Personal Finance Virtual Learning

# 11th and 12th/ Lesson: Intro to Credit

Lesson: 4/17/2020

**Students will be able to:**

Explore the use of credit

Evaluate the types of credit

Explore interest rates and the financial impact

## Let's Get Started:

There are different types of credit.

- Intentional Credit
    - loans, mortgages, and credit cards are types of credit that you take out intentionally
- Overdrafts
    - are typically done accidentally when you do not have sufficient funds in your account. Your bank will loan you the funds to cover your overdraft.

Watch: What is Credit

1. Define in your own words what credit is.
2. Which types of credit involve repaying a fixed amount for a fixed number of months?
3. Which types of credit involve re-paying different amounts each month, depending on your activity?

Watch: [Loan Basics]

1. List two reasons someone would want access to credit.
2. Which of these words refers to the length of time you have to pay off an installment loan? Principal; Term; Interest rate
3. Describe how a secured loan is different from an unsecured loan.

**Answers:**

1. Credit is being able to obtain a good or service with an agreement to pay for it in the future.
2. A loan is credit that involves repaying a fixed amount for a fixed number of months.
3. Credit cards are credit that involve re-paying different amounts each month, depending on your activity.
4. Answers vary as such to purchase a car or house.
5. Term refers to the length of time you have to pay off an installment loan.
6. A secured loan is backed by collateral, the lender can take possession of the collateral if you don’t pay. An unsecured loan is not protected by any collateral.

**Practice:**

Use this General Loan Calculator to calculate:

1. How much would your loan payment be for a $10,000 loan for one year term at a 3.9% interest rate?
2. What would it be if it were for a two year term?
3. How much would it be for one year but at a 7.9% interest rate?

Use this Credit Card Payoff Calculator to calculate:

4. How long would it take to pay off $10,000 at 18% APR if only making the minimum monthly payment?
5. What is the total amount you would be paying?
6. What if you made $500 monthly payments instead, how long would it take to pay it off?
7. What is the total amount you would be paying?

**Practice Answers:**

1. How much would your loan payment be for a $10,000 loan for one year term at a 3.9% interest rate? *$851.04 a month*

2. What would it be if it were for a two year term? *$433.80 a month*

3. How much would it be for one year but at a 7.9% interest rate? *$869.42 a month*

4. How long would it take to pay off $10,000 at 18% APR if only making the minimum monthly payment? *5 years and 2 months*

5. What is the total amount you would be paying? *$15,386*

6. What if you made $500 monthly payments instead, how long would it take to pay it off? *2 years*

7. What is the total amount you would be paying? *$11,978*

**Additional Practice:**

Click on the link below to get additional practice and to check your understanding.

[Quizlet Personal Finance Credit]

**Additional Resources:**

How Loans Work and How to Borrow Wisely

11 Credit Myths: Don’t Fall for ‘Em