $1.00
   $480 borrowed at 5% for 2 months = $480 x .05 x 2/12 = $4.00
   $900 borrowed at 8% for 3 months = $900 x .04 x 3/12 = $18.00

9. When a loan is made for a certain number of days, such as 30 days, 60 days, or 90 days, the interest is figured by days. We usually use 360 days as a year.
   So 30 days = 30/360, 60 days = 60/360, etc.

   $$\text{Principal} \times \text{Rate} \times \frac{\text{Days}}{360} = \text{Interest}$$

10. For example:
    $500 borrowed at 6% for 60 days – $500 x .06 x 60/360 = $5.00
    $800 borrowed at 4% for 90 days – $800 x .04 x 90/360 = $8.00

VOCABULARY:

interest (IN–trest) – amount of money paid for the use of someone else's money for a certain amount of time
principal (PRIN–si–pl) – amount of money borrowed
rate – percent; number of cents on each dollar
annual (AN–yoo–əl) – for each year, yearly

ASSIGNMENT:

1. The amount of money borrowed is called the____________

2. The amount paid for the use of money is called____________

3. If you borrowed $200 at 6% for 1 year, how much interest would you pay?

4. If you borrowed $500 for 2 years at 7% interest, how much interest would you pay?

5. If you borrowed $400 at 8% for one-half year, how much interest would you pay?

More About Loans | Lesson 3

INFORMATION: The date on which a note is due and must be paid is called the due date or date of maturity.

1. When the time of the note is stated in months, the date of maturity is the same day of the month as the day of the note.

2. For example, if a note for 1 month's time is dated March 15, it would be due April 15. If a note dated March 15 is for 2 months' time, it would be due May 15.

3. When the time of a note is given in days, the exact number of days must be counted to find the date of maturity.

4. The first day is not counted and the last day is counted. For example, if a promissory note is dated March 15 and is due in 90 days, on what day is it due?

   16 days remaining in March
   30 days in April
   31 days in May
   13 days needed in June to make 90 days

   90 days

   The due date is June 13.

5. When money is borrowed from a bank, interest is sometimes subtracted from the amount borrowed at the time the loan is made. Interest paid in advance in this way is known as discount.

6. The borrower does not actually receive the full amount given on the note he signs; he receives the amount of the note *less* the discount. The amount that the borrower receives is called the proceeds.

7. The note itself is called a discounted note.

8. For example, if you borrowed $1,000 with the promise to pay this amount in 60 days at 6% interest, you would receive $990.

The amount on the note (principal)	$1,000
The discount (interest on $1,000 at 6% for 60 days, subtracted in advance)	- 10
The proceeds (amount you would receive)	$ 990

   You would have to pay back $1000.

9. Instead of subtracting a discount, sometimes the amount of interest is added to the amount borrowed, and the borrower signs a note for the total.

10. For example, if you borrowed $1,200 for 60 days at 8%, it would work this way:

Amount borrowed	$1,200
Interest at 8% for 60 days	16
The amount on the note you would sign would be	$1,216

VOCABULARY:

date of maturity (ma–CHUR–ə–tee) – the date on which a note comes due and should be paid

discount (DISS–kount) – interest subtracted in advance from the total amount borrowed

proceeds (PROH–seedz) – the amount of money received by a borrower after the discount is subtracted from the principal

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ASSIGNMENT:

1. The date on which a note comes due and must be paid is called the date of_______

2. Interest subtracted in advance from the total amount borrowed is called__________

3. The amount of money received by a borrower after the discount is subtracted from the principal is known as the__________

4. If a note dated January 15 is due in 1 month, on what day is it due?____________

5. If a note dated April 15 is due in 90 days, on what day is it due?

Installment Loans **Lesson 4**

INFORMATION: Many people find it hard to pay back a loan in 6 months or in 1 year. For example, if a person borrowed $500 for 6 months at 8% interest, he might find it hard to save the $520 needed to pay back the loan at the end of the 6 months.

To make paying a loan easier, lenders often arrange for the payments of principal and interest to be made in weekly or monthly payments, called installments. Such a loan is called an **installment loan.**

1. Banks, finance companies, credit unions, and other organizations offer installment loans.

2. If money is borrowed from a bank on the installment plan, the interest is usually added to the amount of the loan, and the borrower signs a note for the total amount.

3. For example, if Marie Jackson borrows $100 at 8% for one year, she may sign a note for $108, which is $100 plus $8 interest. Since she will pay it back in one year, that will be 12 monthly installments. Each installment is $9. ($108 divided by 12 payments = $9 each month).

4. Marie is *not* paying an *annual* interest rate of 8%. She is actually paying almost 15%! The reason is that she *does not have the use of* the full $100 for a whole year. Each month she pays some of it back. That is why the *true annual interest rate* is much more than 8%.

5. Small-loan companies (finance companies) make loans up to $500 and in some cases up to $1,000. They will often lend money to people who do not have the best credit ratings.

6. These companies, however, charge higher interest rates on their loans than other lenders. Sometimes they also add a service charge to the interest charge.

