Lesson Description

Students learn how to compare various small loans including easy access loans. Through the use of an online calculator, students determine the total repayment as well as the total interest that will be paid for loans and credit cards. They then create a human graph that reflects their knowledge of how the loan term and the Annual Percentage Rate (APR) affect the total repayment of the loan.

Texas Essential Knowledge and Skills (Target standards)

- **PFL Math 8.12A**: solve real-world problems comparing how interest rate and loan length affect the cost of credit
- **PFL Math 8.12B**: calculate the total cost of repaying a loan, including credit cards and easy access loans, under various rates of interest and over different periods using an online calculator
- **PFL Math 8.12F**: analyze situations to determine if they represent financially responsible decisions and identify the benefits of financial responsibility and the costs of financial irresponsibility

Texas Essential Knowledge and Skills (Prerequisite standards)

- **Math 8.1A**: apply mathematics to problems arising in everyday life, society, and the workplace

National Standards (Supporting standards)

- **CEE Using Credit 8.2**: The longer the repayment period on a loan and the higher the interest rate on the loan, the larger is the total amount of interest charged on a loan.
- **CEE Using Credit 8.3**: A credit card purchase is a loan from the financial institution that issued the card. Credit card interest rates tend to be higher than rates for other loans. In addition, financial institutions may charge significant fees related to a credit card and its use.
- **CEE Using Credit 8.4**: Borrowers who use credit cards for purchases and who do not pay the full balance when it is due pay much higher costs for their purchases because interest is charged monthly. A credit card user can avoid interest charges by paying the entire balance within the grace period specified by the financial institution.
- **CEE Using Credit 8.5**: Various financial institutions and businesses make consumer loans and may charge different rates of interest.
- **CEE Using Credit 8.8**: People can use credit to finance investments in education and housing. The benefits of using credit in this way are spread out over a period of time and may be large. The large costs of acquiring the education or housing are spread out over time as well. The benefits of using credit to make daily purchases of food or clothing are short-lived and do not accumulate over time.

PFL Terms

- Loan
- Credit card
- Interest paid
- Compound interest
- Annual Percentage Rate (APR)
- Easy access loan
Grade Level: 8

Borrower Beware

Lesson: 8 After School

Time Required

60 minute class period

Materials Required

A copy of Activity 8.8-1 for each student
Power Point 8.8-1
A set of Signs 8.8-1 for every 8 students
A calculator for each student
A computer with Internet connection for each pair of students

Procedure

1. Take students to a computer lab with internet connection. Pair students two to a computer. Distribute Activity 8.8-1 and a calculator to each student. Present Power Point 8.8-1. The student activity sheet parallels with Power Point 8.8-1. Tell students that through the power point they will be given instructions on how to complete the activity sheet. Use the script below to guide the students.

Engage

- Slide 1: For number 1 of Activity 8.8-1, have students talk to their neighbor about what this ad is advertising. Then write down the explanation in the space provided. *(Sample response: Getting a loan from this company is easy even if you have bad credit. You can apply online. You can get a loan quickly.)* After students have completed this task, allow a few students to share their answers.

- Slide 2: For number 2 of Activity 8.8-1, have students record why someone might need to borrow money. Then have students compare their answers with their partner. *(Sample responses: to pay for emergencies, to pay for college, to buy a car, to buy a house.)* After students have completed this task, allow a few students to share their answers.

- Slide 3: For number 3 of Activity 8.8-1, have students record their guess for each national debt listed. Then display the actual debt. Have students record this debt as it appears on the power point. Explain that many consumers live above their means. This means that they buy goods and services they want but can’t afford. Therefore to make the purchase, they might get a loan. The consumer might not fully understand the terms of the loan. Consequently, they end up accumulating more debt than they can pay. Other consumers purchase their wants with their credit card. When the payment is due, some consumers can’t pay the full amount of their purchases. If these individuals continue purchasing goods and services with their credit card, their debt continues to increase. With this activity, they will learn how to better understand loans and credit cards. Additionally, they will learn how to use an online calculator to determine the total amount that must be repaid and the total interest that will be paid. They will consider the financial responsibility of the borrower.

- Slide 4: For number 4 of Activity 8.8-1, have students list avenues to get a loan. Then have a few students share an item on their list.

Explain

- Slide 5: For number 5 of Activity 8.8-1 have students fill in the blanks as you explain. Say: *When a potential borrower applies for a loan, the financial institution will want to know the borrower’s total debt and income. If the borrower has too much debt, he or she may...*
not be able to pay back the loan. The financial institution will most likely check the borrower’s credit history to determine his or her ability to pay back the loan. Knowing the borrower’s income will tell the financial institution if he or she has the means to pay back the money. For large loans such as a loan for a house, the financial institution may want to know the borrower’s net worth. This is the difference of what is owned minus what is owed.

