Directions:

Problems consumers face when using credit.

<table>
<thead>
<tr>
<th>Balance Type</th>
<th>Balance</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted</td>
<td>$500</td>
<td>15%</td>
</tr>
<tr>
<td>Past Due</td>
<td>$500</td>
<td>19%</td>
</tr>
</tbody>
</table>

3. Paired Work Stage 2:

Students work in pairs. Use the following abbreviations to indicate the most likely source of each loan described in groups of four. Using information from the text:

- COE
- WS
- CC
- SF

4. What is the most important thing you learned?

Did the group agree on the assignment of tasks?

5. Keela withholds payment for a color television set her parents bought her without her permission. Which of those three people might have a credit problem?

6. With his father’s help, Rashad paid off what he owed at Big Man’s store. Which of those three people might have a credit problem?

7. Jamal refuses to give his national origin on a loan application. Which of those three people might have a credit problem?

8. Rachel applied for a loan to buy a car, but she lost her job and was denied the loan. Which of those three people might have a credit problem?

9. The cost of credit expressed as a yearly percentage fee is known as the interest rate. If your credit card has a balance of $1,000 and an interest rate of 18%, what is the amount of interest you would pay each month?

Finance charge = $100 x 0.18 = $18

10. Figure out the finance charge for the first six months.

<table>
<thead>
<tr>
<th>Month</th>
<th>Balance</th>
<th>Finance Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$100</td>
<td>$18</td>
</tr>
<tr>
<td>February</td>
<td>$200</td>
<td>$36</td>
</tr>
<tr>
<td>March</td>
<td>$300</td>
<td>$54</td>
</tr>
<tr>
<td>April</td>
<td>$400</td>
<td>$72</td>
</tr>
<tr>
<td>May</td>
<td>$500</td>
<td>$90</td>
</tr>
<tr>
<td>June</td>
<td>$600</td>
<td>$108</td>
</tr>
</tbody>
</table>

11. Which of those three people might have a credit problem?

12. The main functions are to accept deposits, pay checks, and add a fee for collecting debts. Which of those three people might have a credit problem?

13. Provide savings accounts and low-interest loans. Which of those three people might have a credit problem?

14. In particular, they note how younger Americans are increasingly in over their heads in credit cards. Use the following abbreviations to indicate the most likely source of each loan described in groups of four. Using information from the text:

- COE
- WS
- CC
- SF

15. What is the most important thing you learned?

Did the group agree on the assignment of tasks?

16. One-third couldn’t calculate simple interest. Japan, where such a curriculum is mandatory, the subject is introduced early in first grade. Which of those three people might have a credit problem?

17. It is hard to obtain work to pay back their debts. At the end of 1988, Japan, where such a curriculum is mandatory, the subject is introduced early in first grade. Which of those three people might have a credit problem?

18. The primary source is Japan, where such a curriculum is mandatory, the subject is introduced early in first grade. Which of those three people might have a credit problem?

19. Like many other countries, Japan, where such a curriculum is mandatory, the subject is introduced early in first grade. Which of those three people might have a credit problem?

20. Comparing the rankings, the primary source above may be wrong. Next, consider how the rankings may have been affected if you had used other criteria. Which of those three people might have a credit problem?

21. To avoid abusing credit and running into financial difficulty, you should:

- Keep a record of all transactions
- Avoid using credit cards
- Pay off your balance each month

22. Which of those three people might have a credit problem?

23. With his father’s help, Rashad paid off what he owed at Big Man’s store. Which of those three people might have a credit problem?

24. Jamal refuses to give his national origin on a loan application. Which of those three people might have a credit problem?

25. Rachel applied for a loan to buy a car, but she lost her job and was denied the loan. Which of those three people might have a credit problem?

26. Keela withholds payment for a color television set her parents bought her without her permission. Which of those three people might have a credit problem?

27. With his father’s help, Rashad paid off what he owed at Big Man’s store. Which of those three people might have a credit problem?

28. Jamal refuses to give his national origin on a loan application. Which of those three people might have a credit problem?

29. Rachel applied for a loan to buy a car, but she lost her job and was denied the loan. Which of those three people might have a credit problem?

30. Keela withholds payment for a color television set her parents bought her without her permission. Which of those three people might have a credit problem?
**GOING INTO DEBT**

In the blank at the left, write the letter of the choice that best completes each statement.

1. Consumers can transfer money electronically from their bank accounts to the bank accounts of stores or credit cards.  
   - a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. credit union share drafts.

2. Interest rates for all types of credit are set by the commercial banks.  
   - a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. finance companies.

3. A finance charge is the cost of credit expressed monthly in dollars and cents.  
   - a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. c. cost of credit expressed in dollars and cents.

4. A financial institution that is owned and operated by members to provide savings accounts and low interest is a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. credit union.

5. An amount of money originally borrowed in a loan is a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. installment debt owed on houses, buildings, or land.

6. A finance company is a financial institution that takes over contracts for installment debt owed on houses, buildings, or land.  
   - a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. finance companies.

7. A consumer who signs a contract for merchandise or services at a store and pays a fixed amount each month is a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. installment debt.

8. A consumer who signs a contract for merchandise or services at a store and pays a fixed amount each month is a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. installment debt.

9. A credit union share draft is a. credit cards.  
   - b. savings banks.  
   - c. commercial banks.  
   - d. credit union.

10. A credit card company is a. credit cards.  
    - b. savings banks.  
    - c. commercial banks.  
    - d. finance companies.

**VOCABULARY**

Match each item in Column A with the items in Column B. Write the correct letter in the blank.

1. **Collateral**  
2. **Annual percentage rate**  
3. **Interest**  
4. **Installment debt**  
5. **Unsecured loan**  
6. **Finance company**  
7. **Credit card companies**  
8. **Debit cards**  
9. **Savings and loan associations**  
10. **Commercial banks**  
11. **Credit union**  
12. **Retail banks**  
13. **Finance charge**

**USING KEY TERMS**

Directions: Answer each of the following sets of questions on a separate sheet of paper.

1. Some credit companies lure people into signing up by offering low initial APRs. What are APRs?
2. How much more interest would you have paid a year if your credit card had been issued by Federal Savings?
3. How much more interest would you have paid a year if your credit card had been issued by Federal Savings?
4. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
5. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
6. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
7. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
8. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
9. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
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15. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
16. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
17. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
18. A usury law restricts the amount of credit a financial institution can offer. What is an usury law?
### Section Resources

