Lesson 13

Take Control of Debt: Become a Savvy Borrower

Lesson Description

After reviewing the difference between term loans and revolving credit, students analyze a fictitious character's use of credit to calculate the amount of interest the borrower paid. As a class, students will discuss the components of a disclosure form from a credit offer and brainstorm ways to minimize the cost of credit. Outside of class, students will research the terms of various revolving credit offers.

National Standards in K-12 Personal Finance Education (www.jumpstart.org)

Credit and Debt
Standard 1: Identify the costs and benefits of various types of credit.

Instructional Objectives

Students will:

- Compute the finance charges on a revolving credit account (open-end account).
- Identify ways to minimize finance charges on a revolving account.
- Compare the terms of various revolving credit offers by analyzing disclosure statements.

Time Required

One 50-minute class period

Materials Required

- Calculators for students
- Copies of the following classroom visuals
  - *Visual 1: Types of Consumer Credit*
  - *Visual 2A: Credit Card Disclosure*
  - *Visual 2B: Credit Card Disclosure (continued)*
- Copies of the following handouts for each student
  - *Handout 1: The Cost of Credit Cards*
  - *Handout 2: Disclosure Terms*
  - *Handout 3: Credit Card Research*
  - Copy of *Appendix 1* or access to the Internet

Procedure

Building Wealth, pages 19–24, and the **Take Control of Debt** section of the CD-ROM contain information and visuals related to this lesson.

1. Display *Visual 1: Types of Consumer Credit*. Remind students that term loans were discussed in Lesson 12. These loans are fixed in length, and payment amounts and total finance charges are disclosed at the start of the loan.

2. Use the information on *Visual 1: Types of Consumer Credit* to review common types of revolving credit. Discuss the features of revolving, or open-end, credit:
   - May be used repeatedly. As purchases are paid off, the credit can be used for new purchases.
   - Typically has a prearranged borrowing (or credit) limit.
   - Incurs a periodic finance charge that is computed as a percentage of the unpaid balance.
   - Requires a minimum monthly payment that is usually a percentage of the balance due.
   - Allows borrowers flexibility to select the monthly payment amount as long as the payment is greater than the minimum.

3. Distribute *Handout 1: The Cost of Credit Cards* and calculators to students. Review the scenario on the handout with the class. Have students work in pairs to compute the items on the monthly statements.

   Use the following information to guide students. Each month, the credit card statement is built in several steps:
   - The new balance from the prior month is brought forward as the previous balance.
   - The payment is subtracted, resulting in the remaining balance.
   - The remaining balance is multiplied by the monthly interest rate of 1.5 percent to find the current finance charge.
   - The current finance charge and new purchases are added together to compute the new balance.
   - The minimum payment is computed as a percentage of the new balance.

4. Review the correct answers with the class. Remind students that open-end credit accounts have unique features (like minimum payments) that make them different from other types of loans. These features provide borrowers like Susan, the college freshman, budget flexibility. However, over time, making only the minimum payment can lead to long periods of repayment and high finance charges.

5. Ask students to describe ways for a consumer to minimize finance charges with revolving credit. Answers may vary but should include:
   - Minimize the amount that is charged.
   - Shop for the lowest APR.
   - Pay off the balance as quickly as possible.

6. Display *Visual 2A & 2B: Credit Card Disclosure* or show the disclosure form that can be found at http://www.federalreserve.gov/creditcard/ (click on “Learn more about your offer”). Use the information from the website or from *Appendix 1* to introduce the major components of a credit card disclosure. Tell students that this information allows consumers to compare various offers for credit.

7. Distribute *Handout 2: Disclosure Terms*. Allow students to work in pairs to match the term with the correct description. Review the correct answers with the class.

Closure

8. Review the major concepts of the lesson, using the following questions:
   - What are the two types of credit?
     Term loans and revolving credit

- How is revolving credit different from a term loan?
  While term loans have a fixed number of payments of a predetermined amount, revolving credit has flexible payment amounts (with a minimum payment required). Because the borrower can choose the payment amount, the time required to pay off the loan and the total finance charges can vary greatly.
- How can a borrower reduce the total finance charges for open-end credit?
  By shopping for lower APR and by paying more than the minimum payment to reduce the payoff time
- Where can a borrower find information about the terms of a credit offer?
  The terms are found in the disclosure statement.

