

# PART 3

## SPENDING AND CREDIT

### OUTCOMES

After successfully completing this part, students should be able to:

- \* **Explain** the steps in a buying plan.
- \* **List** the sources and benefits of using credit.
- \* **Describe** the costs of using credit.
- \* **Compare** forms and methods of payment for credit.
- \* **Name** the types of consumer loans.
- \* **List** tips for using credit wisely.
- \* **Explain** how to avoid and resolve credit problems.
- \* **Identify** and discuss important credit reporting laws.

### CHAPTER 7

#### Buying Decisions

- 7-1 Buying Plans
- 7-2 Sources and Benefits of Credit
- 7-3 Costs of Credit

### CHAPTER 8

#### Paying for Credit

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### PART 3, SPENDING AND CREDIT,

focuses on buying wisely. There are many benefits to using credit, such as building a solid credit history. Several credit sources are available to consumers, but some cost more to use than others. When you use credit, you may pay more for goods and services. The added cost can be major, especially when you make only minimum payments on a credit account. You can pay credit bills in many ways. Some ways are more convenient and less expensive than others. Unwise use of credit can lead to overspending and other problems. To avoid credit problems, you must understand and avoid the pitfalls related to using credit. You should also be aware of credit laws that help protect consumers.



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## CHAPTER

# 7

# BUYING DECISIONS



Chapter 7 is about making good buying choices and using credit. Credit can be a helpful tool in managing finances. Misuse of credit, however, can lead to overspending and impulse buying. There are many sources of consumer credit. Some sources are inexpensive and easy to use. Others are restrictive and can lead to high payments and interest charges. High interest, fees, penalties, and rising rates are often imposed on those who do not use credit wisely.

## ONLINE RESOURCES

*Personal Financial Literacy*  
Web site:

Data Files

Vocabulary Flashcards

Sort It Out: Buying Decisions

Chapter 7 Supplemental  
Activity

### Search terms:

- annual percentage rate
- impulse buying
- line of credit
- variable interest rates
- principal
- finance charges

# Buying Plans

## OUTCOMES

- Explain the advantages of using a buying plan.
- List the steps of a buying plan.
- Set criteria for selecting one item over another to buy.
- Explain why comparison shopping leads to better buying decisions.
- Create a buying plan.

## PURCHASING CHOICES

Buying goods and services can be a fun activity. Sometimes you are happy with your purchase, and it meets your needs and goals. Sometimes you are unhappy with a purchase and wish you had not bought that item.

When a purchase will affect you in the future, take some time to make the decision. Some people say that any purchase over \$50 should be considered carefully. **Impulse buying** is when you do not think about a purchase ahead of time. You see an item that looks appealing and buy it right away. This type of buying often leaves the buyer feeling dissatisfied and wishing he or she had chosen more wisely.

Following a buying plan can help you make better buying choices. Using a buying plan, you can identify your needs and the items or services that can fill those needs. A plan can also help you avoid impulse buying.

## A BUYING PLAN

A buying plan is a method for making good buying decisions. It will help you stretch your limited resources. It will also help prevent buyer's remorse, which is regret over a buying decision you have made. A buying plan may be a more detailed extension of a budget. For example, you may have allowed \$500 in a yearly budget to buy a washer and dryer. In the buying plan, you will consider details of the purchase, such as features of the product and when to make the purchase.

### *Evaluate Wants and Needs*

Items you buy should be selected to meet your wants and needs. By evaluating your wants and needs before you shop, you will be better prepared to make good buying decisions. This process is especially



Large purchases should be part of a buying plan.

important when buying items that cost a large amount of money. Because your resources will likely be limited, you should consider the opportunity cost of the item. What other items must you forgo buying in order to buy this item? Consider how the item relates to meeting the goals you have set in your budget or financial plan.

### SET CRITERIA

Once you have decided to buy a good or service, you should set criteria for the item. **Criteria** are standards or rules by which something can be judged. In the case of an item to purchase, the criteria would be the features, functions, and quality of the item. To be sure the criteria are being met, list the features, functions, and quality that are required in an acceptable choice. Criteria are listed for the items in Kim Ono's buying plan, shown in Figure 7-1.1 on page 193.

### SET A TIMELINE

For each item you want to buy, decide how soon you want to make the purchase. The timeline may depend on some activity, such as buying a new dress for graduation. It may also depend on someone else doing something. For example, you may wait to buy a particular item until a store places the item on sale. Putting a time frame on each planned purchase will help you prioritize. You may choose to drop some items from your list because buying them is not practical.

