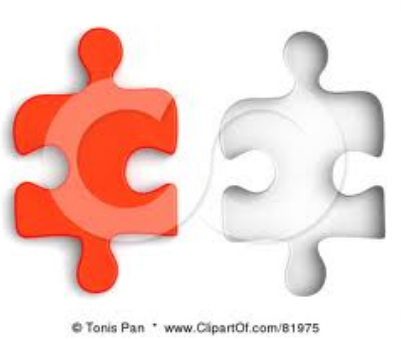
Personal Loans
Lines of Credit
Overdrafts

Terminology Matching



~~Payday loan~~

~~Default~~

~~asset~~

~~collateral~~

~~overdraft protection~~

~~amortization period~~

~~loan~~

~~line of credit~~

Default : failure to repay a loan

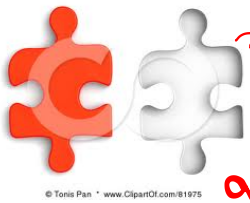
line of credit : an approved loan amount that you can draw on as needed, with interest charged on the money used

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

overdraft protection : 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

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

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



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

amortization period : 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.

$I = 40$ $P = 350$ $t = \frac{10}{365}$

What was the daily interest for this loan?

$I = Prt$

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

$40 = 9.589041095r$

$4.17 = r$ as a decimal

$4.17 \times 100 = 417\%$ yearly interest

$417 / 365 = 1.14\%$ 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.

amount borrowed / 1000

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

a) What is Jean-Paul's monthly payment?

2500/1000 = 2.5

44.43 x 2.5 = $111.08 /month

b) Calculate the total amount he will pay over the 2 years. (2 x 12 = 24 months)

$111.08 x 24months = $2665.92

c) Calculate the finance charge on the loan.

2665.92 - 2500 = $165.92

what you pay back

what you borrowed

the cost of borrowing

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.

amount borrowed

1000

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
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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 Jennifer's monthly payment?

(i) $\frac{6520}{1000} = 6.52$

(ii) 23.14×6.52

$150.87 / month

b) Calculate the total amount she will pay over the 4 years. (4 x 12 = 48 months)

$150.87 x 48 = $7241.76

c) Calculate the finance charge on the loan.

$7241.76 - $6520.00 = $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
5.25	85.72	43.98	30.08	23.14	18.99
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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

a) What is the monthly payment?

(i) $\frac{932.00}{1000.00} = 0.932$

(ii) 30.65×0.932

$28.57/month

b) How much will he pay back in total?

(3 x 12 = 36 months)

$28.57 \times 36 = \$1028.52$

c) What is the finance charge?

$\$1028.52 - \$932.00 = \boxed{\$96.52}$

Homework

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