<table>
<thead>
<tr>
<th>Reading Objectives</th>
<th>Reproducible Resources</th>
<th>Technology/Multimedia Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 1</strong>&lt;br&gt;Americans and Credit&lt;br&gt;- What are the advantages of repaying installment debt over a long period?&lt;br&gt;- Why do people go into debt?&lt;br&gt;- What factors should you consider when deciding whether or not to use credit?</td>
<td>Reproducible Lesson Plan 4-1&lt;br&gt; Daily Lecture Notes 4-1&lt;br&gt; Guided Reading Activity 4-1&lt;br&gt; Reading Essentials and Study Guide 4-1&lt;br&gt; Daily Focus Activity 30&lt;br&gt; Section Quiz 4-1*</td>
<td>Daily Focus Transparency 30&lt;br&gt; Vocabulary PuzzleMaker CD-ROM&lt;br&gt; Interactive Tutor Self-Assessment Software&lt;br&gt; MindJogger Videoquiz&lt;br&gt; Presentation Plus!&lt;br&gt; ExamView® Pro Testmaker</td>
</tr>
<tr>
<td><strong>Section 2</strong>&lt;br&gt;Sources of Loans and Credit&lt;br&gt;- What are six types of financial institutions?&lt;br&gt;- What three kinds of charge accounts are available from stores?&lt;br&gt;- How are credit cards used?&lt;br&gt;- How do a finance charge and an annual percentage rate differ?</td>
<td>Reproducible Lesson Plan 4-2&lt;br&gt; Daily Lecture Notes 4-2&lt;br&gt; Guided Reading Activity 4-2&lt;br&gt; Reading Essentials and Study Guide 4-2&lt;br&gt; Daily Focus Activity 31&lt;br&gt; Section Quiz 4-2*&lt;br&gt; Reinforcing Economic Skills 23</td>
<td>Daily Focus Transparency 31&lt;br&gt; Economic Concepts Transparency 6&lt;br&gt; Vocabulary PuzzleMaker CD-ROM&lt;br&gt; Interactive Tutor Self-Assessment Software&lt;br&gt; MindJogger Videoquiz&lt;br&gt; NBR’s Economics &amp; You*&lt;br&gt; Presentation Plus!&lt;br&gt; ExamView® Pro Testmaker</td>
</tr>
<tr>
<td><strong>Section 3</strong>&lt;br&gt;Applying for Credit&lt;br&gt;- What four factors determine a person’s credit rating?&lt;br&gt;- What are your responsibilities as a borrower?</td>
<td>Reproducible Lesson Plan 4-3&lt;br&gt; Daily Lecture Notes 4-3&lt;br&gt; Guided Reading Activity 4-3&lt;br&gt; Reading Essentials and Study Guide 4-3&lt;br&gt; Daily Focus Activity 32&lt;br&gt; Section Quiz 4-3*</td>
<td>Daily Focus Transparency 32&lt;br&gt; Vocabulary PuzzleMaker CD-ROM&lt;br&gt; Interactive Tutor Self-Assessment Software&lt;br&gt; MindJogger Videoquiz&lt;br&gt; Presentation Plus!&lt;br&gt; ExamView® Pro Testmaker</td>
</tr>
<tr>
<td><strong>Section 4</strong>&lt;br&gt;Government Regulation of Credit&lt;br&gt;- How has the Equal Credit Opportunity Act affected consumer credit?&lt;br&gt;- What are state usury laws?&lt;br&gt;- Why might a person declare personal bankruptcy?</td>
<td>Reproducible Lesson Plan 4-4&lt;br&gt; Daily Lecture Notes 4-4&lt;br&gt; Guided Reading Activity 4-4&lt;br&gt; Reading Essentials and Study Guide 4-4&lt;br&gt; Daily Focus Activity 33&lt;br&gt; Section Quiz 4-4*</td>
<td>Daily Focus Transparency 33&lt;br&gt; Vocabulary PuzzleMaker CD-ROM&lt;br&gt; Interactive Tutor Self-Assessment Software&lt;br&gt; MindJogger Videoquiz&lt;br&gt; Presentation Plus!&lt;br&gt; ExamView® Pro Testmaker</td>
</tr>
</tbody>
</table>

*Also available in Spanish
Hal Kraynek
Valley High School
Santa Ana, California

Buying a Home
In this activity, students research to find out what is involved in purchasing a home. They need to contact a local title agency or real estate agent, or use the Internet, to find information about the following:

- Time spent in escrow
- Fees and charges
- Interest rates for 15-, 20-, and 30-year mortgages
- Payment rates
- Types of homeowners’ insurance
- Buying a new versus a used home
- Landscape expenditures
- Repair expenditures
- Location near schools and shopping
- Buying a new versus a used home
- Time spent in escrow
- Fees and charges
- Interest rates for 15-, 20-, and 30-year mortgages
- Payment rates
- Types of homeowners’ insurance

Students may work with a partner and present their findings in an oral report to the class. **ECON: 3A, 8A-B, 11A, 23A, 23D, 24D, 25B**

**Timesaving Tools**

- **Interactive Teacher Edition** Access your Teacher Wraparound Edition and your classroom resources with a few easy clicks.
- **Interactive Lesson Planner** Planning has never been easier! Organize your week, month, semester, or year with all the lesson helps you need to make teaching creative, timely, and relevant.

**Presentation Plus!** Use Glencoe’s Presentation Plus! multimedia teacher tool to easily present dynamic lessons that visually excite your students. Using Microsoft PowerPoint® you can customize the presentations to create your own personalized lessons.

**Key to Ability Levels**

- **L1 BASIC** activities for all students
- **L2 AVERAGE** activities for average to above-average students
- **L3 CHALLENGING** activities for above-average students
- **ELL ENGLISH LANGUAGE LEARNER** activities

**National Council on Economic Education**

**The Economics of America AND Economics International Programs**

**Voluntary Standards Emphasized in Chapter 4**

**Content Standard 12** Students will understand that interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.

**Content Standard 10** Students will understand that institutions evolve in market economies to help individuals and groups accomplish their goals.

**Resources Available from NCEE**

- Capstone: The Nation’s High School Economics Course
- Personal Decision Making: Focus on Economics
- Personal Finance Economics: Wallet Wisdom
- MCG—Economics and Entrepreneurship

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at [http://www.nationalcouncil.org](http://www.nationalcouncil.org)
Why It’s Important
How do credit cards work? What happens if you can’t pay back the amount of credit you’ve borrowed? This chapter will explain what you need to know before applying for credit and going into debt, and how to use credit wisely.

Chapter Overview
Chapter 4 explains the advantages of buying items on credit and why people decide to use credit; six types of lending institutions; how credit ratings are determined; and borrowers’ responsibilities.

Chapter Launch Activity
Offer students the following scenario: Two friends have offered to lend you $1,000 to buy whatever you want. The first friend would like you to refund the money within the year, but for every month that goes by without repayment, he or she will charge you $10 interest. The second friend places no time limit on repayment, but will charge you $5 interest for every month that goes by without repayment. Ask students, from which friend, if either, they would borrow the $1,000. Steer students toward such topics as the financial cost and opportunity cost of borrowing money. **ECON:** 5B, 11A, 23A, 23D, 23G
Americans and Credit

Cover Story

The Washington Post, May 10, 1999

Debt is not itself a bad thing. Used properly, credit allows young families to buy their own homes and acquire other trappings of middle-class life without waiting until middle age. Homeownership, in turn, gives these families a stake in their communities and encourages them to take an active role in keeping it a good place to live.

But easy credit—and plainly credit is very easy today—creates a temptation to push the envelope, to live at a higher level than the borrower can safely afford.

Americans use credit to make many purchases. The total amount of funds borrowed and lent each year is enormous. In addition to individuals borrowing funds, the federal, state, and local governments all borrow funds, too. The nation’s economy, in fact, depends on individuals and groups being able to buy and borrow on credit. In this section, you’ll learn what credit is and why people use it.

What Is Credit?

Credit is the receiving of funds either directly or indirectly to buy goods and services today with the promise to pay for them in the future. The amount owed—the debt—is equal to the principal.

Terms to Know

• credit
• principal
• interest
• installment debt
• durable goods
• mortgage

Reading Objectives

1. What are the advantages of repaying installment debt over a long period?
2. Why do people go into debt?
3. What factors should you consider when deciding whether or not to use credit?

Reader’s Guide

Answers to the Reading Objectives questions are on page 87.

Preteaching Vocabulary

Vocabulary PuzzleMaker

Multimedia

Daily Focus Transparency 30
Vocabulary PuzzleMaker CD-ROM
Interactive Tutor Self-Assessment Software
ExamView® Pro Testmaker
MindJogger Videoquiz
Presentation Plus!

SECTION 1 RESOURCE MANAGER

Reproducible Masters

Reproducible Lesson Plan 4–1
Reading Essentials and Study Guide 4–1
Guided Reading Activity 4–1
Section Quiz 4–1
Daily Focus Activity 30
Daily Lecture Notes 4–1

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CHAPTER 4
SECTION 1, Pages 83–87

1 Focus

Overview

Section 1 explains or describes the importance and uses of consumer credit and loans in the economy, the advantages of repaying loans over the long term, and why and how consumers decide to use credit.

Bellringer

Motivational Activity

Project Daily Focus Transparency 30 and have students answer the questions.

Available as blackline master.

Daily Focus Transparency 30

Using Credit

1. What type of credit is offered in this advertisement?
2. What important consumer information is supplied in this advertisement?

BELLRINGER

Motivational Activity

Project Daily Focus Transparency 30 and have students answer the questions.

Available as blackline master.