Assessment

9. Distribute *Handout 3: Credit Card Research*. Have students complete the assignment for homework by visiting retail stores or by conducting online research.
   - In order to complete this assignment in class, the teacher could collect credit offers from various merchants for student use.
   - The teacher could specify the particular types of creditors that students are required to research. Possibilities include retailers (department stores, electronics stores, gas stations) and banks that issue credit cards such as Visa or MasterCard.

This lesson plan was developed using the publication *Choosing a Credit Card* , Federal Reserve Board of Governors. Available online at **www.federalreserve.gov/pubs/brochure.htm**.

Visual 1: Types of Consumer Credit

Revolving credit—a line of credit that may be used repeatedly, with a prearranged borrowing limit; periodic finance charges are computed on the unpaid balance; minimum payment is usually a percentage of the balance due

Common types of revolving (open-end) credit include:

- Credit cards (bank or department store)
- Home equity lines of credit
- Check-overdraft accounts that allow a borrower to write checks over the actual balance in the bank

Term credit—a loan for a predetermined amount that requires specified payments at regular intervals over the life of the loan; finance charges are agreed upon at the start of the loan

Common types of term (closed-end) credit include:

- Mortgage loans
- Student loans
- Vehicle loans
- Loans for other major purchases

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Visual 2A: Credit Card Disclosure

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for purchases	**8.99%**, **10.99%** or **12.99%** introductory APR for one year, based on your creditworthiness. After that, your APR will be **14.99%**. This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	**15.99%** This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	**21.99%** This APR will vary with the market based on the Prime Rate.
Penalty APR and When It Applies	**28.99%** This APR may be applied to your account if you: 1) Make a late payment; 2) Go over your credit limit; 3) Make a payment that is returned; or 4) Do any of the above on another account that you have with us. How Long Will the Penalty APR Apply?: If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
How to Avoid Paying Interest on Purchases	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge	If you are charged interest, the charge will be no less than $1.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at **http://www.federalreserve.gov/creditcard**.
Fees	
Set-Up and Maintenance Fees	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $250, your initial available credit will be only about $209 (or about $204 if you choose to have an additional card).
• Annual Fee	**$20**
• Account Set-Up Fee	**$20** (one-time fee)
• Participation Fee	**$12** annually (**$1** per month)
• Annual Card Fee	**$5** annually (if applicable)

Visual 2B: Credit Card Disclosure (continued)

Transaction Fees	
• Balance Transfer	Either **$5** or **3%** of the amount of each transfer, whichever is greater (maximum fee: $100).
• Cash Advance	Either **$5** or **3%** of the amount of each cash advance, whichever is greater.
• Foreign Transaction	**2%** of each transaction in U.S. dollars.
Penalty Fees	
• Late Payment	**$29** if balance is less than or equal to $1,000; **$35** if balance is more than $1,000
• Over-the-Credit-Limit	**$29**
• Returned Payment	**$35**
How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)."	
Loss of Introductory APR: We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.	

Source: http://www.federalreserve.gov/creditcard.

Name:____Date:_____________

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Handout 1: The Cost of Credit Cards

Susan, a freshman in college, got a new credit card over the summer. Use the following information to complete the tables below and discover what happened during her first semester.

Her credit card has an 18% APR with a minimum payment of 3% of the balance or $10, whichever is greater. Each month, interest charges are computed as 1.5% (18% ÷ 12 months) of the unpaid balance on her statement, before new charges are added.

In August, she bought books for her classes ($250) and some items for her dorm room ($90). Because she had not used her card before, she had a zero balance at the beginning of the month. Her first bill came on August 31. She could either pay the total balance or a minimum payment of 3% of that balance. She was a little short of cash, so she only paid the minimum due on her credit card.

August 31 Statement	
Previous balance	0
Current finance charge	0 * .015 = 0
New charges	$340.00
New balance	$340.00
Minimum payment	$340 * .03 = $10.20

In September, Susan wanted to go to the first out-of-town football game with some friends. She paid for the hotel room ($85) with her credit card, and her friend bought the gas and the game tickets. On her statement dated September 30, finance charges were added to the unpaid balance from August. Her new balance included her previous balance less her payment, the finance charges and new purchases. She could pay the entire balance, or she could pay the minimum due. Once again, she knew that she should pay the entire balance, but she decided that she would take care of that later. She paid the minimum payment.