- **Slide 6 & 7:** For numbers 6 and 7 of Activity 8.8-1, have students fill in the blanks as you explain the slides. Explain that to accurately compare interest rates, it is important to find out what is the APR (Annual Percentage Rate). Since each lender has different loan terms, the federal government requires lenders to disclose the APR. Bottom Line: Always ask for the APR when borrowing money.

- **Slide 8:** For number 8 of Activity 8.8-1, have students fill in the blanks as you explain about collateral and secure and unsecure loans.

- **Slide 9 & 10:** For number 9 of Activity 8.8-1, have students fill in the blanks as you explain about easy access loans. Read the slide then explain that since the 15% is due back in 14 days, this is actually a fee of 15% of $200. Have the students make the calculations. \((.15 \times $200 = $30)\)

- **Slide 11-14:** For number 10 of Activity 8.8-1 have students fill in the blanks as you explain the table using the following script.
  
  o The second column is an example of a common small loan that a financial institution might offer. The third column is an example of an easy access loan.
  
  o Point out that both of these loans are for $500. The first loan will be paid back monthly over 12 months. The second one will be paid back in 14 days.
  
  o This particular common small loan charges 7% and this particular easy access loan charges a $50 fee. The APR for the common small loan is 7.22%. The calculation to get the APR is complicated, but the difference between these two percentages comes from the method of compounding. Which do you think would charge more interest: 7% compound monthly or 7% compound annually? (Compound monthly, because interest is compounded every month. This means that interest is added monthly.) To accurately compare these two compound methods, remember to ask for the APR.
  
  o What is the APR of the easy access loan? (260.71%) The high cost is due to the short time period of the loan and the fee. Again, this is a complicated calculation that you will not be required to learn. What is the bottom line? (Ask for the APR when getting a loan.) [Teacher note: For easy access loan APR calculations go to http://www.csgnetwork.com/apr4calc.html]
  
  o Another method to compare loans is to calculate the total amount to be repaid to the lender. Calculate the repayment for the common small loan if the monthly payment is $43.31. (Common small loan = $43.31 \times 12 = $519.72.) What do you think is the payment for the easy access loan? (The entire amount borrowed and the financial
fee is due in 14 days. $50 + $500 = $550.)

- If the easy access loan cannot be paid back in 14 days, another $50 is charged.

- **Slide 15:** Explain to students that they will now learn how to use an online calculator to determine the total amount to be repaid and the total interest to be paid. Remind them that when they calculated compound interest in the savings lesson, the savings grew faster than simple interest. Ask them if they remember why the savings grew so fast. *(With compound interest, you earn interest on the principal and the interest earned.)* Explain that loans also use compound interest. But the difference is that the annual percentage rate or the APR is greater than the interest rate for savings. Ask them how they think that this increase will affect what they owe. *(A higher interest rate means the interest paid will be greater.)* Instruct students to follow the directions on slide 15. Then for number 11 of **Activity 8.7-1,** have students fill in the monthly payment for row one.

- **Slide 16:** Ask students how they can use this information to calculate the total repayment. *(Multiply the amount of the monthly payment times the number of monthly payments.)* Instruct students to use their calculator to determine the total repayment. *(5210.88)* Have students fill in the Total Repayment on row 1. Ask how much of the total repayment will be interest. *(5210.88 - 5000 = 210.88)* Have students fill in the Total Interest Paid on row 1.

- **Slide 17:** Ask students what happens if you don’t qualify for 4%. Explain to students that financial institutions typically run credit reports on people who apply for a loan. If the credit report has negative indicators such as frequent late payments or there is a large amount of debt, the financial institution might determine that it is a risk to lend you money. They will either not loan you the money or charge you a higher interest rate. For number 11 of **Activity 8.8-1,** instruct students to calculate rows 2 - 4 to determine how higher interest rates affect the total repayment and the amount of interest that you will pay. The teacher should check answers with the key as students are recording their answers. Then have the students compare the results for rows 1-3. Then have a few students share their responses. Instruct students to record their answer for question a. *(As the interest rate increases, the total repayment increases.)*

- **Slide 18:** Ask students what happens if you increase the loan term. Explain that borrowers might request a longer loan term to reduce the monthly payments. Ask: *If the interest rate remains the same whereas the loan term increases, will the borrower pay the same?* Do not comment on students’ prediction. For number 11 of **Activity 8.8-1,** instruct students to use the online calculator and the data in rows 5 and 6 to determine the missing values in the table. Then have the students compare the results to row 1. Have them discuss the questions below the table with their partner. Then have a few students share their responses. *(As the loan term increases, the total repayment increases.)* Instruct students to record their answer for question b.