Daily Focus Transparency 30

Using Credit

1. What type of credit is offered in this advertisement?
2. What important consumer information is supplied in this advertisement?

Reader’s Guide

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Answers to the Reading Objectives questions are on page 87.

Preteaching Vocabulary

Vocabulary PuzzleMaker

Multimedia

Daily Focus Transparency 30
Vocabulary PuzzleMaker CD-ROM
Interactive Tutor Self-Assessment Software
ExamView® Pro Testmaker
MindJogger Videoquiz
Presentation Plus!
plus interest. The **principal** is the amount originally borrowed. The **interest** is the amount the borrower must pay for the use of someone else’s money. That “someone else” may be a bank, a credit card company, or a store.

Any time you receive credit, you are borrowing funds and going into debt. Taking out a loan is the same as buying an item on credit. In both cases, you must pay interest for the use of someone else’s purchasing power.

### Installment Debt

One of the most common types of debt is **installment debt**. Consumers repay this type of loan with equal payments, or installments, over a period of time; for example, 36 equal payments over 36 months. Many people buy **durable goods**, or manufactured items that last longer than three years, on an installment plan. Automobiles, refrigerators, washers, and other appliances are...
considered durable goods. People can also borrow cash and pay it back in installments. Figure 4.1 shows how consumer installment debt owed each year in the United States has steadily increased.

The length of the installment period is important in determining the size of the borrower’s monthly payments and the total amount of interest he or she must pay. A longer repayment period results in a smaller monthly payment. For example, Figure 4.2 shows that if the repayment of a loan is spread over three years, the monthly payments will be smaller than if the loan were repaid in two years. There is a trade-off, however. The longer it takes to repay an installment loan, the greater the total interest the lender charges.

The largest form of installment debt in this country is the money people owe on mortgages. A mortgage is an installment debt owed on real property—houses, buildings, or land. See Figure 4.3. Interestingly, most people who owe a mortgage on their home do not consider themselves deeply in debt. Because people must have housing, they think of a mortgage as being a necessary monthly payment not similar to other kinds of debt. A mortgage is a debt, however, because somebody has provided the owner with funds to purchase property. In return, the owner must repay the loan with interest in installments over a number of years.

**Figure 4.2**

Pay Now or Pay Later? Your monthly payment is lower if you choose the 36-month loan. How much more interest will you pay, however, if you spread the loan payment over 36 months rather than 24 months?

<table>
<thead>
<tr>
<th>$1,000 Installment Loan at 9% Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term of Loan</strong></td>
</tr>
<tr>
<td>Monthly Payments</td>
</tr>
<tr>
<td>Total Payments</td>
</tr>
</tbody>
</table>

**Term of Loan**

**Monthly Payments**

**Total Payments**

**Total Interest**

**Figure 4.3**

Installment Debt

Mortgages make up the largest form of installment debt in the country. Most mortgages are repaid in monthly installments for 15 to 30 years.

mortgage: installment debt owed on houses, buildings, or land

The Federal National Mortgage Association, or Fannie Mae, is the nation’s largest provider of funds for home mortgages. Fannie Mae does not lend money directly to home buyers. Rather, it purchases mortgages from lending institutions. These lenders then use the money to provide mortgages to home buyers. Since it became a private company in 1968, Fannie Mae has helped more than 30 million American families to buy homes. **ECON: 8A-B**
Why People Use Credit

In a sense, people feel forced to buy items on credit because they believe they require these items immediately. They do not want to wait. Of course, consumers are not really “forced” to buy most goods and services on credit. They could decide instead to save the funds needed to make their purchases.

Some might say that you would be better off saving and waiting to buy a pickup truck. During the years you are saving for the truck, however, you forgo the pleasure of driving it. Many people do not want to postpone purchasing an important durable good. They would rather buy on credit and enjoy the use of the item now rather than later. See Figure 4.4.

Another reason for going into debt is to spread the payments over the life of the item being purchased. For example, people do not buy a truck or car to have it sit in the garage. What they buy is the availability of the vehicle each day, week, month, and year that they own it.

Suppose you buy the pickup truck for $15,000 and plan to keep it for five years. At the end of that time, it will be worth only $5,000. Over that five-year period, however, you will get approximately $2,000 worth of use per year, or $166 per month. By buying on the installment plan, a person makes monthly payments that more or less correspond to the value of the use he or she receives from the product.

Deciding to Use Credit

The decision to borrow or use credit involves whether the satisfaction the borrower gets from the purchases is greater than the interest payments. It is basically a question of comparing costs and benefits. The benefit of borrowing is being able to buy and enjoy the good or service now rather than later. The cost is whatever the borrower must pay in interest or lost opportunities to buy other items.

The benefit of borrowing is something only you can decide for yourself. You and every other borrower, however, should be aware of the costs involved. Figure 4.5 can help you decide when to use credit. It can also help you avoid the improper use of credit by overspending.
They feel they must purchase certain items.

1. Do I really require this item? Can I postpone purchasing the item until later?

2. If I pay cash, what will I be giving up that I could buy with this money? This is an opportunity cost.

3. If I borrow or use credit, will the satisfaction I get from the item I buy be greater than the interest I must pay? This is also an opportunity cost.

4. Have I done comparison shopping for credit? In other words, after you have determined that you are not going to pay cash for something, you should look for the best loan or credit deal, including the lowest interest rate and other conditions of repayment.

5. Can I afford to borrow or use credit now?

Critical Thinking Activity

6. Synthesizing Information. Imagine that you are shopping for a used car. If you borrow $10,000 to buy a used car, and the simple interest rate on the loan is 11 percent, what will your total payment be at the end of 24 months? At the end of 36 months? For help in understanding interest rates, see page xxi in the Economic Handbook.

Answers will vary but may include: Do I really require this item? If I pay cash, what will I be giving up that I could buy with this money? Will the satisfaction I get from the item I buy be greater than the interest I must pay? Have I done comparison shopping for credit? Can I afford to borrow or use credit now?

Answers will vary.

$12,200; $13,300
CHAPTER 4
SECTION 2, Pages 88–94

1 Focus
Overview
Section 2 describes the credit choices available to consumers, and how to calculate annual percentage rates and finance charges.

BELLRINGER
Motivational Activity

Project Daily Focus Transparency 31 and have students answer the questions. This activity is also available as a blackline master.

Daily Focus Transparency 31

FINANCIAL INSTITUTIONS

<table>
<thead>
<tr>
<th>Financial Institutions in the United States (cont'd.)</th>
<th>Number of Establishments (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>65.8</td>
</tr>
<tr>
<td>Savings institutions</td>
<td>15.1</td>
</tr>
<tr>
<td>Credit unions</td>
<td>16.8</td>
</tr>
<tr>
<td>Consumer finance institutions</td>
<td>20.1</td>
</tr>
<tr>
<td>Mortgage finance institutions</td>
<td>25.1</td>
</tr>
</tbody>
</table>

Source: Statistical Abstract of the United States

1. What is the most common type of financial institution listed in the table?
2. What conclusions can you draw from the table?

Reader’s Guide

Terms to Know
• commercial bank
• savings and loan association
• savings bank
• credit union
• finance company
• charge account
• credit card
• finance charge
• annual percentage rate (APR)

Reading Objectives
1. What are six types of financial institutions?
2. What three kinds of charge accounts are available from stores?
3. How are credit cards used?
4. How do a finance charge and an annual percentage rate differ?

There are two major types of credit—using credit cards and borrowing money directly from a financial institution. Although lending institutions differ in their services, they all charge interest on the funds they lend. In this section, you’ll learn what those financial institutions are. You’ll also learn about charge accounts and credit cards—and why you should be aware of the high interest rates they charge.

Types of Financial Institutions

You should comparison shop when you have decided to apply for a loan. See Figure 4.6. To gather information, check various lending agencies in person, over the phone, or at their Web sites.