September 30 Statement	
Previous balance	
Payment	
Remaining balance	$329.80
Current finance charge	
New charges	
New balance	
Minimum payment	

Name:____Date:______________

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Handout 1: The Cost of Credit Cards

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In October, it was homecoming at the university. Susan wanted new clothes for the weekend. She charged a sweater to wear to the game ($50) and a dress for the dance ($149). For one more month, Susan paid only the minimum.

October 31 Statement	
Previous balance	
Payment	
Remaining balance	
Current finance charge	
New charges	
New balance	
Minimum payment	

When she took her car to have the oil changed before she drove home for Thanksgiving, the mechanic told her that her tires were not safe and she needed new ones before the long drive. The oil change and the tires totaled $425.

November 30 Statement	
Previous balance	
Payment	
Remaining balance	
Current finance charge	
New charges	
New balance	
Minimum payment	

Complete the following table using information from Susan's monthly statements.

Total purchases	
Balance at the end of November	
Difference between purchases and balance (How much has she paid off?)	
Finance charges in four months	
Total of all monthly payments	

Did you know…?
If Susan never charges anything else and continues to make only the minimum payment, it will take her more than 10 years (122 months) to pay off the credit card. During that time, she will pay $826.74 in finance charges.

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Handout 1: The Cost of Credit Cards

Suggested Answers

August	
Previous balance	0
Current finance charge	0 * .015 = 0
New charges	$340.00
New balance	$340.00
Minimum payment	$340 * .03 = $10.20

September	
Previous balance	$340.00
Payment	$10.20
Remaining balance	$329.80
Current finance charge	$4.95
New charges	$85.00
New balance	$419.75
Minimum payment	$12.59

October	
Previous balance	$419.75
Payment	$12.59
Remaining balance	$407.16
Current finance charge	$6.11
New charges	$199.00
New balance	$612.27
Minimum payment	$18.37

November	
Previous balance	$612.27
Payment	$18.37
Remaining balance	$593.90
Current finance charge	$8.91
New charges	$425.00
New balance	$1,027.81
Minimum payment	$30.83

Total purchases	$1,049.00
Balance at the end of November	$1,027.81
Difference between purchases and balance (How much has she paid off?)	$21.19
Finance charges in four months	$19.97
Total of all monthly payments	$41.16

Name:____Date:________________

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Handout 2: Disclosure Terms

Match the following descriptions with the appropriate term from a credit card disclosure statement. Write the correct letter in the space before each number.

___ 1. A fee you may be charged if you make a payment with a check or a direct debit, but you don't have enough money in your account to cover the payment

___ 2. The fee the credit card company may charge you if your balance goes over your credit limit

___ 3. The minimum amount of interest you will be charged in one billing cycle

___ 4. The amount you'll be charged during each 12-month period for having the card

___ 5. The fee you will pay if you transfer a balance from another card

___ 6. The interest rate you pay, on an annual basis, if you transfer a balance from another card

___ 7. The interest rate you pay, on an annual basis, if you carry over balances on purchases from one billing cycle to the next

___ 8. A one-time fee for opening and setting up the account

___ 9. The fee you will pay if you make a transaction in a foreign country

___ 10. The fee you may be charged if you pay your bill late

___ 11. The interest rate you pay if you withdraw a cash advance from your credit card account

___ 12. The fee you will pay if you withdraw a cash advance from your credit card account

___ 13. A one-time fee or an annual fee for having a second card for the account

___ 14. The interest rate you will pay if you fail to make payments on time or violate the terms of the account in some other way

___ 15. Usually a monthly fee for having the card

a. Account set-up fee
b. Additional card fee
c. Annual fee
d. APR for balance transfers
e. APR for cash advances
f. APR for purchases
g. Balance transfer fee
h. Cash advance fee
i. Foreign transaction fee
j. Late payment fee
k. Minimum interest charge
l. Over-the-limit fee
m. Participation fee
n. Penalty APR
o. Returned payment fee

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Handout 2: Disclosure Terms

Suggested Answers

__o__1. A fee you may be charged if you make a payment with a check or a direct debit, but you don't have enough money in your account to cover the payment

__l__2. The fee the credit card company may charge you if your balance goes over your credit limit

__k__3. The minimum amount of interest you will be charged in one billing cycle

__c__4. The amount you'll be charged during each 12-month period for having the card

__g__5. The fee you will pay if you transfer a balance from another card

__d__6. The interest rate you pay, on an annual basis, if you transfer a balance from another card

__f__7. The interest rate you pay, on an annual basis, if you carry over balances on purchases from one billing cycle to the next