Need/Want	Item	Item Criteria	Timeline	Spending Limit
Washing clothes and linens at home rather than going to the laundromat (save time and money)	Washer and dryer (new or used)	Washer <ul style="list-style-type: none"> <li>• Should be heavy-duty</li> <li>• Should have cycles for different kinds of items</li> <li>• Should allow adding bleach or fabric softener</li> </ul> Dryer <ul style="list-style-type: none"> <li>• Should have several heat settings for different types of items</li> <li>• Should use electricity (not gas)</li> </ul>	1 year or sooner	\$500
New clothes for spring prom	Suit or tuxedo (rent) Shirt (buy)	Dark blue suit or tuxedo White shirt in a good fabric that is wrinkle-resistant	By June 1	\$100 rental fee for tux \$25 to buy a shirt
Entertainment; music and movies at home	Large-screen TV	Clear picture No larger than 60 inches Should include DVD player	6 months	\$750

**SET A SPENDING LIMIT**

A **spending limit** is the maximum amount you are willing to pay for an item. Based on the need or want that is being met, how much money are you willing and able to spend? By setting an amount, you know the spending limit. You will not be tempted to spend more than you have planned.

**Gather Information**

When you know what type of item or service you need to buy and how much you are willing to spend, you can start to gather specific information. You will want to know what products and services are available, along with their features and prices. You may find that you need to revise your spending plan. For example, you may learn that a product with the specific features you want is not available within your spending limit. You must change either the criteria or the spending limit.

**COMPARISON SHOPPING**

Comparison shopping leads to better buying decisions. You can make a better choice when you know all of the options available. Check several sources to find data on prices and features of the product or service. You may find that some items are on sale or offer rebates. A **rebate** is a refund of part of the purchase price of an item.



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Take advantage of sales to get low prices for products.

You may also find a wide range of features available. The Internet is a good place to do product research. You can browse sites with product data at your own convenience and need not feel pressured to buy.

Compare the product or service features to the criteria you have set. Determine which product or service has all the features and the quality you need at the lowest price. Remember to add taxes, handling charges, and shipping fees when considering the total cost. Some catalog and Internet companies offer free shipping. You may not have to pay sales tax on some items purchased by catalog or on the Internet.

Be aware that the lowest price is not always the best price. Compare the warranties and return policies from the various sellers. On expensive items, having a good warranty can be an important criterion. Consider the seller. Is the seller a reputable and established company that you can expect to deal fairly with you? Be wary of buying at low prices from a seller you do not know much about. If the item is damaged or of poor quality, the seller may not allow a return or refund.

### **PAYMENT METHODS**

Each purchase involves two choices—what to buy and how you will pay for it. Sometimes your only payment option is cash. At other times, you can choose among payment methods. You may be able to write a check or pay with a debit or credit card. You might choose to buy at one store instead of another because one store takes credit cards and the other does not.

Knowing in advance how you will pay for a product or service puts you in a better position to bargain. Some merchants will sell a product or service at a lower price if you pay in cash. For some items, such as a car, you may borrow money to pay for the purchase. This is often called financing the item. Always compare financing options that may be available through the seller with options from other sources. You will learn more about the advantages and disadvantages of different payment methods in Chapter 8.



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### **Make the Purchase**

Consider all the information you have gathered, and choose a product or service. Once you have decided on the product or service that will best meet your needs, it is time to buy. Check the item carefully to be sure it is in good condition. If the item is in a box, the box should be sealed. It should be clear that the box was not opened before and resealed. If the box has been resealed, take the item out and examine it.

Ask about warranties and return policies. Be sure to keep the receipt. Know the time within which a product can be returned should you find something wrong with it. Sometimes delivery will cost extra. You might be able to save money by picking up a product yourself.

### **Evaluate the Purchase**

Once you get the product or service and try it out, you may feel differently about it. The excitement of buying is now gone. Ask yourself how satisfied you are with the purchase.

Deciding how to pay for an item is part of the buying decision.

Did you follow a buying plan? Did you get good value for the money you spent? Does the product or service meet the want or need for which you purchased it? Are there ways you could have done a better job in selecting or buying? Learn from each buying experience so you can continue to make good buying decisions.

## Building Communications Skills

### INFORMAL SPEAKING

The purpose of informal speaking is to share information. Informal speaking often involves getting responses from others. Information is both given and received as other people interact with the speaker. Talking with another person and speaking with several people in a meeting or another group setting are examples of informal speaking. Follow these guidelines to help you communicate effectively in such situations:

- Express your ideas clearly. Do not assume that others will know as much about the topic discussed as you do.
- Speak clearly. Do not mumble or slur sounds. For example, say *nothing* instead of *nothin'*.
- Use standard English. For example, say *give me* instead of *gimme*.
- Use proper grammar. For example, say *she does not* instead of *she don't*.
- Use an appropriate tone. Tone is a manner of speaking that expresses your attitude or feelings. Make the tone of your voice match the topic being discussed. For example, use a light, friendly tone when talking about plans for an upcoming celebration. Use a more serious tone when discussing problems or serious issues.
- Speak at an appropriate volume level. Talk loudly enough to be heard but not so loud as to annoy others.
- Listen to others and give them time to respond.