SECTION 2 RESOURCE MANAGER

Reproducible Masters
• Reproducible Lesson Plan 4–2
• Reading Essentials and Study Guide 4–2
• Guided Reading Activity 4–2
• Section Quiz 4–2
• Daily Focus Activity 31
• Daily Lecture Notes 4–2

Multimedia
• Daily Focus Transparency 31
• Economic Concepts Transparency 6
• Vocabulary PuzzleMaker CD-ROM
• Interactive Tutor Self-Assessment Software
• ExamView® Pro Testmaker
• MindJogger Videoquiz
• NBR’s Economics & You
• Presentation Plus!
**Commercial Banks** The first place you might think to go for a loan is a **commercial bank**. Commercial banks today control the largest amount of money and offer the widest range of services. These services include offering checking and savings accounts and loans to individuals. They also transfer funds among banks, individuals, and businesses.

**Savings and Loan Associations** A **savings and loan association (S&L)**, like a commercial bank, accepts deposits and lends funds. S&Ls make many single-family and multi-family mortgage loans. They also finance commercial mortgages and auto loans. Their interest rates for loans are often slightly less than those for commercial banks.

**Savings Banks** **Savings banks** were first set up to serve the small savers who were overlooked by the large commercial banks. Most savings banks, like S&Ls, lend funds for home mortgages, although they do make personal and auto loans. Since 1980, savings banks, like commercial banks, have also been able to offer services similar to checking accounts.

**Credit Unions** Union members and employees of many companies often have a credit union. A **credit union** is owned and operated by its members to provide savings accounts and low-interest loans only to its members. Credit unions primarily make personal, auto, and home improvement loans, although larger

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**Financial Institutions** Financial institutions differ in several factors, including differences in interest rates and loan repayment terms.

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**Meeting Special Needs**

**Poor Math Skills** Calculating interest and finance charges can be difficult for students whose math skills are below average. Ensure that students know how to use the formulas for determining the cost of credit. Have them work through an exercise in which they intend to make an imaginary credit purchase and must calculate and compare the costs under different charge accounts. Explain that knowing how to find the best credit bargain can save hundreds—even thousands—of dollars. **ECON: 11A, 23G**

Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.
credit unions offer home mortgages as well. In general, credit unions offer higher interest rates on savings and charge lower interest rates on loans than other financial institutions.

**Finance Companies** A finance company takes over contracts for installment debts from stores and adds a fee for collecting the debt. The consumer pays the fee in the form of slightly higher interest than he or she would pay to the retailer. Retailers use this method to avoid the risks involved in lending money to consumers.

A consumer finance company makes loans directly to consumers at relatively high rates of interest—often more than 20 percent a year. The people who use consumer finance companies are usually unable to borrow from other sources with lower rates because they have not repaid loans in the past or have an uneven employment record.

### Charge Accounts

A second major type of credit is extended directly to an individual, without that person having to borrow money first. This credit may be in the form of a charge account or a credit card. As shown in **Figure 4.7**, a charge account allows a customer to buy goods or services from a particular company and pay for them later. Department stores, for example, offer three types of charge accounts: regular, revolving, or installment.

#### Regular Charge Accounts

A regular charge account, also known as a 30-day charge, has a credit limit such as $500 or $1,000. A credit limit is the maximum amount of goods or services a person or business can buy on the promise to pay in the future. At the end of every 30-day period, the store sends a bill for the entire amount. No interest is charged, but the entire bill must be paid at that time. If it is not, interest is charged on the unpaid amount.

#### Revolving Charge Accounts

A revolving charge account allows you to make additional purchases from the same store even if you have not paid the previous month’s bill in full. Usually you must pay a certain portion of your balance each
month—one-fifth of the amount due, for example. Interest is charged on the amount you do not pay. Of course, if you pay everything you owe each month, no interest is charged. This type of account also has a credit limit.

**Installment Charge Accounts** Major items such as sofas, televisions, and refrigerators are often purchased through an installment charge account. The items are purchased and paid for through equal payments spread over a period of time. Part of the amount paid each month is applied to the interest, and part is applied to the principal. At the end of the payment period, the borrower owns the item he or she has made payments on.

**Credit Cards**
A credit card, like a charge account, allows a person to make purchases without paying cash. The difference is that credit cards can be used at many kinds of stores, restaurants, hotels, and other businesses throughout the United States and even foreign countries. As shown in Figure 4.8, Visa, MasterCard, and others issue cards through banks. These cards can be used to purchase items in stores that accept them, or they may be used to borrow funds up to a certain limit. This gives consumers access to loans at all times without having to apply for them.

**Finance Charges and Annual Percentage Rates**
The terms finance charge and annual percentage rate tell the consumer the same thing—the cost of credit. Each, however, is expressed in a different way.

---

**Extending the Content**

**Savings and Loan Associations** Most of the early savings and loan associations were what is known as “terminating institutions.” Such institutions were set up with one aim in mind—to enable members to buy a home. Members made regular monthly deposits and, in turn, took out loans to buy homes. Members then paid off their mortgages in monthly installments. Once all members had purchased homes and paid off their loans, the savings and loan association was terminated. **ECON: 8A-B**
Finance Charges  The **finance charge** is the cost of credit expressed in dollars and cents. It must take into account interest costs plus any other charges connected with credit. For example, yearly membership fees for the use of a credit card are included in the finance charge.

The way finance charges are computed is an important factor in determining the cost of credit. Store charge accounts and credit cards use one of four methods to determine how much people will pay for credit: previous balance, average daily balance, adjusted balance, or past due balance. Each method applies the interest rate to an account’s balance at a different point during the month. The different methods can result in widely varying finance charges. See Figure 4.9.

**Annual Percentage Rates**  The **annual percentage rate (APR)** is the cost of credit expressed as a yearly percentage. Like the finance charge, the APR must take into account any noninterest costs of credit such as a membership fee. Figure 4.10 on page 94 shows how a sample APR affects the cost of credit.

Knowing which creditor is charging the most for credit would be very difficult without some guide for comparison. The APR provides that guide by allowing consumers to compare costs regardless of the dollar amount of those costs or the length of the credit agreement. Suppose creditor A is charging an APR of 16 percent, while creditor B is charging 17 percent, and creditor C is charging 18 1/2 percent. On a yearly basis, creditor C is charging the most for credit and creditor A the least.

---

### Economic Connection to... History

#### The First Credit Card

In 1958 the Bank of America mailed 60,000 BankAmericards to customers in Fresno, California. Each card had a credit line of $300 to $500 and could be used at 300 stores in the area. The next year, the bank mailed out 2 million cards and persuaded 20,000 stores to accept them.

Initially, BankAmericard proved a financial disaster. Unpaid accounts ran above 20 percent, and credit-card fraud was rampant. By early 1960, the losses on BankAmericard approached $9 million. The bank quickly addressed these problems, and within a year BankAmericard was turning a profit.

---

### Free Enterprise Activity

Have students work in groups to create a board game titled “Credit Crunch!” Indicate that the object of the game is to go into debt and then pay it off. Point out that lucky breaks (a pay raise or a contest cash prize, for example) and bad breaks (rising energy costs or unexpected repair bills, for example) might advance or stall a player’s progress. Note that the first player to retire his or her debt wins the game. Suggest that groups research various board games to help them create their own.

**ECON: 11A**

---

**Did You Know**

Many credit card issuers try to attract customers by offering affinity cards. These are regular credit cards that are issued under the name of an organization—a charity, educational institution, or professional body, for example. The issuing companies assume that people with ties to—or an affinity with—these organizations will take one of the cards. In return, the issuing companies make small donations to the organizations whenever the cards are used for transactions.
### Relevant Issues in Economics

**Payday Loans** The payday loan service is one of the fastest-growing segments of the consumer credit industry, totaling about $1 billion in business a year. Payday lenders advance cash against a borrower’s next paycheck. In the typical payday loan transaction, the borrower writes a postdated check for the amount plus a loan fee. The lender then deposits the check on the posted date, normally the day the borrower gets paid. Payday loans are quite small—usually between $100 and $200—and short-term—rarely more than two weeks. However, when the fees charged on the loans are translated into APRs, they run anywhere from 250 to 800 percent!  