7. Small-loan companies charge an interest rate each month on the **unpaid balance** until the loan is paid in full.

8. For example, Jeffry Jackson borrowed $100 from a small-loan company and agreed to make payments of $20 a month plus 2½% each month on the unpaid balance until the loan was paid in full. The payments would be as follows:

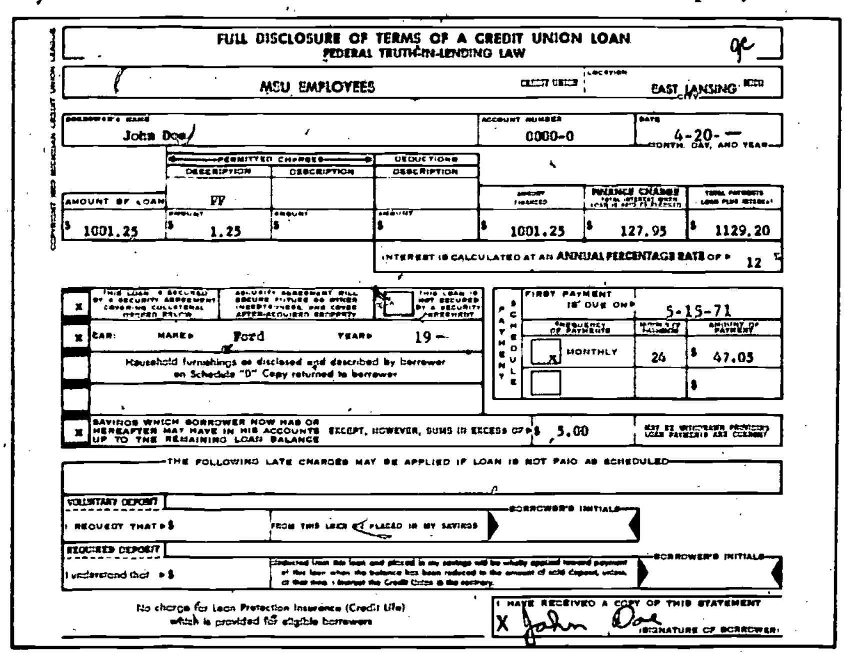
At the end of this month	*The unpaid balance was:*	*Interest to be paid on the balance was:*	*Monthly payment to be made on principal*	*Total Monthly Payment*
First	$100	$2.50	$20	$22.50
Second	80	2.00	20	22.00
Third	60	1.50	20	21.50
Fourth	40	1.00	20	21.00
Fifth	20	.50	20	20.50
	0	$7.50	$100	$107.50

9. In this plan the total amount paid each month is not the same because the amount of interest charged on each unpaid balance becomes less.

10. It looks as if Jeffry is paying a small amount of interest ($7.50) for a loan of $100. But he had the use of the full $100 for only 1 month. He had the use of $80 for the next month. He had the use of $60 for the next month. And so on.

11. The *true annual interest rate* that Jeffry paid was actually 30% (2½% per month x 12 months in 1 year).

12. A person who needs to borrow money should try to find out where he can get a loan at the cheapest rate. By law a person must be told the true annual rate. If a person has a good credit rating, he should try a bank or credit union rather than a finance company.


FULL DISCLOSURE OF TERMS OF A CREDIT UNION LOAN
FEDERAL TRUTH-IN-LENDING LAW

MSU EMPLOYEES CREDIT UNION — LOCATION: EAST LANSING

Borrower's name: John Doe — Account number: 0000-0 — Date: 4-20-— (month, day, and year)

Amount of loan	Permitted charges: FF		Deductions	Amount financed	Finance charge	Total payments
$ 1001.25	$ 1.25	$	$	$ 1001.25	$ 127.95	$ 1129.20

Interest is calculated at an ANNUAL PERCENTAGE RATE of ▸ 12 %

Car: Make ▸ Ford Year ▸ 19—

Household furnishings as disclosed and described by borrower on Schedule "D" Copy returned to borrower

Payment schedule: First payment is due on ▸ 5-15-71 — Monthly — 26 — $ 47.05

Savings which borrower now has or hereafter may have in his accounts up to the remaining loan balance except, however, sums in excess of ▸ $ 5.00

The following late charges may be applied if loan is not paid as scheduled

Voluntary deposit — I request that ▸ $ from this loan be placed in my savings — Borrower's initials

Required deposit — I understand that ▸ $ — Borrower's initials

No charge for Loan Protection Insurance (Credit Life) which is provided for eligible borrowers

I have received a copy of this statement
X John Doe (signature of borrower)

Michigan State University Employees Credit Union

VOCABULARY:

installment loan (in–STAWL–ment LOHN) – a loan paid back in weekly or monthly payments
service charge (SER–viss–CHAHRJ) – a charge, other than interest, sometimes added to the amount borrowed
unpaid balance (un–PAYD BAL–enss) – an amount not yet paid back to the lender

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ASSIGNMENT:

1. A loan paid back in weekly or monthly payments is called an ____________ loan.

2. The amount that has not yet been paid back to the lender is the ________ ________

3. A charge, other than interest, sometimes added to the amount borrowed is called a __________ charge.

4. Explain how an installment loan is different from a regular loan.

5. Where can you get an installment loan?

6. Most revolving credit plans charge 1½% a month on the unpaid balance. What is the true annual interest rate?