

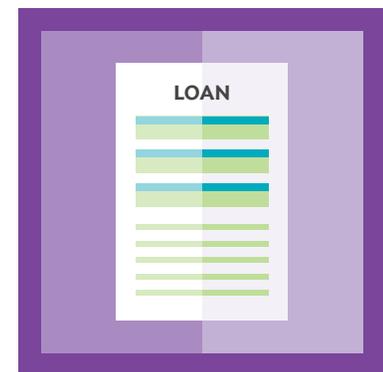
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 12

Build Credit and Control Debt—Term Loans



Instructional Objectives

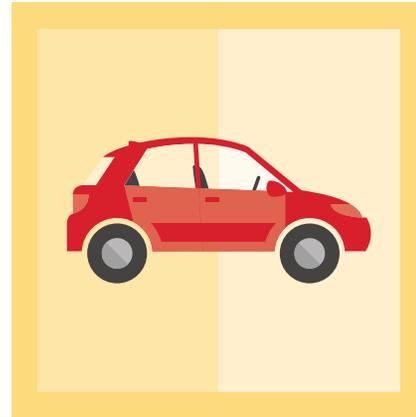
Students will:

- Define term loans
- Distinguish between APR and finance charges.
- Analyze the effect of differing APR and loan length on monthly payments and total finance charges.
- Identify ways to reduce overall finance charges.

Term Loans



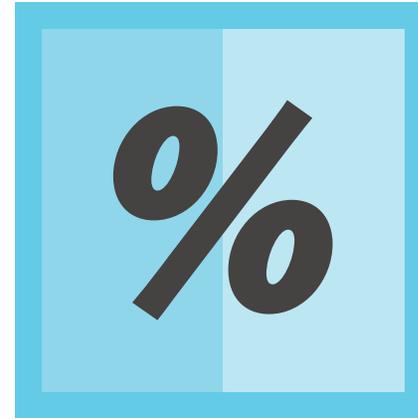
Common Term Loans



Comparing Credit Offers



Finance Charge



APR

Truth in Lending laws and regulations require all creditors to state, in writing and before the borrower signs any agreement, the cost of credit in terms of the finance charge and the annual percentage rate (APR).

Evaluating Car Loans: APR

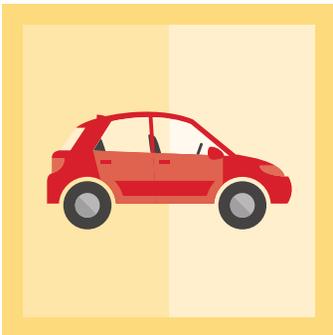
Sonya wants to buy a new car. After her down payment, she wants to finance \$15,000.



Lender	APR	Finance charges
Pixley Bank and Trust	6.5%	
XYZ Savings and Loan	7.5%	
Joe's Auto Sales	15.0%	

Evaluating Car Loans: APR

Sonya wants to buy a new car. After her down payment, she wants to finance \$15,000.



Lender	APR	Finance charges
Pixley Bank and Trust	6.5%	\$2,609.53
XYZ Savings and Loan	7.5%	\$3,034.15
Joe's Auto Sales	15.0%	\$6,410.94

Sonya's New Car: Loan Term

Sonya chose the lowest interest rate and now has to decide on the length of her loan term.



Loan term	# of payments	Monthly Payment	Finance charges
3 years	36		\$1,550.46
4 years	48		\$2,074.77
5 years	60		\$2,609.53

Sonya's New Car: Loan Term

Sonya chose the lowest interest rate and now has to decide on the length of her loan term.



Loan term	# of payments	Monthly Payment	Finance charges
3 years	36	\$459.74	\$1,550.46
4 years	48	\$355.72	\$2,074.77
5 years	60	\$293.49	\$2,609.53

The Cost of Credit

Issuer	Principal & Finance charges	Monthly Payment
Pixley Bank and Trust	\$16,403.39	\$455.65
XYZ Savings and Loan	\$17,408.81	\$362.68
Joe's Auto Sales	\$18,673.32	\$259.35
Mary's Mortgage Company	\$189,867.79	\$1,054.82
Fred's Finance Company	\$284,430.61	\$790.09