## 7-1 REVIEW

### 7-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What are the advantages of using a buying plan?
2. How might a buying plan relate to your personal budget or financial plan?
3. What are the steps of a buying plan?
4. What does the word *criteria* mean? Why should you set criteria for evaluating a possible purchase?
5. Why does comparison shopping lead to better buying decisions?
6. What factors in addition to price should you consider when comparison shopping for an item?
7. Why is the Internet a good place to research products?
8. What can you do after a purchase to help ensure you make good choices in the future?

### 7-1 Activity 2 Create a Buying Plan

1. In this activity, you will make a buying plan. Begin by creating a table with five columns and four rows. Enter the following headings in the table:

Need/Want	Item	Item Criteria	Timeline	Spending Limit
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2. Identify three needs or wants that you would like to purchase items or services to fill. List them in the table in the Need/Want column.
3. Identify items or services to fill each need or want. List them in the table in the Item column.
4. Identify the criteria that are important for each item or service. List them in the Item Criteria column in the table.
5. Select a time frame in which you want to make each purchase. List the time frames in the Timeline column of the table.
6. Select a price you are willing and able to pay for each purchase. List the prices in the Spending Limit column of the table.



# Sources and Benefits of Credit

## OUTCOMES

- Explain the purpose of credit.
- Compare sources of consumer credit.
- Complete a sample credit application.
- Describe the benefits of using credit.

## SOURCES OF CREDIT

**Credit** is the ability to borrow money with the agreement to pay it back later. The repayment usually includes interest. The purpose of credit is to allow buyers to purchase items at the present time and pay for them in the future.

Several sources of credit are available to consumers. Once a consumer begins using credit, banks and other companies often offer to provide other sources or types of credit. The person who borrows money is called a debtor. In most cases, the debtor must fill out a credit application to be approved by the lender. The lender is also called the creditor.

On a credit application, the borrower provides data needed by the lender. Personal contact data, such as name, address, phone number, and date of birth, are given. The borrower's work information, other credit sources, and bank account information are also included. A sample application for credit is shown in Figure 7-2.1 on page 198.

When completing a credit application, give complete and honest responses. Read all the information carefully. The back of the application or additional pages may describe the terms of the credit agreement. Be sure you understand and agree to the terms before you sign and submit an application.

### Service Credit

**Service credit** is the ability to receive services and pay for them later. Examples of service credit include the use of electricity, water, sewer, and other utilities. You may also receive service credit from doctors, dentists, and others. You may not think of it as credit, but you are receiving services now and paying for them later. Some companies that offer service credit require you to pay a deposit when you begin using the service. After your payment history is known, the deposit may be refunded to you.

### Bank Credit Cards

Credit cards are available from banks and other companies. These cards are usually issued through a provider such as VISA® or MASTERCARD®. With a credit card, you can buy products or get cash at ATMs around the world.

CREDIT APPLICATION				PARNELL BANK	
<b>PERSONAL DATA</b>					
<input checked="" type="checkbox"/> Mr. <input type="checkbox"/> Ms. <input type="checkbox"/> Mrs. <input type="checkbox"/> Miss	First Name <b>Raul</b>	Middle <b>B.</b>	Last Name <b>Cadiz</b>		
Home Address <b>248 Maple Lane</b>	City <b>Monticello</b>	State <b>KY</b>	ZIP Code <b>42633-0345</b>	How long? <b>10 years</b>	
Previous Address (If less than 2 years at present address)		City	State	ZIP Code	
Home Telephone <b>606-555-0134</b>	Business Telephone <b>606-555-0134</b>	Date of Birth <b>10/12/75</b>		No. of Dependents <b>1</b>	
Social Security No. <b>000-00-0000</b>		E-Mail Address <b>rcadiz48@providername.net</b>			
Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	If no, explain status.	Residence Situation <input type="checkbox"/> Own <input checked="" type="checkbox"/> Rent <input type="checkbox"/> Other		Monthly Rent or Mortgage <b>\$ 450.00</b>	
<b>Employment</b>					
Employer <b>Ready-Made Cabinets</b>	Address <b>452 West Street</b>	City <b>Monticello</b>	State <b>KY</b>	ZIP Code <b>42633-8741</b>	
How long? <b>5 years</b>	Occupation <b>Cabinet Finisher</b>	Supervisor's Name <b>Ben Bell</b>		Yearly Gross Pay <b>\$ 20,000.00</b>	
Other Income Amount Source <b>\$5,000 per year Summer job/Mowing lawns</b>		Yearly Household Income <b>\$45,000.00</b>			
<b>Other Credit Accounts</b>					
Type or Name <b>Good Deal credit card</b>		Account No. <b>4589258-633</b>		Current Balance <b>\$ 450.53</b>	
Type or Name <b>Sears store account</b>		Account No. <b>632-569-4319</b>		Current Balance <b>\$ 750.23</b>	
Type or Name <b>Potter's Hardware store account</b>		Account No. <b>388-23-6</b>		Current Balance <b>\$ 145.89</b>	
<b>Bank Accounts</b>					
<input checked="" type="checkbox"/> Checking	Name of Bank <b>First Bank</b>	City <b>Monticello</b>	Account No. <b>3489541-12</b>		
<input checked="" type="checkbox"/> Savings	Name of Bank <b>First Bank</b>	City <b>Monticello</b>	Account No. <b>3479542-16</b>		
<input type="checkbox"/> Other	Name of Bank	City	Account No.		
<b>Signature</b>					
I authorize Parnell Bank to check my credit record and verify my employment and references. I have read the information on the reverse side and agree to the credit terms. Under penalties of perjury, I declare the above statements to be true.					
<b>Raul B. Cadiz</b>		Date <b>May 5, 20--</b>			
Applicant's Signature					

