Personal Loans
Lines of Credit
Overdrafts

Terminology Matching

Payday loan

Default

asset

collateral

overdraft protection

amortization period

loan

line of credit

_____: failure to repay a loan

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

_____: an item of value pledged by a borrower to secure a loan

_____: 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

_____: an item of economic value owned by an individual that could be converted to cash

_____: money that is borrowed for a specific term, to be paid back with interest

_____: 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

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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.

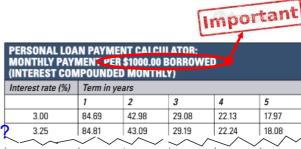What was the daily interest for this loan?

$$I = Prt$$

$$=$$

$$=$$

$$=r$$

x   =   % yearly interest

/   =   % 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.

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   44.43 x 2.5 = $111.08

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

2 x 12 = 24

$111.08 x 24months = $2665.92

3. Calculate the finance charge on the loan.

2665.92 - 2500 = $165.92

Jennifer borrows $6520 at her credit union at an annual rate of 5.25% with an amortization period of 4 years. Use the personal loan payment calculator table (page 132) to answer the questions.
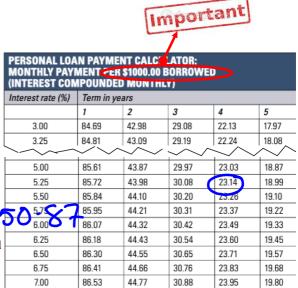
PERSONAL LOAN PAYMENT CALCULATOR:
MONTHLY PAYMENT PER $1000.00 BORROWED
(INTEREST COMPOUNDED MONTHLY)

Important

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
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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 Jennifer's monthly payment?

$$\frac{6520}{1000} = 6.520$$

$$23.14 \times 6.520 = 150.87$$

2. Calculate the total amount she will pay over the 4 years.

$$4 \times 12 = 48 \text{ months.}$$

$$150.87 \times 48 = \$7241.76$$

3. Calculate the finance charge on the loan.

$$7241.76 - 6520 = \$721.76$$

Trevor borrowed 932.00 from the bank of Montreal at an annual rate of 6.50% with an amortization period of 3 years. Use you personal loan calculator to answer the questions.

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
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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

a) What is the monthly payment?

$$\frac{932}{1000} = 0.932 \qquad 30.65 \times 0.932$$
$$\$28.57$$

b) How much will he pay back in total?

$$3 \times 12 = 36$$
$$28.57 \times 36 = 1028.52$$

c) What is the finance charge?

$$1028.52 - 932 = \$96.52$$

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