**ECON: 11A**

---

### Figure 4.9

#### Different Methods of Computing Finance Charges

<table>
<thead>
<tr>
<th>Type of Method</th>
<th>How Finance Charge Is Computed</th>
<th>Example (Based on opening balance of $300, $150 paid halfway through month, monthly interest rate = 1.5%)</th>
</tr>
</thead>
</table>
| Previous Balance        | Charge is computed on the month’s opening balance, even if the bill has been paid in full by the time the finance charge is figured. There is no benefit in paying off a debt early with this method. | • Amount on which interest is due: $300, despite payment  
• Calculation: $300 × .015 = $4.50  
• Finance charge: $4.50  
• Balance due: $154.50 |
| Adjusted Balance        | Payments made during the month are deducted from the opening balance. Charge is then computed on the balance due the last day of the month. With this method you can save the most money if you pay your bill as soon as possible. | • Amount on which interest is due: $150, balance on last day of billing period  
• Calculation: $150 × .015 = $2.25  
• Finance charge: $2.25  
• Balance due: $152.25 |
| Average Daily Balance   | Charge is applied to the sum of the actual amounts owed each day during the billing period, divided by the number of days in that period. Payments and credits—return of goods—are subtracted on the exact date of payment. With this method you can save the most money if you pay your bill as soon as possible. | • Amount on which interest is due: $225  
• Calculation: 15 days × $300 = $4,500  
15 days × $150 = $2,250  
30 days total = $6,750  
$6750 ÷ 30 = $225  
$225 × .015 = $3.38  
• Finance charge: $3.38  
• Balance due: $153.38 |
| Past Due Balance        | No finance charge is applied if full payment is received within a certain period, usually within 25 days after the date of the last billing statement. If full payment is not received, then a finance charge for the unpaid amount is added to the next month’s bill. | • Amount on which interest is due: $0  
• Calculation: $150 × 0 = 0  
• Finance charge: $0  
• Balance due: $150.00 (Finance charge of $2.25 (.015 × $150) will be added to next month’s bill) |

---

#### Going Into Debt

**ASK:** How does a credit card work? When a credit card is used for a purchase, the owner receives a monthly statement. If the entire bill is paid immediately, no interest is charged. If the bill is not paid in full, interest charges begin to accumulate on the balance.

Also available in VHS.

---

### 3 Assess

#### Meeting Lesson Objectives

Assign Section 2 Assessment as homework or an in-class activity.

- Use Interactive Tutor Self-Assessment Software to review Section 2.

---

#### Section Quiz 4-2

**Sources of Loan and Credit**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. savings and loan</td>
<td>c. stock options that pay a dividend to the owner</td>
</tr>
<tr>
<td>2. credit card</td>
<td>d. consumer finance company</td>
</tr>
<tr>
<td>3. finance charge</td>
<td>e. savings and loan</td>
</tr>
<tr>
<td>4. annual percentage rate</td>
<td>f. commercial bank</td>
</tr>
</tbody>
</table>

**Interactive Tutor Self-Assessment**

**ECONOMICS & YOU**

**Chapter 10**

Disc 1, Side 1

**Chapter 10**

Page 92: 8A-B, 11A, 23G, 24A

Page 93: 11A, 23G
Debit Cards

There is another method of payment, known as a debit card. A debit card does not provide a loan. Instead, it makes cashless purchases easier by enabling customers to transfer funds electronically from their bank accounts directly to the store or restaurant where they purchased goods. Debit cards were first available in the 1970s but did not catch on with the public until the 1990s. At that time, banks combined credit cards with their debit cards.

credit card
Credit device that allows a person to make purchases at many kinds of stores, restaurants, and other businesses without paying cash.

credit card holder
Person who uses a credit card to make purchases.

credit association
Company that takes over contracts for installment debts from stores and adds a fee for collecting the debt; consumer finance company makes loans directly to consumers at high rates of interest.

credit card holder
Person who uses a credit card to make purchases.

credit union
Depository institution owned and operated by its members to provide savings accounts and low-interest loans only to its members.

consumer
Person who purchases goods or services for personal use.

consumer finance company
Company that makes loans directly to consumers at high rates of interest.

Debit Cards

There is another method of payment, known as a debit card. A debit card does not provide a loan. Instead, it makes cashless purchases easier by enabling customers to transfer funds electronically from their bank accounts directly to the store or restaurant where they purchased goods. Debit cards were first available in the 1970s but did not catch on with the public until the 1990s. At that time, banks combined credit cards with their debit cards.
A computerized database program can help you organize and manage a large amount of information. After entering data in a database table, you can quickly locate the information according to keywords.

**Learning the Skill**

An electronic database is a collection of facts that are stored in a file on the computer. The information is organized into categories called fields. For example, one field may be the names of your clients. Another field may be the street addresses of your clients. All the related fields make up a record. Together, all the records make up the database.

A database can be organized and reorganized in any way that is useful to you. By using a database management system (DBMS)—or special software developed for record keeping—you can easily add, delete, change, or update information. When you want to retrieve information, the computer searches through the files, finds the information, and displays it on the screen.

**Practicing the Skill**

Follow the steps listed on the left to build a database that organizes information about your friends.

**Application Activity**

Research and build a database on types and services of financial institutions. Explain why the database is organized the way it is and how it might be used in this class.

**Answers to Practicing the Skill**

Databases will vary. Ask students to explain why they chose their particular method of organizing information.

**Application Activity**  Databases will vary. Have students compare their databases to note similarities and differences.
How can you obtain credit? Perhaps more important, how can you dig yourself out of debt if you’ve spent more than you can handle? In this section, you’ll learn what makes a person a good risk for credit. You’ll also learn ways to handle your debts before they get out of control.

**Creditworthiness**

Several factors determine a person’s creditworthiness. When you apply for credit, you usually will be asked to fill out a credit application. After you have filled out the application, the store, bank, or other lending agency will hire a **credit bureau**, a private business, to do a **credit check**. This investigation will...
reveal your income, any current debts, details about your personal life, and how well you have repaid debts in the past.

The Credit Rating

The information supplied by the credit bureau provides the creditor with a credit rating for you. This is a rating of the risk—good, average, or poor—involved in lending funds to a specific person or business. If you have a history of poor credit use—usually late in paying debts—you will receive a poor credit rating. The creditor reviewing the credit check will be less willing to lend you money.

Though past history of credit use is important in deciding a person’s creditworthiness, the creditor also looks at three other factors that a credit check reveals. These are your capacity to pay, your character, and any collateral you may have. See Figure 4.11.

Capacity to Pay  Capacity to pay is related to income and debt. If your employment has been spotty, your capacity to pay will be considered questionable. The amount of debt that you are already carrying is also a factor. If your debts are large, creditors will be reluctant to loan you more.

Creditworthiness  When a creditor looks at your creditworthiness, three factors are considered: your ability to hold a steady job, your character, and any collateral you have that may secure a loan.

Guided Practice

L1  Understanding Ideas  On the board, draw a table with “Capacity to Pay,” “Character,” and “Collateral” as horizontal column headings, and “Good Risk” and “Bad Risk” as vertical column headings. Call on students to come to the board and enter examples of good risks and bad risks in the appropriate spaces.

ECON: 11A, 23A, 23F

Guided Reading Activity 4–3

Guided Practice

L1  Understanding Ideas  On the board, draw a table with “Capacity to Pay,” “Character,” and “Collateral” as horizontal column headings, and “Good Risk” and “Bad Risk” as vertical column headings. Call on students to come to the board and enter examples of good risks and bad risks in the appropriate spaces.

ECON: 11A, 23A, 23F

Meeting Special Needs

Analyzing Cause and Effect  Some students may not appreciate how actions taken today can have an impact on creditworthiness. To help students see the connection, provide the following example. If a person is chronically late with payments, defaults on a credit card account, or fails to fulfill other credit obligations, such facts will be reported on his or her credit history. Several years later, potential lenders may read this history and turn down that person’s request for a loan or a credit card. Ask students to offer ideas on how a person might keep his or her credit history sound.  ECON: 8B, 11A, 23A

Refer to Inclusion for the Social Studies Classroom Strategies and Activities.
Character  Character refers to a person's reputation as a reliable and trustworthy person. The creditor may look at your educational background, whether or not you have had any problems with the law, and any other factors that might indicate your strength of character.