Bank credit cards are a type of revolving credit. With **revolving credit**, the account holder can charge to the account as often as desired, up to a certain dollar limit. The account holder makes payments, usually each month. The entire debt or part of the debt can be paid each month. This means that the account can have an ongoing balance. However, a minimum monthly payment is usually required. Interest is charged on outstanding balances. Interest on credit cards can be quite high. Bank cards also often charge an annual fee.

## Store Accounts

Department stores, gas companies, and other retail merchants may offer their own credit accounts. The account holder may receive a credit card to use in making purchases. Unlike bank credit cards, **store accounts** allow you to charge items or services only at that store or with that merchant. These accounts often have high interest rates and require monthly payments. Using store accounts can lead to less comparison shopping when people simply buy where they have accounts.

Store accounts can be revolving credit accounts, or they can be installment plans. With **installment credit**, an amount is set for the purchase. Payments are made and the balance is paid off in a set period of time. For example, a customer might buy a refrigerator for \$800 and agree to pay 18 percent yearly interest on a 3-year payment plan. Figure 7-2.2 shows the payments and interest for this plan.

## Charge Cards

A charge card is a form of credit card because you buy now and pay later. With charge cards, however, you pay the balance in full each month. Because there is no interest or service fee, these cards often require a large annual fee (\$50 to \$100 or more). Examples of charge cards are American Express® and Diners Club®.

## Loans

Banks and other companies loan money to consumers. Consumers can get different types of loans. An installment loan is similar to an installment plan for a store purchase. A set amount is borrowed at a certain interest rate for a set period of time. For example, a consumer might borrow \$1,000 at 8 percent interest for 1 year. The debtor makes regular payments for the set period of time to repay the loan. The repayment includes the amount borrowed and interest. Handling fees may also be charged.



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Many types of credit cards are available to consumers.

INSTALLMENT PAYMENT PLAN	
Initial Balance	\$ 800.00
Monthly Payment	\$ 28.92
Total Payments Amount	\$1,041.19
Interest Paid	\$ 241.19

FIGURE 7-2.2

INSTALLMENT PAYMENT PLAN



A single-payment loan also has a set amount borrowed at a certain interest rate for a set period of time. With this type of loan, however, the entire amount plus interest is repaid in one payment on a certain date.

The terms of a loan may allow the consumer to use the money borrowed as desired. Other loans may specify how the money is to be used. For example, the loan may be for home repairs or for the purchase of a car.

The lender may require the borrower to offer security for the loan. Property that can be used as security for a loan is called **collateral**. Land, a house, and a car are examples of items that can be used as collateral. The lender can sell the collateral to get the money due if the borrower does not repay the loan. If the borrower does not have the needed collateral, the lender may require that the loan have a cosigner. A cosigner is a person who signs the loan agreement along with the borrower. This person agrees to repay the loan if the borrower does not.

## Lines of Credit

A **line of credit** is a preapproved amount that a debtor can borrow when needed. It is available through banks, credit card companies, and other lenders. The borrower must fill out a credit application. The maximum amount that can be borrowed is set. No interest is charged until the debtor uses the line of credit. A line of credit is a good thing to have so you know how much you can borrow for something such as a car or a remodeling project.

### Focus on . . .

#### CREDIT IN AMERICA

Credit today is easy to get, and many creditors want your business. Merchants encourage their customers to use store credit. They offer discounts and price reductions to get customers to open and use a credit account.

The ease of buying over the Internet has opened new uses of credit. Online purchases at reputable sites are fairly secure and no more risky than in-person purchases. Either way, you are vulnerable. Dishonest people can get your private data and use the data to steal in your name.

As long as you maintain a good credit record, you will receive many credit offers. These offers will come from established as well as new companies. Credit offers may

also pose a security threat. If someone steals your mail, she or he can open accounts in your name and charge products. You will then have a serious problem.