__a__8. A one-time fee for opening and setting up the account

__i__9. The fee you will pay if you make a transaction in a foreign country

__j__10. The fee you may be charged if you pay your bill late

__e__11. The interest rate you pay if you withdraw a cash advance from your credit card account

__h__12. The fee you will pay if you withdraw a cash advance from your credit card account

__b__13. A one-time fee or an annual fee for having a second card for the account

__n__14. The interest rate you will pay if you fail to make payments on time or violate the terms of the account in some other way

__m__15. Usually a monthly fee for having the card

a. Account set-up fee
b. Additional card fee
c. Annual fee
d. APR for balance transfers
e. APR for cash advances
f. APR for purchases
g. Balance transfer fee
h. Cash advance fee
i. Foreign transaction fee
j. Late payment fee
k. Minimum interest charge
l. Over-the-limit fee
m. Participation fee
n. Penalty APR
o. Returned payment fee

Name:____Date:____________

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Handout 3: Credit Card Research

Complete the following table using disclosure statements from credit card offers. Select one application from each revolving-credit offer. Attach the original offer or print and attach the online disclosure.

	Card A	Card B
Name of the Issuer		
Annual Percentage Rate (APR) for Purchases		
APR for Balance Transfers		
APR for Cash Advances		
Penalty APR		
Annual Fee		
Account Set-Up Fee		
Participation Fee		
Annual Card Fee		
Balance Transfer Fee		
Cash Advance Fee		
Foreign Transaction Fee		
Late Payment Fee		
Over-the-Credit-Limit Fee		
Returned Payment Fee		
Balance Calculation Method		
Loss of Introductory APR		
Other Features of the Card (rebates, frequent flier miles, insurance, etc.)		

Apendix 1: Parts of a Credit Card Disclosure

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for purchases 1	**8.99%**, **10.99%** or **12.99%** introductory APR for one year, based on your creditworthiness. After that, your APR will be **14.99%**. This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers 2	**15.99%** This APR will vary with the market based on the Prime Rate.
APR for Cash Advances 3	**21.99%** This APR will vary with the market based on the Prime Rate.
Penalty APR and When It Applies 4	**28.99%** This APR may be applied to your account if you: 1) Make a late payment; 2) Go over your credit limit; 3) Make a payment that is returned; or 4) Do any of the above on another account that you have with us. How Long Will the Penalty APR Apply?: If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
How to Avoid Paying Interest on Purchases 5	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge 6	If you are charged interest, the charge will be no less than $1.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard.
Fees	
Set-Up and Maintenance Fees 7	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $250, your initial available credit will be only about $209 (or about $204 if you choose to have an additional card).
• Annual Fee	**$20**
• Account Set-Up Fee	**$20** (one-time fee)
• Participation Fee	**$12** annually (**$1** per month)
• Annual Card Fee	**$5** annually (if applicable)

Appendix 1: Parts of a Credit Card Disclosure (continued)

	Transaction Fees	
	• Balance Transfer	Either **$5** or **3%** of the amount of each transfer, whichever is greater (maximum fee: $100).
	8	
	• Cash Advance	Either **$5** or **3%** of the amount of each cash advance, whichever is greater.
	• Foreign Transaction	**2%** of each transaction in U.S. dollars.
	Penalty Fees	
	9	
	• Late Payment	**$29** if balance is less than or equal to $1,000; **$35** if balance is more than $1,000
		10
	• Over-the-Credit-Limit	**$29**
	• Returned Payment	**$35**
11	**How We Will Calculate Your Balance:** We use a method called “average daily balance (including new purchases).”	
12	**Loss of Introductory APR:** We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.	

Source: http://www.federalreserve.gov/creditcard.

Descriptions

1) APR for purchases

The interest rate you pay, on an annual basis, if you carry over balances on purchases from one billing cycle to the next. If the card has an introductory rate, you will also see the rate that applies after the introductory rate ends. Multiple interest rates may be listed here. Your rate will depend on your creditworthiness, which is based on your debt, income, credit score, and other factors, such as your history of paying bills on time.

2) APR for balance transfers

The interest rate you pay, on an annual basis, if you transfer a balance from another card. Balance transfer fees may apply, even if the balance transfer APR is 0%. If there is an introductory rate, pay attention to when that rate ends and what the new rate will be.

