FINANCEFIEND | UNIT 4: LOANS & DEBT

Name: _____ Class/Period: _____ Date: _____

ANSWER KEY — Responses correspond to the numbered student prompts.

Lesson 1 of 5: Borrowing Money

BORROWING BASICS

1. _____ lets you borrow or buy now and pay later. A _____ is money borrowed under an agreement to repay it. **[Answers: Credit; loan]**

2. The original amount borrowed is the _____. The charge for using the lender's money is _____. **[Answers: principal; interest]**

3. A $600 laptop and $400 in savings leave $_____ to borrow. If you repay $220 with no separate fees, you paid $_____ in interest. **[Answers: 200; 20]**

4. Banks, credit unions, and online lenders offer loans. Some _____ offer financing at checkout, and peer-to-peer platforms connect borrowers with funders. **[Answers: stores]**

5. Before accepting a monthly payment, ask how many _____ there are, what fees apply, and how much you'll repay in _____. **[Answers: payments; total]**

LOAN QUALIFICATIONS AND WARNING SIGNS

6. Lenders may check your payment history, income, existing debts, and proof of _____. Property that backs a loan is called _____. **[Answers: income; collateral]**

7. Debt-to-income ratio (DTI) = monthly debt payments ÷ _____ monthly income × 100%. At $750 in debt payments and $3,000 in income, DTI is _____%. **[Answers: gross; 25]**

8. For your own budget, check _____ pay and money left after essentials. Gross income is measured before taxes and deductions. **[Answers: take-home]**

9. _____ lending can involve pressure to sign, hidden fees, or repeated borrowing. A title loan puts the borrower's _____ at risk. **[Answers: Predatory; vehicle]**

10. Two $45 extensions on a $300 payday loan cost $_____ in fees. If neither fee reduces principal, the borrower still owes $_____. **[Answers: 90; 300]**

BORROWER PROTECTIONS

11. The Fair Credit _____ Act covers certain billing errors. The Fair Credit _____ Act lets consumers dispute inaccurate credit report information. **[Answers: Billing; Reporting]**

12. The Fair Debt Collection Practices Act addresses certain abusive or deceptive _____ practices. The Equal Credit Opportunity Act prohibits certain forms of credit _____. **[Answers: collection; discrimination]**

13. The Credit CARD Act provides protections involving card fees, disclosures, and certain rate increases. A _____ box summarizes important card rates and fees. Consumers can submit complaints to the _____. **[Answers: Schumer; Consumer Financial Protection Bureau (CFPB)]**

Lesson 2 of 5: Types of Loans

REVOLVING AND INSTALLMENT CREDIT

14. With _____ credit, you borrow a set amount and repay it on a schedule. The length of that schedule is the loan _____. **[Answers: installment; term]**

15. Six payments of $105 on a $600 bike loan total $_____. With no separate fees, the interest is $_____. **[Answers: 630; 30]**

16. With _____ credit, you can borrow repeatedly up to a credit _____. New purchases can keep the balance high even while you make payments. **[Answers: revolving; limit]**

17. On a card with a $500 limit and no other charges or holds, a $120 purchase leaves $_____ available. After a $50 payment posts, $_____ is available. **[Answers: 380; 430]**

SECURED AND UNSECURED CREDIT

18. _____ credit is backed by an asset or deposit. Examples include auto loans, mortgages, and pawn loans. If you fail to repay as agreed, the lender may be able to take the _____. **[Answers: Secured; collateral]**

19. _____ credit does not require a specific asset as collateral. Most regular credit cards and some personal loans are examples. The borrower still owes the debt. **[Answers: Unsecured]**

20. An auto loan is usually _____ because it has scheduled payments and _____ because the car backs the debt. **[Answers: installment; secured]**

SECURED CREDIT CARDS AND PREPAID CARDS

21. A $300 deposit may back a $300 secured card limit. Purchases still use _____ money, so the cardholder receives a bill. **[Answers: borrowed]**

22. If you load $300 onto a prepaid card and spend $40, $_____ remains. The purchase uses your own money. **[Answers: 260]**

23. A card backed by a deposit that lets you reuse credit after payments is both _____ and _____. **[Answers: secured; revolving]**

Lesson 3 of 5: Terms of Borrowing

INTEREST RATE, APR, AND FEES

24. The _____ rate is used to calculate interest on the amount you owe. APR stands for _____. **[Answers: interest; annual percentage rate]**

25. For many loans, APR includes the interest rate and certain _____. A credit card may use different APRs for purchases, balance transfers, and cash advances. **[Answers: fees]**

26. An _____ fee is a charge for setting up a loan. Check which charges are included in scheduled payments and which are paid separately. **[Answers: origination]**