If you do not manage your credit responsibly, you will find the electronic age to your disadvantage. For example, if you make a late payment to one creditor, other creditors may learn about it. Other lenders may be less likely to extend credit to you. Once you are refused credit at one company, this is a signal to others that you are not a good risk. If you use credit too freely and cannot make the payments you owe, you will soon find it very hard to get or use credit. Manage your credit wisely so you will have it when you need it.

# BENEFITS OF CREDIT

People use credit for a variety of reasons. Using credit has both benefits and costs or advantages and disadvantages. In this part of the chapter, you will learn how consumers can use credit to take advantage of its benefits. You will learn about the costs of credit in the next section.

## *Convenience and Rewards*

Credit cards and store accounts offer convenience to consumers. Many people prefer to use credit cards for purchases instead of carrying large amounts of cash. Some companies to which consumers make regular payments accept credit cards. The account can be set up to be billed to a credit card each month. Utility companies and Internet service providers are examples of businesses that offer this option. Paying one credit card bill each month is easier than paying several bills to different companies. Consumers can get cash advances with some credit cards. This is convenient for consumers traveling far from home.

Many bank credit cards and store accounts have rewards features. With a rewards program, you get points or other bonuses, such as cash back, when you use the card. Points can be redeemed for merchandise or other goods or services.

## *Increased Spending Power*

Without credit, many people would have lower standards of living. They would have to wait to buy things that can save them time and money. For example, a consumer might have to save money for a year to have the purchase price of a washer and dryer. By using credit, the consumer can purchase the washer and dryer when needed. A small down payment might be required. The remaining cost, along with interest, can be repaid over the course of a year or two. During this time, the consumer is able to use the washer and dryer.

Using credit allows some people to buy expensive items that they might never save enough to pay for at once. For example, many people do not have enough money to pay the full purchase price of a house. Having a home loan, called a mortgage, allows these people to buy a home.

## *Records and Protection*

Credit card receipts provide you with records of what you have bought using the card. You can use receipts for returning goods, as well as getting adjustments. Having the receipts also allows you to verify your purchases against the credit card statement.

Using credit gives you advantages when resolving some disputes with merchants. For example, suppose you purchased an item on the Internet. The seller says you can expect delivery within two weeks. Five weeks go by, however, and you have not received the item. When your credit card bill arrives, you find you have been charged for the item. Because you have used a credit card as payment, you can dispute the charge with your credit card company.



© Stockbyte

Credit card receipts offer proof of purchase.

The credit card company must resolve the dispute within a certain time. You can withhold payment of the disputed amount during the investigation.

Some credit card companies offer various benefits or protections against risks. The following list gives several examples:

- You pay no charges for any fraudulent use of the card. You do not have to pay for any online purchases made without your knowledge.
- You can withhold payment for disputed items while the dispute is being investigated.
- If a store refuses to refund the price of a returned item within 90 days of purchase, the credit card company will refund the purchase price up to a dollar limit (such as \$500) per eligible item.
- If goods are damaged or stolen within 90 days of purchase, the credit card company will replace or refund eligible items.
- You can receive an emergency replacement for a lost card quickly, often within 24 hours.

## Success Skills

### MANAGING PROJECTS

Most people have projects for school, home, or work that they should or would like to complete. Some projects are small, such as painting a porch. Others are large, such as planning a two-week vacation. Whatever the time or dollar value, all projects can benefit from planning. Large projects can be especially overwhelming without a plan for completion. Follow these guidelines to help you manage a project successfully:

1. Define the overall objective of the project. State clearly what you want the completed project to be or do.
2. If the project is large, divide it into smaller, more manageable parts.
3. Set a completion time for each part and for the overall project. By looking at the different parts of the project and how long they will take, you can coordinate activities.
4. Identify the resources needed to complete each part. What items, money, people, or other resources do you need to complete the project? List each one.
5. If other people will help with the work, decide who will do each task or part. Some tasks can be delegated. Some items need to be purchased. Some tasks need to be completed before others can be done.
6. Seek approvals, if needed. For a work project, you may need the approval of your boss. For a school project, you might need a teacher's approval. For a home remodeling project, you might need a building permit. If you live in an area with historic houses or zoning restrictions, you might need the approval of some committee. If you must borrow money to pay for the project, you may need to have the plans approved by the lender.
7. Monitor each part of the project as work progresses. Problems may arise. Some tasks may take longer or cost more than planned. When this happens, reevaluate your plan and take steps to get back on schedule.
8. Review the completed project. Does it achieve the goal you set at the beginning? Share the credit. Thank those who helped make the project a success. Review the process you used to complete the project. Note tasks or steps you could do differently to improve on future projects.

## 7-2 REVIEW

### 7-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is the purpose of using credit?
2. List several sources of consumer credit.
3. What types of information are asked for on a typical credit application?
4. How are store credit accounts different from bank credit card accounts?
5. How are credit cards different from charge cards?
6. How is a single payment similar to an installment loan? How is it different?
7. Give two examples of collateral that might be used to secure a loan.
8. What is the responsibility of a cosigner of a loan?
9. How is a line of credit different from other types of loans?
10. List several benefits of using credit.