3) APR for cash advances

The interest rate you pay if you withdraw a cash advance from your credit card account. Cash advance fees may also apply. Most credit card companies charge interest immediately, starting from the date you get the cash advance.

4) Penalty APR and when it applies

Your credit card company may increase your interest rate for several reasons. For example, if you: a. pay your bill late, b. go over your credit limit, c. make a payment that is returned, or d. do any of these on another account that you have with the same company.

Appendix 1: Parts of a Credit Card Disclosure (continued)

Be sure to read the terms and conditions of your card to know what can cause your interest rate to go up. If you trigger the penalty rate, your credit card company must tell you that they will be raising your rate 45 days in advance of the increase.

How long will the penalty APR apply?

Credit card companies must tell you how long the penalty rates will be in effect. You may be able to go back to regular rates if you pay your bills on time for a period of time (for example, 6 months). Companies may not automatically remove the penalty rates. You may have to ask your credit card company to lower the rates.

5) How to avoid paying interest on purchases

You can avoid interest charges on purchases by paying your bill in full by the due date. About 40 percent of U.S. households pay in full each month; the remainder, about three out of five U.S. households, carry a balance and pay interest on their credit card accounts.

6) Minimum interest charge

Credit card companies often have a minimum interest amount. These charges typically range from $0.50 to $2 per month. Even if you carry over a low balance, you can be charged a minimum amount of interest. If the minimum interest charge is $1 or less, the company does not need to disclose this charge here.

Example: Your balance is $25 and your APR is 12%. Your card has a minimum interest charge of $2. Based on your balance of $25, your monthly interest would be $0.25 (as calculated by the APR), but instead you will be charged $2.

7) Set-up and maintenance fees

Some credit cards offered to people with lower, or subprime, credit scores may charge a variety of fees. Some fees are charged before the card is used and may reduce the amount of credit initially available. These fees can include:

- **Annual fee**—The amount you'll be charged during each 12-month period for having the card.
- **Account set-up fee**—Usually a one-time fee for opening and setting up the account.
- **Participation fee**—Usually a monthly fee for having the card.
- **Additional card fee**—This can be a one-time fee or an annual fee for having a second card for the account.

Example: You are assigned the minimum credit limit of $250, your initial available credit will be only about $209 (or about $204 if you choose to have an additional card).

8) Transaction Fees (balance transfer, cash advance, foreign transaction)

Credit card companies may charge you a fee for transferring a balance, getting a cash advance, or making a transaction in a foreign country. These fees can be either a fixed dollar amount (for example, $5) or a percentage of the transaction amount (for example, 3%). If you are planning to transfer a balance, get a cash advance, or make foreign transactions, check your agreement for these fees.

9) Penalty fees (late payment, over the limit, returned payment)

Late payment. Credit card companies may charge you a fee if you pay your bill late. Some companies may charge different fees depending on your balance — the higher your balance, the higher the late fee.

Over-the-limit. If you have consented to extensions of credit that exceed your credit limit (opt-in to

Appendix 1: Parts of a Credit Card Disclosure (continued)

going limit), credit card companies may also charge you a fee if your balance goes over your credit limit. Rather than denying a transaction, your credit card company may let the transaction go through but then charge you a fee for going over your limit.

Returned payment. If you make a payment, but you don't have enough money in your account to cover the payment, your credit card company may charge you a returned payment fee, just like a bounced check fee. This can happen whether you pay with a check or with a direct debit from your account.

10) Other fees

Some cards require credit insurance, or debt cancellation, or debt suspension coverage. Credit card companies may call this "account protection" or something similar.

Example: Your credit card offers debt suspension coverage for up to 90 days if you become unemployed. If you lose your job, you may be able to stop making payments on your credit card for about 3 months. But interest may still continue to be added to your balance during the debt suspension period.

11) How we will calculate your balance

Credit card companies can use one of several methods to calculate your outstanding balance. The method they use can make a big difference in the interest charges you'll pay. Find out if the card calculates your balance:

- using average balance or adjusted balance,
- including or excluding new purchases.

Depending on the balance you carry over and the timing of your purchases and payments, you'll usually have a lower finance charge with:

- the adjusted balance method,
- the average daily balance method, excluding new purchases, or
- the previous balance method.

Descriptions of balance calculation methods:

Adjusted balance method. The balance is the outstanding balance at the beginning of the billing cycle, minus payments and credits made during the billing cycle.