Collateral  Lenders also consider collateral, or the size of your capital or personal wealth. Collateral is important because it indicates your past ability to save and accumulate. It also indicates your present ability to pay off a loan, even if you lose your job, because you could sell some of your belongings in order to make the payments.

Secured Loans  Usually when a financial institution makes a loan, it will ask for collateral from the borrower. The collateral may be the item purchased with the loan money, such as a house or car. It may be something of value the borrower already owns. The borrower then signs a legal agreement allowing the lender to claim the collateral if the loan is not repaid. A loan that is backed up with collateral in this way is called a secured loan.

Unsecured Loans  Usually a young adult will have little to offer as collateral. When dealing with a trusted customer, financial institutions will sometimes lend funds on the person’s reputation alone. Such a loan is called an unsecured loan. It is not guaranteed by anything other than a promise to repay it.

A bank will sometimes lend funds to a person without a financial reputation if he or she has a cosigner. As shown in Figure 4.12, a cosigner is a person who signs a loan contract along with the borrower and promises to repay the loan if the borrower does not.

Responsibilities as a Borrower  After you have applied for credit and obtained it, you have taken on certain responsibilities. After all, the businesses that gave you credit expect to earn a profit.

If you do not pay your debts on time, the business that lends you funds may have to hire a collection agency to help get back the money loaned to you. If you never pay off your debt, the
Loans for the Poor

In the mid-1970s, Muhammad Yunus, an economics professor, took a trip through Bangladesh. He saw a woman weaving bamboo chairs but earning only a few pennies a day, most of which went to pay the high-interest rates on loans she took out to buy raw materials.

Yunus realized that if the woman could get loans at reasonable interest rates, she could make a living wage. So, Yunus started his own bank, the Grameen—or "Village"—Bank. Today, with more than 1,000 branch offices throughout Bangladesh, it has lent money to more than 2 million people, most of whom are women. Each loan averages $160, and 97 percent of these loans have been repaid on time.

Another responsibility as a borrower is to keep a complete record of all the charges you have made. You also must notify the credit-card issuer immediately if your card is lost or stolen. What if you've lost control of your debt? Financial planners advise you to make a list of everything you owe, what the interest rate is, and what the payments are. Concentrate on paying the high-interest credit cards first, and pay more than the minimum payment, or it will take you years to reduce the debt.

Another thing to do is to stop incurring additional debt. You may then get a bad credit history. You may then get a bad credit history. You may then get a bad credit history. You may then get a bad credit history. You may then get a bad credit history. You may then get a bad credit history. You may then get a bad credit history.

Yunus realized that if the woman could get loans at reasonable interest rates, she could make a living wage. So, Yunus started his own bank, the Grameen—or "Village"—Bank. Today, with more than 1,000 branch offices throughout Bangladesh, it has lent money to more than 2 million people, most of whom are women. Each loan averages $160, and 97 percent of these loans have been repaid on time.

Going Into Debt

Understanding Key Terms

1. Define credit bureau, credit check, credit rating, collateral, secured loan, unsecured loan.

Reviewing Objectives

2. Graphic Organizer Create a diagram like the one below to describe the four factors that determine a person's credit rating.

Applying Economic Concepts

4. Creditworthiness Which of the four factors determining a person's credit rating do you think is most important in deciding whether a person is creditworthy? Explain.

Critical Thinking Activity

5. Finding the Main Idea What is the main idea of the following excerpt? Banks now assign point values to each item on a credit application, such as how much debt you owe, how much credit you have available, your repayment history, and your age. Your total score will determine whether you're approved.
SPOTLIGHT

A Hard Lesson on Credit Cards

The moment college students step on campus, they become highly sought-after credit-card customers. To establish relationships card marketers hope will extend well beyond the college years, they are offering students everything from free T-shirts to chances to win airline tickets as enticements to sign up. As a result, college students now have heavy card debts.

As long as they are over 18, students can get a card without asking mom or dad to co-sign. Since card issuers’ pitches may be confusing, experts dish out this advice:

• Beware of teaser rates. Credit-card marketers may advertise a low annual percentage rate (APR), but it often jumps substantially after three to nine months.

• Pay on time. Because students move often and may not get their mail forwarded quickly, bills can get lost. Then the students fall prey to late-payment fees. If one or two payments are overdue, many cards bump interest rates up as well.

• Shun cash advances. Students are often unaware that rates on cash advances are much higher than those on card balances.

• Don’t ask for extra credit. Instead, find a card that has a restrictive credit line. Another option: Get a secured credit card. Its credit limit depends on your savings at the issuing bank.

Debt advisers say students should hold only a credit card on which they can carry a small balance and a charge card they must pay off monthly. They should pay more than the minimum on credit cards. And they should not charge purchases they can pay for in cash, such as pizza and gas.

—Reprinted from March 15, 1999 issue of Business Week

ECON: 2A, 11A, 15A-B, 23A, 23D

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the Business Week Web site.

www.businessweek.com

Answers to Think About It

1. from free T-shirts to chances to win airline tickets
2. Avoid cards with low initial APRs; pay on time; do not use the card for cash advances; do not ask for a higher line of credit; get a credit card that allows only a small monthly balance and a charge card that must be paid off monthly; pay cash for everyday items, such as gasoline and pizza.
Lawmakers are at odds over a bill that would require credit card issuers to disclose more information to consumers. Among other things, the statement would show how long it would take to pay off your balance if you made only the minimum payment. For example, at 21% interest, it would take nearly four years to pay off a $1,000 balance if you paid $35 a month.

Card issuers say such a disclosure would be burdensome and costly.

To protect consumers, the federal and state governments regulate the credit industry. Some states have set a maximum on the interest rates charged for certain types of credit. The federal government has also passed laws designed to increase the flow of credit information to consumers. In this section, you’ll learn about these laws and how they protect consumers from unfair credit practices.

**Reading Objectives**

1. How has the Equal Credit Opportunity Act affected consumer credit?
2. What are state usury laws?
3. Why might a person declare personal bankruptcy?

**READER’S GUIDE**

**Terms to Know**

- usury law
- bankruptcy

**Project Daily Focus Transparency 33** and have students answer the questions. Available as blackline master.

**Focus Activities Transparency 33**

<table>
<thead>
<tr>
<th>Role of Government in Consumer Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal credit laws are in force primarily to protect consumers, to ensure they have full information, privacy, equal treatment, and are not abused.</td>
</tr>
</tbody>
</table>
| Financial institutions that extend credit and consumers who seek or have credit  
| Most were passed in the 1970s  
| Throughout the United States  
| Primarily to protect consumers, to ensure they have full information, privacy, equal treatment, and are not abused |

1. Why were consumer credit laws enacted?
2. What can you infer from the table about consumer credit in the United States in the 1960s?

**BELLRINGER**

**Motivational Activity**

Daily Focus Transparency 33

**RéSUMÉ**

Section 4 describes state usury laws and federal laws that regulate the credit industry and explains why a person who cannot repay debts might file for bankruptcy.

**SECTION 4 RESOURCE MANAGER**

**Reproducible Masters**

- Reproducible Lesson Plan 4–4
- Reading Essentials and Study Guide 4–4
- Guided Reading Activity 4–4
- Section Quiz 4–4
- Daily Focus Activity 33
- Daily Lecture Notes 4–4

**Multimedia**

- Daily Focus Transparency 33
- Vocabulary PuzzleMaker CD-ROM
- Interactive Tutor Self-Assessment Software
- ExamView® Pro Testmaker
- MindJogger Videoquiz
- Presentation Plus!

**Student Edition TEKS**

Page 100: 1A-B, 3A, 11A, 23A
The Truth in Lending Act

The Truth in Lending Act of 1968 was the first of a series of major federal laws that greatly expanded the government’s role in protecting users of consumer credit. An important aspect of the government regulation of credit is to make sure that everyone has equal access. Figure 4.13 presents the important points about this act and other major federal government laws to regulate credit.