### 7-1 Activity 1 Credit Application



To get a credit card or open a store account, consumers typically must fill out a credit application. Although you may not be ready to apply for credit for a few years, you will practice completing an application in this activity.

1. Open and print the PDF file *CH07 Credit App* from the data files.
2. Use the following information to complete the credit application. Print the data neatly and clearly on the form.
3. Use your title, name, address, and home phone number.
4. For a business phone, write **606-555-0132**.
5. For the date of birth, write **August 1, 1980**.
6. Enter **0** for the number of dependents.
7. For a Social Security number, write **000-111-0000**.
8. For an e-mail address, write **myname@provider.com**.
9. Indicate that you are a U.S. citizen.
10. Indicate that you rent your residence and you pay **\$600** per month in rent.
11. For your employer, enter the name of a business in your area. Use the real address of the business or make up an address.

12. In the Occupation box, enter a job that would be found at this business. Indicate that you have worked there for 4 years.
13. For the name of a supervisor, enter **Emily Gale**.
14. You earn \$10 per hour, working 40 hours per week for 50 weeks a year. Compute your gross pay, and enter it in the Yearly Gross Pay box. Enter the same amount in the Yearly Household Income box.
15. Enter **None** in the Other Income box.
16. In the first Other Credit Accounts box, write **Sears store account** in the Type or Name box. Enter **34289-10** for the account number. Enter **\$250** for the current balance.
17. Under Bank Accounts, place a check mark to indicate that you have a checking account. Write the name of a local bank. Write the name of your city or a nearby city. For the account number, write **45892-4509**.
18. Indicate that you have a savings account at the same local bank. For the account number, write **45892-4510**.
19. Sign your name and enter the current date at the bottom of the form.



# Costs of Credit

## OUTCOMES

- List costs associated with using credit.
- Explain the difference between fixed and variable interest rates.
- Use three different methods for computing finance charges.
- Describe penalties and fees imposed by credit card companies.
- Compare credit card offers.

## CREDIT COSTS

Although using credit can have benefits, it can also have disadvantages and costs. Unwise use of credit can lead to overspending. If you do not make payments on credit accounts on time, your credit rating will suffer. This may mean that you cannot get credit when you need it in the future.

If you use credit wisely, costs can be kept to a minimum. For example, credit card companies charge interest on outstanding balances. If you pay the full amount owed on your credit card each month, you can avoid paying interest charges. Using this strategy, you can enjoy the benefits of using credit with little cost. However, you may have to pay a yearly fee for the privilege of using the card.

Interest and fees you pay are also called finance charges. These charges have the effect of increasing the cost of items you purchase on the credit account. There are several different ways of computing interest for credit. Whatever the method used, you will pay interest if you carry a balance on the account.

### *Fixed and Variable Rates*

A credit account may have a fixed annual rate of interest. With a **fixed rate**, the interest rate is set and does not change each month or year. However, even with a fixed rate, the credit card company can, with 30 days' written notice, raise the fixed rate of interest. You can refuse to accept this new rate; but if you do, the company will close your account. When an account is closed, you can pay it off at the old rate, but you can no longer make charges to the account. The daily interest rate and the corresponding annual interest rate are shown on the partial credit card statement in Figure 7-3.1 on page 206.

With a **variable rate** of interest, the lender or credit card company can change the rate often. Variable rates tend to rise fast when interest rates in general go up. However, rates go down very slowly. Credit cards

**FIGURE 7-3.1**

*Interest rates are shown on this portion of a credit card statement.*

Summary of Transactions					
Previous Balance	Payments and Credits	Cash Advances	Purchases and Adjustments	Finance Charges	New Balance Total
\$2,102.42	\$2,144.81	\$0.00	\$1,259.61	\$0.00	\$1,217.22
Finance Charge Schedule					
Category	Periodic Rate	Corresponding Annual Rate	Balance Subject to Finance Charge		
Cash Advances					
A. Balance Transfers, Checks	0.043753% Daily	15.97%	\$0.00		
B. ATM, Bank	0.043753% Daily	15.97%	\$0.00		
C. Purchases	0.043753% Daily	15.97%	\$0.00		
Total Minimum Payment Due					
Past Due Amount	Current Payment	Total Minimum Payment Due			
\$0.00	\$15.00	\$15.00			

with variable interest rates should be used sparingly. You do not want to get caught with a large balance when interest rates are rising. When the rates for two cards are the same or close to the same, choose a card with a fixed rate instead of a card with a variable rate.