- **Slide 19:** For numbers 12-15 of **Activity 8.8-1,** have students fill in the blanks as you explain about credit cards.

- **Slide 20:** For number 16 of **Activity 8.8-1,** have students follow the directions on slide 20.
Then have them enter the data for the number of months to payoff in row 1. Ask students how can they use this information to determine the total repayment? (monthly payments x number of months = total repayment = $6000) Ask how much of the total repayment is interest? ($6000 - $5000 = $1000)

- **Slide 21:** Ask students what happens if the borrower can’t pay $300 per month? Then have students use the online calculator and the data in rows 2 and 3 to determine the number of months to pay off. Then use the hand held calculator to calculate the total repayment and the interest paid. The teacher should check individual data entry. Next, have students analyze the table; discuss the questions below the table with their partner; and record their findings. After all students have completed these tasks, have a few students share their conclusion. (*If you decrease the monthly payment, the total repayment and interest increase.*)

- **Slide 22:** Ask students what happens if the interest rate changes. Have students use the online calculator and the data in rows 4 and 5 to determine the total repayment and the interest paid. The teacher should check individual data entry. After all students have made their calculations, ask students to discuss the questions below the table with their partner and then record their responses. Have a few students share their responses. (*See key for sample responses.*)

- **Slide 23:** Explain to students that in addition to the possible interest that borrowers might pay, credit cards might have additional fees. Read the slide.

- **Slide 24:** Ask students to work with their partner to answer questions 17 – 21 on Activity 8.8-1. The teacher should use the key to check students’ answers as they are completed. Allow students to share their responses for number 21. Sample responses can be found on the key.

2. Divide students into groups of 8. Shuffle each set of Signs 8.8-1. Then distribute one set of Signs 8.8-1 to each group. Tell students to give each student in their group a sign. Then students should use what they have learned about interest rates for loans and loan terms to determine the order of the total repayment. Say: *You each have a sign in your hand. Hold the sign in front of your chest so that your group members can see your sign. Then based on the total repayment, create a human graph going from the least repayment to the greatest. When you think your team is in the correct order, raise your hand. I will check your order. If it is incorrect, you may try again.* (6%, 36 months; 10%, 24 months; 7%, 42 months; 15%, 24 months; 10%, 42 months; 15%, 36 months; 17%, 42 months; 17%, 48 months)

3. To close the lesson, pose the following questions found on slides 25-26.

   - *What questions do I need to ask when getting a loan? (What is the APR? What additional fees are charged? How long is the loan term?)*

   - *What advice would you give a friend who is about to get a credit card? (Sample responses: Only use your credit card if you know you can pay it off at the end of the month to avoid interest. Shop for a credit card that has low interest rates.)*
• What financial responsibilities are tied to borrowing?
  
  o If you borrow money, you are responsible for paying it back.

  o If you borrow money, you are responsible for making your payments on time.

  o It is not responsible to borrow money to purchase things you want. Borrow only if it is a necessity.

  o If you have to get a loan or you have to use a credit card for emergencies, pay off your debt quickly to reduce the paid interest.
## Borrower Beware

1. Describe what the ad is advertising.

   ![EASY Money Loans Now](image)

2. List reasons consumers borrow.

3. What’s Your Guess?
   - a. What was the average credit card debt in 2012?
     
     Your guess: _______ Actual:_______
   
   - b. What was the total credit card debt?
     
     Your guess: _______ Actual:_______
   
   - c. What was the average student loan debt?
     
     Your guess: _______ Actual:_______
   
   - d. What was the total student loan debt in 2012?
     
     Your guess: _______ Actual:_______

4. Where can you get a loan?

5. How do you qualify for a loan?
   - a. How much do you _______ in debt?
   
   - b. Do you make regular payments on your existing debt?
   
   - c. What is your _______________?

6. The annual percentage rate (APR) is the _______________ over the term of the loan.

7. How do I compare loans?

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*Texas Council on Economic Education*

*PlainsCapital Bank*
8. Understanding Loans
   a. Collateral is a piece of property that can be sold by the lender to recover all or part of a _____________.
   b. Secure loan is secured with _______________.
   c. Unsecure loan is not secured with _________________. These loans have a _________ interest rate.

9. Easy Access loans are sometimes called __________ loans or __________ loans. They make it “___________” to get a loan.