The Equal Credit Opportunity Act

In 1974 Congress enacted the Equal Credit Opportunity Act (ECOA) as an addition to the Truth in Lending Act of 1968. Among other things, those who provide credit cannot deny you such credit solely on the basis of your race, religion, national origin, gender, marital status, or age. In addition, no one is allowed to discriminate against you in offering credit simply because your income might come from public assistance benefits.

Historically, credit discrimination against married women has been the norm. The 1974 act made it illegal for a creditor to require the signature of an applicant’s spouse unless an application for credit was made jointly by husband and wife. If a woman qualifies on her own for the amount and terms of credit requested, she does not have to get her husband to sign the credit application. See Figure 4.14 on page 104.

State Usury Laws

A law restricting the amount of interest that can be charged for credit is called a usury law. Some states set up different maximum rates for different types of consumer credit. Maximum rates on charge accounts and credit cards, for example, are often about 18 percent a year, or 1 1/2 percent per month. Consumer finance agencies, in contrast, are often allowed to charge higher rates because their loans involve higher risks.

The maximum rates from usury laws were controversial in past years when interest restrictions in many states were as low as 6 or 10 percent. When interest rates in general began to rise in the early 1970s, many lenders complained that they could not keep within such restrictions and still make a profit. In states that were slow to raise interest restrictions, some lenders cut back...
FIGURE 4.13

**Major Federal Laws Regulating Consumer Credit**

<table>
<thead>
<tr>
<th>Name of Law</th>
<th>Main Purpose</th>
<th>Major Provisions</th>
</tr>
</thead>
</table>
| Truth in Lending Act (1968)          | Ensures that consumers are fully informed about the costs and conditions of borrowing.                                                                                                                     | • Creditors must keep borrowers informed of a credit agreement’s annual percentage rate, the way charges and fees are calculated, and the payment schedule. \  
• Consumers have a 3-day cooling-off period in which to cancel certain contracts. \  
• Consumers are liable for only the first $50 in unauthorized purchases made on a credit card before it is reported lost or stolen. |
| Fair Credit Reporting Act (1970)    | Protects the privacy and accuracy of information in a credit check.                                                                                                                                         | • If refused credit, a consumer can request from the lender the name and address of the credit bureau issuing the report. \  
• The credit bureau, if requested, must provide at least a summary of a consumer’s credit file. \  
• If the consumer claims part of the file is in error, the bureau must correct the record or explain it. |
| Equal Credit Opportunity Act (1974) | Prohibits discrimination in giving credit on the basis of sex, race, religion, marital status, age, or receipt of public assistance.                                                                               | • Questions about age, sex, and marital status can be asked only if those questions relate directly to a person’s ability to repay a loan. \  
• Loan applicants must receive notice of a decision within 30 days. If the loan is denied, the lender must give the reasons. |
| Fair Credit Billing Act (1974)      | Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.                                                                                                              | • Consumers have 60 days to notify a creditor of a disputed item on a billing statement. The creditor must correct the mistake or explain the charge. \  
• While the mistake is checked, the consumer can withhold payment of the disputed sum. \  
• Under certain circumstances, a consumer can withhold payment for defective merchandise. |
| Fair Debt Collection Practices Act (1977) | Prevents abuse by professional debt collectors; does not apply to banks or other businesses that collect their own accounts.                                                                                     | • Collectors can contact a person other than the debtor only to discover the debtor’s location. \  
• The debtor cannot be contacted at an inconvenient time or place. \  
• All harassing behavior is prohibited, including the threat of violence, annoying phone calls, etc. |

**Cooperative Learning**

Organize students into an equal number of small groups. Have half the groups research federal consumer credit laws. Direct the other groups to research consumer credit laws enacted by their state and local governments. Then have all groups combine the materials they have gathered to create an illustrated bulletin-board display titled “Government Regulation of Consumer Credit.”
bankruptcy: the inability to pay debts based on the income received

Personal Bankruptcy

Every day in the United States, thousands of families get into financial trouble because they have ignored the total costs of all their borrowing. They have too many credit cards, too many charge accounts, and own a home that has too large a mortgage. Just because someone offers you credit or allows you to borrow does not mean that you should accept. Buying on credit is a serious consumer activity. See Figure 4.15.

If debtors take out too many loans, use too many credit cards, and pile up debts that they cannot pay off, they may have to file personal bankruptcy. When a bankruptcy is approved through a bankruptcy court, debtors must give up most of what they own, which is then distributed to their creditors. The Constitution authorizes Congress to establish bankruptcy laws. Certain debts, such as taxes, must continue to be paid, however.

If you declare personal bankruptcy, be aware that the bankruptcy proceedings remain on your credit record for 10 years. During this period, it is very difficult to reestablish credit and borrow funds for items such as a new car or home. That is why on the amount of credit they offered. Others stopped lending completely. Many consumers, particularly those who were poor credit risks, found it hard to obtain credit.

People opposed to raising interest restrictions claimed that people with lower incomes would not be able to afford credit. Supporters of higher rate restrictions claimed that low rates made credit less available because it was less profitable for lenders. Low rates actually hurt those they were supposed to help.

Women and Credit

Changes in laws regarding credit have improved a woman’s opportunities to borrow money. What law made it illegal for creditors to deny credit on the basis of marital status?

104 CHAPTER 4

Relevant Issues in Economics

Declarations of Bankruptcy

Some Americans think that filing for bankruptcy has become too easy. These people want the bankruptcy laws to be revised. They suggest that Chapter 7 bankruptcy—where all debts except taxes, mortgages, student loans, child support, and alimony are wiped out—should be limited to people with low incomes. Anyone earning above the national median income would have to file for bankruptcy under Chapter 13. This entails the setting up of a repayment schedule designed to retire at least a third of the debt. ECON: 1A-B, 11A, 15A-B, 20A-B
choosing bankruptcy to get out of your credit “mess” should be a last resort. Also, when you declare bankruptcy, you are making sure that your creditors will never be paid off (at least not in full) for what they loaned out.

105

FIGURE 4.15

Using Credit Just because credit card companies make it easy to obtain credit does not mean that you should accept their offers. What are some questions you should ask yourself before buying on credit?

Practice and assess key skills with Skillbuilder Interactive Workbook, Level 2.

Using Credit

Just because credit card companies make it easy to obtain credit does not mean that you should accept their offers. What are some questions you should ask yourself before buying on credit?

Critical Thinking Activity

6. Making Comparisons Research the two types of bankruptcy known as Chapter 7 and Chapter 13. Which requires debtors to set up a repayment plan? Which deletes the debt completely? What are the long-term effects of each type on one’s future?

SECTION 4 Assessment

Understanding Key Terms

1. Define usury law, bankruptcy.

Applying Economic Concepts

5. State Usury Laws The effect of a usury law is often a shortage of available loans. What circumstances might create a surplus of available loans?

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Effect on Consumer Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
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</table>

3. What are state usury laws?

4. Why might a person declare personal bankruptcy?

5. Making Comparisons Research the two types of bankruptcy known as Chapter 7 and Chapter 13. Which requires debtors to set up a repayment plan? Which deletes the debt completely? What are the long-term effects of each type on one’s future?

SECTION 4 Assessment Answers

1. All definitions can be found in the Glossary.

2. Truth in Lending Act: consumers informed about the costs and conditions of borrowing; Fair Credit Reporting Act: privacy and accuracy of credit check are protected; Equal Credit Opportunity Act: cannot be refused credit because of sex, race, religion, marital status, age, or receipt of public assistance; Fair Credit Billing Act: mistakes that appear on consumer credit accounts are now quickly corrected.

3. State laws that set limits on the amount of interest lenders may charge.

4. Too many loans, uses too many credit cards, and piles up unpayable debts.

5. Answers may include if interest rates are too high, fewer people will demand loans offered by many creditors.

6. Chapter 13 requires debtors to set up a repayment plan, while Chapter 7 deletes most of the debt completely. Students also will note that both have long-term effects on a person’s future, since a bankruptcy filing remains on that person’s credit history for 10 years.

