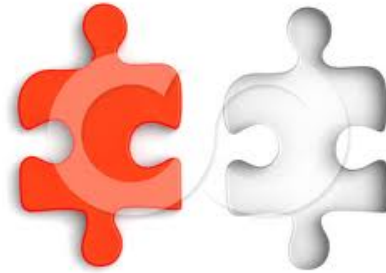




# Personal Loans Lines of Credit Overdrafts

## Terminology Matching



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Payday loan \_\_\_\_\_: failure to repay a loan

Default

asset \_\_\_\_\_: an approved loan amount that you can draw on as needed, with interest charged on the money used

collateral \_\_\_\_\_: an item of value pledged by a borrower to secure a loan

overdraft protection

amortization period \_\_\_\_\_: an agreement with a bank that allows you to withdraw more money from an account than you have in it, up to a specified amount

loan \_\_\_\_\_: an item of economic value owned by an individual that could be converted to cash

line of credit \_\_\_\_\_: money that is borrowed for a specific term, to be paid back with interest



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\_\_\_\_\_: a small, short-term loan with high interest rate intended to cover the borrower's expenses until their next pay day

\_\_\_\_\_: the time required to pay back a loan

Secure vs Unsecure Loans:



The borrower has a promise to turn over to the lender a particular item of value if the loan is not paid.



car

There is no collateral needed.  
"Low risk"

A payday loan store charged Matt \$40.00 interest on a \$350.00 loan. Matt paid back the total amount of \$390 after 10 days.



What was the daily interest for this loan?

$$I = Prt$$

$$40 = (350)r(10/365)$$

$$40 = 9.589041095r$$

$$4.17 = r$$

$$4.17 \times 100 = 417\% \text{ yearly interest}$$

$$417 / 365 = 1.14\% \text{ daily interest}$$

Jean-Paul borrows \$2500 to purchase a laptop computer and software. He takes out a personal loan from his credit union at an annual rate of 6.25% with an amortization period of 2 years. Use the personal loan payment calculator table (page 132) to answer the questions.

**Important**

PERSONAL LOAN PAYMENT CALCULATOR: MONTHLY PAYMENT PER \$1000.00 BORROWED (INTEREST COMPOUNDED MONTHLY)					
Interest rate (%)	Term in years				
	1	2	3	4	5
3.00	84.69	42.98	29.08	22.13	17.97
3.25	84.81	43.09	29.19	22.24	18.08
5.00	85.61	43.87	29.97	23.03	18.87
5.25	85.72	43.98	30.08	23.14	18.99
5.50	85.84	44.10	30.20	23.26	19.10
5.75	85.95	44.21	30.31	23.37	19.22
6.00	86.07	44.32	30.42	23.49	19.33
6.25	86.18	44.43	30.54	23.60	19.45
6.50	86.30	44.55	30.65	23.71	19.57
6.75	86.41	44.66	30.76	23.83	19.68
7.00	86.53	44.77	30.88	23.95	19.80

1. What is Jean-Paul's monthly payment?

$$2500/1000 = 2.5 \quad 44.43 \times 2.5 = \$111.08$$

2. Calculate the total amount he will pay over the 2 years.

$$\$111.08 \times 24 \text{ months} = \$2665.92$$

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3. Calculate the finance charge on the loan.

$$2665.92 - 2500 = \$165.92$$