### Methods of Computing Interest

Three basic methods are used to compute interest on revolving credit accounts. These methods are the adjusted balance method, the previous balance method, and the average daily balance method. Most creditors use one of these methods or a method that is similar. The three methods can result in different interest charges. For example, suppose an account has a \$500 previous balance. During the month, charges of \$30, \$50, and \$80 are made. A payment of \$100 is made. Using the adjusted balance method, the interest charged is \$8.40. Using the previous balance method, the interest is \$7.50. Using the average daily balance method, the interest is \$8.46. Each of these methods is explained in the following sections.

#### ADJUSTED BALANCE METHOD

With the **adjusted balance method**, the balance at the beginning of the period is added to charges made during the period. The payment received is subtracted from this amount to find the adjusted balance. The adjusted balance is multiplied by the interest rate and the time to find the interest amount. The interest amount is added to the adjusted balance to find the new balance (amount owed). Figure 7-3.2 on page 207 shows how to calculate interest using this method.

#### PREVIOUS BALANCE METHOD

With the **previous balance method**, interest is calculated using the outstanding balance at the end of the previous billing period. Charges

**FIGURE 7-3.2****ADJUSTED BALANCE METHOD**

<b>ADJUSTED BALANCE METHOD</b>		
Previous Balance		\$500.00
Charges	\$30.00	
	\$50.00	
	\$80.00	
Total Charges		\$160.00
Payment		\$100.00
Adjusted Balance		\$560.00
Interest (18% yearly for 1 month)		\$8.40
[\$560 x 18% x 30/360]		
New Balance (Amount Owed)		\$568.40

**FIGURE 7-3.3****PREVIOUS BALANCE METHOD**

<b>PREVIOUS BALANCE METHOD</b>		
Previous Balance		\$500.00
Interest (18% yearly for 1 month)		\$7.50
[\$500 x 18% x 30/360]		
Charges	\$30.00	
	\$50.00	
	\$80.00	
Total Charges		\$160.00
Payment		\$100.00
New Balance (Amount Owed)		\$567.50

in the current billing period are not included. Interest is calculated by multiplying the previous balance times the interest rate times the time. The new balance is the previous balance plus interest plus charges minus any payments made. See Figure 7-3.3.

**AVERAGE DAILY BALANCE METHOD**

With the **average daily balance method**, an adjusted balance is computed for each day of the month. The adjusted balance is the balance from the previous day plus charges and minus payments received on that day. The adjusted balances for all days are added and then divided by the number of days. This amount is the average daily balance. The amount



**FIGURE 7-3.4**

**AVERAGE DAILY  
BALANCE METHOD**

<b>AVERAGE DAILY BALANCE METHOD</b>				
Previous Balance	\$500.00			
Daily Balances	Previous			Adjusted
	Balance	Charges	Payments	Balance
Day 1	\$500.00	\$0.00	\$0.00	\$500.00
Day 2	\$500.00	\$0.00	\$0.00	\$500.00
Day 3	\$500.00	\$0.00	\$0.00	\$500.00
Day 4	\$500.00	\$0.00	\$0.00	\$500.00
Day 5	\$500.00	\$30.00	\$0.00	\$530.00
Day 6	\$530.00	\$0.00	\$0.00	\$530.00
Day 7	\$530.00	\$0.00	\$0.00	\$530.00
Day 8	\$530.00	\$0.00	\$0.00	\$530.00
Day 9	\$530.00	\$0.00	\$0.00	\$530.00
Day 10	\$530.00	\$50.00	\$0.00	\$580.00
Day 11	\$580.00	\$0.00	\$0.00	\$580.00
Day 12	\$580.00	\$0.00	\$0.00	\$580.00
Day 13	\$580.00	\$0.00	\$0.00	\$580.00
Day 14	\$580.00	\$0.00	\$0.00	\$580.00
Day 15	\$580.00	\$80.00	\$0.00	\$660.00
Day 16	\$660.00	\$0.00	\$0.00	\$660.00
Day 17	\$660.00	\$0.00	\$0.00	\$660.00
Day 18	\$660.00	\$0.00	\$0.00	\$660.00
Day 19	\$660.00	\$0.00	\$100.00	\$560.00
Day 20	\$560.00	\$0.00	\$0.00	\$560.00
Day 21	\$560.00	\$0.00	\$0.00	\$560.00
Day 22	\$560.00	\$0.00	\$0.00	\$560.00
Day 23	\$560.00	\$0.00	\$0.00	\$560.00
Day 24	\$560.00	\$0.00	\$0.00	\$560.00
Day 25	\$560.00	\$0.00	\$0.00	\$560.00
Day 26	\$560.00	\$0.00	\$0.00	\$560.00
Day 27	\$560.00	\$0.00	\$0.00	\$560.00
Day 28	\$560.00	\$0.00	\$0.00	\$560.00
Day 29	\$560.00	\$0.00	\$0.00	\$560.00
Day 30	\$560.00	\$0.00	\$0.00	\$560.00
Average Daily Balance				\$563.67
Interest (18% yearly for 1 month)				\$8.46
[\$563.67 x 18% x 30/360]				
New Balance (Amount Owed)				<u>\$568.46</u>

is multiplied by the interest rate and the time to find the interest amount. The interest is added to the balance on the last day of the billing period to find the new balance (amount owed). Figure 7-3.4 shows how to calculate interest using this method.