Average daily balance method, including new purchases. The balance is the sum of the outstanding balances for every day in the billing cycle (including new purchases and deducting payments and credits) divided by the number of days in the billing cycle.

Average daily balance method, excluding new purchases. The balance is the sum of the outstanding balances for every day in the billing cycle (excluding new purchases and deducting payments and credits) divided by the number of days in the billing cycle.

Previous balance method. The balance is the outstanding balance at the beginning of the billing cycle.

12) Loss of introductory APR

If your card has a special, lower rate that is called an "introductory rate," this area will list the ways that you can lose this lower rate. For the first year after opening an account, you can only lose an introductory rate if your account becomes more than 60 days past due.

Source: http://www.federalreserve.gov/creditcard.

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Optional Activity – Lending Lingo

Instructions

1. Before playing the game
   - Each set of Lending Lingo cards contains 11 term cards and 11 definition cards. Copy enough sets of cards so that when the class is divided into pairs, each pair will have one set.
   - After making the copies, cut the cards apart and shuffle them. Place each set of 22 cards in a separate envelope.

2. Divide the students into pairs and give each pair a set of 22 cards. Students should spread out the cards face down on a desk.

3. Review the game instructions with students
   - Student 1 turns over two cards. If the cards contain a term and a matching definition, the student keeps both cards and continues his or her turn. Student 1 continues to play until the term card and the definition card that are drawn do not match.
   - The two cards that do not match are returned to the table face down.
   - Student 2 takes a turn and continues until a pair of cards is drawn that do not match.
   - Continue play until all terms are matched to the correct definition.
   - The student with the most pairs of cards is the winner of that round.

4. Student pairs could play additional rounds with other card sets.

5. The uncut original handout can serve as a key to confirm pairs. A copy of the key can be included in each envelope at the teacher's discretion.

Optional Activity – Lending Lingo

Card Set 1

Promissory note	Written promise on a financial instrument to repay the money plus interest
Principal	Unpaid balance on a loan, not including interest
Finance charge	Total dollar amount credit will cost
Mortgage	Temporary and conditional pledge of property to a creditor as security for the repayment of a debt
Loan	Sum of money lent at interest
Collateral	Property, such as stocks, bonds or a car, offered to support a loan and subject to seizure if you default
Debit card	Plastic card similar to a credit card that allows money to be with-drawn or the cost of purchases paid directly from the holder's bank account
Credit card	Plastic card from a financial services company that allows card-holders to buy goods and services on credit
Creditor	Person, financial institution or other business that lends money
Creditworthiness	Past, present and future ability to repay debts
Credit reporting company	Organization that compiles credit information on individuals and businesses and makes it available for a fee

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Optional Activity – Lending Lingo

Card Set 2

Credit score	Number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time
Debt	Money owed; also known as a liability
Liability	Money an individual or organization owes; same as debt
Prime rate	Lowest interest rate on bank loans, offered to preferred borrowers
Term loan	Loan for a predetermined amount that requires specified payments at regular intervals over the life of the loan
Credit report	Loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid
Open-end credit	Line of credit that may be used repeatedly, including credit cards, overdraft credit accounts, and home equity lines; also called revolving credit
Overdraft checking	Line of credit that allows checks to be written for more than the account balance, with an interest charge on the overdraft
Foreclosure	Legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt
Bankruptcy	Legal proceeding declaring that an individual is unable to pay debts
Balloon payment	Large extra payment that may be charged at the end of a loan or lease

Lesson 13 – Take Control of Debt: Become a Savvy Borrower

Optional Activity – Lending Lingo

Card Set 3

Disclosures	Information that must be given to consumers about their financial dealings
Credit insurance	Health, life, accident or disruption of income insurance designed to pay the outstanding balance on a debt.
Credit	Granting of money or something else of value in exchange for a promise of future repayment
Home equity line of credit	Form of open-end credit in which the home serves as collateral
Balance sheet	Financial statement showing a “snapshot” of the assets, liabilities and net worth of an individual or organization on a given date
Interest	Fee for the use of money over time; an expense to the borrower and revenue to the lender
Default	Failure to repay a loan or otherwise meet the terms of your credit agreement
Joint account	Credit account held by two or more people so that all can use the account and all assume legal responsibility to repay
Annual percentage rate (APR)	Cost of credit expressed as a yearly percentage rate
Cosigner	Another person who signs your loan and assumes equal responsibility for it
Balance	Amount owed on a loan or credit card