COMPARING PAYMENT OFFERS

27. For the same $1,000 purchase with no separate fees, Offer A is $95 for 12 months and totals $_____. Offer B is $55 for 24 months and totals $_____. **[Answers: 1,140; 1,320]**

28. Offer B costs $_____ less per month but $_____ more overall. Compare total costs as well as whether the payment fits your budget. **[Answers: 40; 180]**

WHEN A RATE CAN CHANGE

29. A _____ rate stays the same for the agreed period. A _____ rate may rise or fall with a benchmark. **[Answers: fixed; variable]**

30. An _____ rate can reset under the agreement. It may start with a fixed period and then change at scheduled times. **[Answers: adjustable]**

31. An _____ rate is temporary. At 0% APR with no fees, clearing a $480 purchase in six months takes $_____ per month. **[Answers: introductory; 80]**

32. Paying $50 per month for six months covers $_____ and leaves $_____ when the offer ends. **[Answers: 300; 180]**

33. A regular APR may apply to the remaining balance after a 0% offer. With _____ interest, missing the full payoff deadline can trigger interest dating back to the purchase under the offer's terms. **[Answers: deferred]**

Lesson 4 of 5: Debt

HOW DEBT GROWS

34. _____ is money you owe. Interest, fees, or new purchases can increase the balance. **[Answers: Debt]**

35. A $500 balance plus $10 interest minus a $30 payment leaves $_____. The balance dropped by $_____. **[Answers: 480; 20]**

36. A loan can support a goal, such as getting to work, but a payment can still strain your budget. List one warning sign that a debt plan needs to change. _____ **[Answers: Examples: repeated missed payments, ignoring bills, or borrowing to cover other debts.]**

REPAYMENT METHODS

37. Keep making the _____ payments on every debt. Put extra money toward one target at a time. **[Answers: required]**

38. The _____ method targets the smallest balance. In the lesson, that is the $350 store card at 18%. **[Answers: snowball]**

39. The _____ method targets the highest rate. In the lesson, that is the $900 credit card at 26%. **[Answers: high-rate or avalanche]**

WHEN PAYMENTS ARE HARD TO AFFORD

40. Ask the creditor about a hardship plan or due-date change. If a balance goes to collections, verify the _____ and the collector before paying. **[Answers: debt]**

41. Debt _____ combines debts into one new loan or payment. Compare fees, term, and total cost. Credit _____ can help with budgeting and a debt management plan. **[Answers: consolidation; counseling]**

42. Debt _____ seeks a reduced payoff, but creditors may refuse and fees or missed payments can add costs. You can dispute inaccurate credit report information yourself. **[Answers: settlement]**

AMORTIZATION AND PAYOFF

43. An _____ schedule shows each payment's interest, principal paid, and remaining balance. **[Answers: amortization]**

44. On $1,000 at 1% monthly interest, a $100 first payment covers $_____ in interest and $_____ in principal. The balance is $_____. **[Answers: 10; 90; 910]**

45. In month 2, interest on $910 is $_____. Principal paid is $_____ and the ending balance is $_____. **[Answers: 9.10; 90.90; 819.10]**

46. For a credit card payoff comparison, use the same starting balance, compare minimum and higher fixed payments, and assume no new _____. **[Answers: purchases]**

Lesson 5 of 5: Bankruptcy

BANKRUPTCY BASICS

47. _____ is a federal court process for dealing with debts someone cannot repay. Medical expenses, job loss, divorce, or business failure can contribute to financial hardship. **[Answers: Bankruptcy]**

48. An automatic _____ usually pauses many collection actions. A _____ releases personal responsibility for eligible debts. **[Answers: stay; discharge]**

CHAPTER 7 AND CHAPTER 13

49. In Chapter _____, a trustee may sell nonexempt property to pay creditors. _____ property is protected from sale by the trustee under applicable rules. **[Answers: 7; Exempt]**

50. A straightforward Chapter 7 case may reach discharge within several months. Income and other factors affect eligibility, and a _____ test may apply. **[Answers: means]**

51. In Chapter _____, someone with regular income follows a court-approved repayment plan that usually lasts _____ to _____ years. **[Answers: 13; three; five]**

52. A person in Chapter 13 can generally keep property while meeting the plan's requirements. Someone catching up on a mortgage must also keep up with required _____ payments. **[Answers: ongoing]**

AFTER BANKRUPTCY

53. Child support and certain _____ can remain. Student loan discharge generally requires an additional legal determination. **[Answers: taxes]**

54. Bankruptcy can affect future borrowing and can generally appear on a credit report for up to _____ years. **[Answers: 10]**