10. Compare common loans

<table>
<thead>
<tr>
<th></th>
<th>Common Small Loan</th>
<th>Easy Access Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$500</td>
<td>$500</td>
</tr>
<tr>
<td>Loan Term</td>
<td>12 months</td>
<td>14 days</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>7%</td>
<td>n/a</td>
</tr>
<tr>
<td>Financial Fee</td>
<td>none</td>
<td>$50*</td>
</tr>
<tr>
<td>APR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Repayment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1st 14 day fee is $50, if renewed an additional $50 fee is required.

11. Loan Calculations

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Loan Term</th>
<th>Interest Rate per year (APR)</th>
<th>Monthly Payment</th>
<th>Total Repayment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td>2 years</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>2 years</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>2 years</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>$5,000</td>
<td>2 years</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>3 years</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>4 years</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Explain what happens to the total repayment as the interest rate increases.

Explain what happens to the total repayment as the loan term increases.
Credit Cards

12. A credit card purchase is a __________________ from the financial institution that issued the card.

13. Credit card interest rates tend to be ________________ than rates for other ________________.

14. Credit card companies may charge significant _______________ related to a credit card and its use.

15. Borrowers who use credit cards for ________________ and who do not pay the full balance when it is due, pay much ____________ ______________ for their purchases because interest is charged monthly.

16. Credit Card Payoff Calculations

<table>
<thead>
<tr>
<th>Credit Card Balance</th>
<th>Interest Rate</th>
<th>Payment amount per month</th>
<th>Number of Months to payoff</th>
<th>Total Repayment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td>17%</td>
<td>$300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>17%</td>
<td>$200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>17%</td>
<td>$100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>14%</td>
<td>$300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td>9%</td>
<td>$300</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Explain what happens to the total repayment as the interest rate increases and as the loan term increases.

What does this mean to you as a consumer?

17. Darnell has a credit card balance of $6877. The interest rate on this card is 16%. If he pays $100 per month, how long will it take him to pay off the balance?

18. What will be his total repayment?

19. Darnell spends $100 dollars a week eating out. His sister told him that if he would reduce this spending by $50 a week, he could increase his credit card payment to $300 per month. What is the total Darnell will repay?

20. How much will Darnell save by increasing his monthly payment by $200?
21. For each item listed below decide which is the best method to pay?

- Calvin’s car broke down and needs a tow. He doesn’t have enough money to cover the cost of the tow. How should he pay for this cost?
- Sabrina is hanging out at the mall with her friends. She sees a pair of jeans that she really likes. How should she pay?
- You’ve been saving for your college tuition, but this semester you are short $1200. How should you pay?

22. What questions do I need to ask when getting a loan?

23. What advice would you give a friend who is about to get a credit card?

24. What financial responsibilities are tied to borrowing?
## Borrower Beware

### 1. Describe what the ad is advertising.

![EASY Money Loans Now](image)

Getting a loan from this company is easy even if you have bad credit. You can apply online. You will get loan quickly.

### 2. List reasons consumers borrow.

- To pay for emergencies
- To pay for college
- To buy a car
- To buy a house

### 3. What’s Your Guess?

<table>
<thead>
<tr>
<th>Question</th>
<th>Guess</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. What was the average credit card debt in 2012?</td>
<td></td>
<td>$15,328</td>
</tr>
<tr>
<td>b. What was the total credit card debt?</td>
<td></td>
<td>$852 billion</td>
</tr>
<tr>
<td>c. What was the average student loan debt?</td>
<td></td>
<td>$33,005</td>
</tr>
<tr>
<td>d. What was the total student loan debt in 2012?</td>
<td></td>
<td>$1 trillion</td>
</tr>
</tbody>
</table>

### 4. Where can you get a loan?

- Bank
- Credit Union
- Credit Card
- Loan Companies

### 5. Financial institutions want to know your credit history and personal information such as:

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. How much do you <strong>owe</strong> in debt?</td>
<td></td>
</tr>
<tr>
<td>b. Do you make regular payments on your existing debt?</td>
<td></td>
</tr>
<tr>
<td>c. What is your <strong>income</strong>?</td>
<td></td>
</tr>
<tr>
<td>d. What is your <strong>net worth</strong>?</td>
<td></td>
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### 6. The annual percentage rate (APR) is the actual annual cost of the loan over the term of the loan.