As a closing activity, have students discuss the importance of credit regulation laws for consumers. ECON: 1A, 2A, 11A, 15A-B, 23A

Student Edition TEKS

After working as a lawyer and a business consultant, Kenneth Chenault accepted a position at the American Express Company in 1981. An energetic worker and imaginative problem solver, Chenault rose steadily through company ranks. In 1997 he was named president and chief operating officer, and in 2001 he became chairman and chief executive officer.

Chenault believes that it is not so much what or who you know, but what you do:

“Having a solid track record, building relationships with the people that you work with, and then impressing them with your abilities will make people in a position to help your career take note. As a result, you will earn the respect of the people who know your work well....”

As an African American, Chenault has faced obstacles in his career. Taking a practical approach to the situation, he believes, helps people to confront and overcome such obstacles:

“Everyone, regardless of their ethnic, religious, age, gender, . . . or other differences has to contend with obstacles. So you have to isolate what you can control, from what you can’t. You can’t control people’s biases. You can control your own performance, your own behavior and the values you choose to uphold. I also think it’s important to cultivate a measure of resilience. And, perhaps unfortunately, the best teacher of resilience is failure. There is nothing quite like overcoming failure with your character and values intact, to reinforce the fact that learning from your mistakes can be one of life’s most important lessons.”

Checking for Understanding

1. What, according to Kenneth Chenault, is the key to success?
2. What advice does Chenault give people for confronting and overcoming obstacles?

Answers to Checking for Understanding

1. what you do in your job, rather than what you know or who you know
2. People should isolate what they cannot control, such as people’s biases. Then they should focus on what they can control—their own performance, their own behavior, and the values they choose to uphold. In addition, Chenault thinks it is important for people to cultivate a measure of resilience and to learn from failure.
• Credit is the receiving of funds either directly or indirectly to buy goods and services today with the promise to pay for them in the future.

• The amount owed—the debt—is equal to the principal plus interest.

• Many people buy durable goods and obtain mortgages using installment debt.

• People go into debt because they do not want to wait to purchase an item with cash, and they want to spread the debt payments over the life of the item being purchased.

• Credit is often charging high interest, may be used at stores, restaurants, or other businesses.

• Finance charges tell you the monthly cost of credit in dollars and cents.

• The annual percentage rate tells you the annual cost of credit in percentages.

• A charge account allows a customer to buy goods or services from a particular company and pay for them later.

• Legislation states that those who provide credit cannot deny you such credit solely on the basis of your race, religion, national origin, gender, marital status, or age.

• A usury law restricts the amount of interest that can be charged for credit, but also leads to a shortage of available credit.

• People who cannot repay their debts may have to file personal bankruptcy.

Use the Chapter 4 Summary to preview, review, condense, or reteach the chapter.

Preview/Review

Vocabulary PuzzleMaker CD-ROM reinforces the key terms used in Chapter 4.

Interactive Tutor Self-Assessment Software allows students to review Chapter 4 content.

Condense

Have students listen to the Chapter 4 Audio Program (also available in Spanish) in the TCR. Assign the Chapter 4 Audio Program Activity and give students the Chapter 4 Audio Program Test.

Reteach

Have students complete Reteaching Activity 4 in the TCR (Spanish Reteaching Activities are also available).

Credit and Debt

Ask students to keep track of the advertisements concerning debt and credit they see on television, in newspapers and magazines, or hear on the radio. Have them list the types of companies that advertise to offer credit. Also, ask them to note which companies offer credit for major purchases and which offer credit for small purchases. Then have them use the information they have gathered to write a paragraph supporting or refuting the following statement: Credit is too easily available to too many people.

ECON: 8A-B, 11A, 23A, 23C, 24C-D
Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

Column A
1. principal
2. usury law
3. collateral
4. annual percentage rate
5. unsecured loan

Column B
a. restricts the amount of interest that can be charged for credit
b. requires only a promise to repay
c. amount of money borrowed in a loan
d. something of value that a borrower uses as a promise of loan repayment
e. cost of credit expressed as a yearly percentage

Recalling Facts and Ideas

Section 1
1. principal plus any interest and fees
2. In both cases, interest must be paid for the use of someone else’s purchasing power.
3. consumer durables and real property
4. People want or need items immediately and wish to spread the payments over time.
5. commercial bank, savings and loan association, savings bank, credit union, finance company, consumer finance company
6. Visa, MasterCard, and other cards issued through banks
7. finance charges
8. credit history, capacity to pay, character, collateral
9. Secured loans are backed by collateral; unsecured loans are made based on the reputation of the borrower.

Section 2
5. What are the six types of basic lending institutions in our economy?
6. What are some of the most common types of credit cards used today?
7. When you take out a loan, what do you call the total cost of credit expressed in dollars and cents?

Section 3
8. When you make an application for a loan, what are four factors that a creditor analyzes to determine whether you are creditworthy?
9. What is the difference between a secured and an unsecured loan?
10. What are your responsibilities as a borrower?

Section 4
11. What does the Equal Credit Opportunity Act of 1974 prohibit?
12. What are three important federal laws regulating consumer credit?
13. How can usury laws be harmful to the people they are trying to help?

Thinking Critically

1. Making Comparisons In deciding whether to pay cash or use credit for a purchase, what are the costs involved and the benefits of each choice?
10. Borrowers must repay the loan on time, keep records of charges made, and notify card issuers promptly if credit cards are lost or stolen.
11. It prohibits discrimination in lending based on factors—such as race, age, and sex—that have no bearing on an applicant’s ability to repay a loan.
13. When interest rates in general begin to rise, many lenders feel that they could not keep within ceilings set by usury laws and still make a profit. Therefore, they cut back on the amount of credit they offer. As a result, many consumers, particularly those who are poor credit risks, find it hard to obtain credit.

Self-Check Quiz
Visit the Economics Today and Tomorrow Web site at tx.ett.glencoe.com and click on Chapter 4—Self-Check Quizzes to prepare for the Chapter Test.
**Applying Economic Concepts**

**The Role of Government** Sometimes credit cards are lost or stolen. The owner must take steps to keep his or her card from being used by an unauthorized person. Research the Truth in Lending Act to find out what a credit card holder must do when his or her card is lost or stolen.

**Cooperative Learning Project**

Work in small groups to create a loan application that is appropriate for high school students, and circulate it in class. After going over the application, analyze why it is or is not difficult to decide who should receive loans. Is it difficult to decide who should not receive loans?

**Technology Activity**

**Using the Internet** If you ever wish to borrow money, your credit rating will be important. You can determine what your credit rating is by going to the Internet.

Enter the words credit rating in your search engine. You will find numerous sites that will give you a credit check on yourself. A wealth of online credit reporting services are available, and some of these reporting services are free.

**Analyzing the Global Economy**

The first banks arose in Europe during the Middle Ages. Indeed, the word bank comes from the banca, or bench, that moneychangers set up at medieval fairs to exchange currencies, transfer funds, receive deposits, and arrange loans. Research these early financial institutions and the interest rates they charged their customers.

**ASK: How does a credit card differ from a debit card?** A credit card allows consumers to make cashless purchases by giving them access to loans. A debit card does not provide a loan. Instead, it makes cashless purchases possible by enabling customers to transfer funds electronically from their bank accounts directly to the business where they purchased goods.

**Thinking Critically**

1. The benefit of buying on credit is being able to enjoy the good or service now rather than later. The cost is whatever the borrower must pay in interest or lost opportunities to buy other items. The benefit of buying with cash is that the buyer does not incur debt. The costs are the time the buyer may have to wait to buy while saving and the lost opportunities to buy other items.

2. Charts should reflect that banks, savings banks, savings and loan associations, and some larger credit unions are more appropriate for mortgage loans.

3. Answers may vary. Many students will suggest that people should strongly consider their reputations and the promises they have made before deciding not to fully repay their creditors.

**Student Edition TEKS**