### 7. How do you compare loans? Compare the APR.
8. Understanding Loans
   a. Collateral is a piece of property that can be sold by the lender to recover all or part of a loan.
   b. Secure loan is secured with collateral.
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<tr>
<td>Loan Term</td>
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<td>14 days</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>7%</td>
<td>n/a</td>
</tr>
<tr>
<td>Financial Fee</td>
<td>none</td>
<td>$50*</td>
</tr>
<tr>
<td>APR</td>
<td>7.22%</td>
<td>260.71%</td>
</tr>
<tr>
<td>Payment</td>
<td>$43.26 per month</td>
<td>$550 due in 14 days</td>
</tr>
<tr>
<td>Total Repayment</td>
<td>$43.26 x 12 = $519.12</td>
<td>$500 + $50 = $550</td>
</tr>
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<td>$5,000</td>
<td>2 years</td>
<td>4%</td>
<td>$217.12</td>
<td>$5,210.88</td>
<td>$210.88</td>
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<td>$318.40</td>
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<tr>
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<td>$226.14</td>
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<td>$5,000</td>
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<td>$314.32</td>
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<tr>
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<td>4%</td>
<td>$112.90</td>
<td>$5,419.20</td>
<td>$419.20</td>
</tr>
</tbody>
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Explain what happens to the total repayment as the interest rate increases. As the interest rate increases, the total repayment increases.

Explain what happens to the total repayment as the loan term increases. As the loan term increases, the total repayment increases.
Credit Cards

12. A credit card purchase is a loan from the financial institution that issued the card.

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<td>17%</td>
<td>$300</td>
<td>20</td>
<td>$6,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>$5,000</td>
<td>17%</td>
<td>$200</td>
<td>31</td>
<td>$6,200</td>
<td>$1,200</td>
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<tr>
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<td>$100</td>
<td>87</td>
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<tr>
<td>$5,000</td>
<td>14%</td>
<td>$300</td>
<td>19</td>
<td>$5,700</td>
<td>$700</td>
</tr>
<tr>
<td>$5,000</td>
<td>9%</td>
<td>$300</td>
<td>18</td>
<td>$5,400</td>
<td>$400</td>
</tr>
</tbody>
</table>

Explain what happens to the total repayment as the interest rate increases and as the loan term increases. As the interest rate increases, the total repayment increases. As the number of months to payoff increases, the total repayment increases.

What does this mean to you as a consumer? It is best not to use a credit card unless you can pay it off each month or if you have an emergency.

17. Darnell has a credit card balance of $6877. The interest rate on this card is 16%. If he pays $100 per month, how long will it take him to pay off the balance? 184 months

18. What will be his total repayment? 184 months x $100 = $18,400

19. Darnell spends $100 dollars a week eating out. His sister told him that if he would reduce this spending $50 a week he could increase his credit card payment to $300 per month. What is the total Darnell will repay? 28 months x $300 = $8400

20. How much will Darnell save by increasing his monthly payment by $200? $10,000
21. For each item listed below decide which is the best method to pay?

- Calvin’s car broke down and needs a tow. He doesn’t have enough money to cover the cost of the tow. How should he pay for this cost? Since this is an emergency, Calvin could use his credit card.

- Sabrina is hanging out at the mall with her friends. She sees a pair of jeans that she really likes. How should she pay? She should examine her budget. If she has money remaining for clothes and she has the cash, then she can buy it. She should ask herself if she really needs the jeans. If she doesn’t need them or she doesn’t have the cash, she shouldn’t buy them.

- You’ve been saving for your college tuition, but this semester you are short $1200. How should you pay? Getting a college education will help you invest in your future. Evaluate your debt and talk to your parents first. If there are no other avenues to pay, consider getting a student loan.

22. What questions do I need to ask when getting a loan? What is the APR? What additional fees are charged? How long is the loan term?

23. What advice would you give a friend who is about to get a credit card? Sample responses: Only use your credit card if you know you can pay it off at the end of the month to avoid interest. Shop for a credit card that has low interest rates.

24. What financial responsibilities are tied to borrowing?

- If you borrow money, you are responsible for paying it back.
- If you borrow money, you are responsible for making your payments on time.
- It is not responsible to borrow money to purchase things you want. Borrow only if it is a necessity.
- If you have to get a loan or you have to use a credit card for emergencies, pay off your debt quickly to reduce the paid interest.
Loan Amount: $2500

Loan Term: 48 months

Interest (APR): 17%
Loan Amount: $2500

Loan Term: 42 months

Interest (APR): 17%
Loan Amount: $2500

Loan Term: 36 months

Interest (APR): 15%
Borrower Beware

Lesson: 8 After School

Loan Amount: $2500

Loan Term: 42 months

Interest (APR): 10%
Loan Amount: $2500

Loan Term: 24 months

Interest (APR): 15%
Loan Amount: $2500

Loan Term: 42 months

Interest (APR): 7%
Loan Amount: $2500

Loan Term: 24 months

Interest (APR): 10%
Loan Amount: $2500

Loan Term: 36 months

Interest (APR): 6%