### Minimum Payments

The minimum payment is how much you must pay each month on a credit account. If you pay only the minimum, it could take many years to pay off a balance. The interest charges could cost you more than the purchase itself.

Minimum payments usually are 3 to 5 percent of the balance owed. Thus, if you owe \$1,000, your monthly payment would be \$30 to \$50.

This payment includes both principal and interest. Higher minimum payments help you pay off debt sooner. However, higher payments also give you less flexibility in managing your budget.

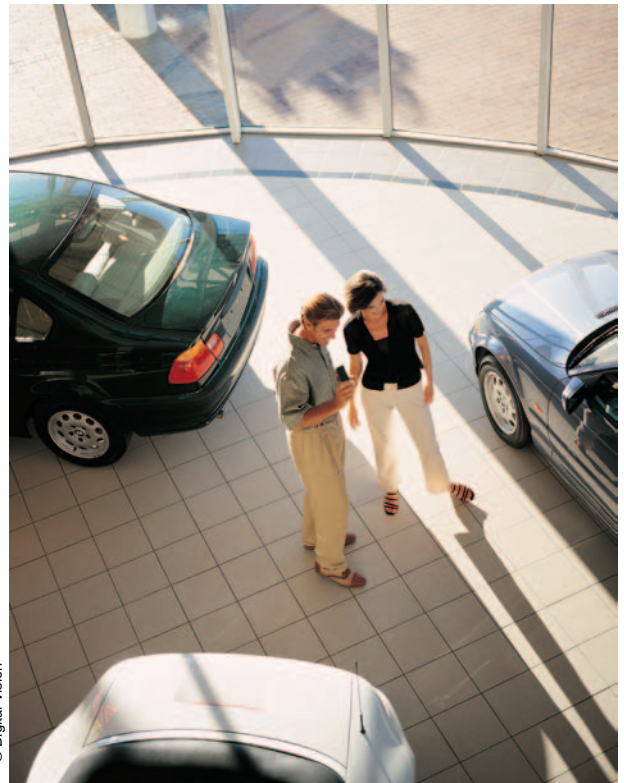
The minimum payment can be changed at any time. The creditor may decide to increase the minimum, and you will have to pay that amount. This could be difficult if your budget is already tight.

## Penalties and Fees

If you make a late payment, you will typically be charged a penalty. A **penalty** is a fee charged for violating the credit agreement. A late penalty is often \$35 or more. Late payments can also cause your interest rate to rise. Many credit agreements state that if you are late with a payment or miss a payment, your interest rate will increase.

Many credit card accounts have a set limit to the amount you can charge at any one time. If you try to charge more than your limit, the charge may be refused. In other words, your purchase is not approved at the time you check out and try to pay using the credit card. The credit card company may approve the charge even though it is over your limit. You will then be charged an **over-the-limit fee**. This is another type of penalty, and it can also cause your interest rate to rise. You may have to pay the fee every billing period until the outstanding balance falls below your credit limit.

Some credit card agreements have a termination penalty. This penalty may apply if you close the account before a stated time, such as 1 year. Often, the penalty involves raising the interest rate to the highest rate allowed by law. This rate is often more than 20 percent per year. The penalty may apply to cards that offer low introductory rates. It discourages you from closing the account at the end of the low-rate period.



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Credit limits on some cards can be high enough to make expensive purchases, such as buying a car.

## SPECIAL RATES

Credit card interest rates are expressed as annual percentage rates. By law, creditors must clearly state the rate of interest on all credit offers. Variable rates are often tied to the prime rate. Typically, it would be the prime rate plus some percentage, such as 5 percent.

Low introductory interest rates often last 6 months to a year. These temporary rates are then replaced with variable or fixed rates. The purpose of these rates is to get you to switch to a new credit card. Be cautious, however, because the regular rate may be higher than the rate for your previous card. Figure 7-3.5 on page 210 shows an example of introductory rates from a credit card application.

When you get a new credit card, you can transfer the balance of what you owe on an old card to the new card. Balance transfer rates are sometimes 0 percent. These low rates are offered to entice you to change cards.

Details of Rates	
Annual Percentage Rate (APR) for Purchases	7.9% for Gold accounts or 13.99% for Silver accounts The account you receive is determined based on your creditworthiness.
Introductory Rate	3% Introductory APR for balances through your first 12 statement closing dates After that, the standard APR of 7.9% for Gold accounts or 13.99% for Silver accounts applies. The Introductory APR may end sooner if your payment is late.
Balance Transfers and Cash Advance Checks	0% Introductory APR for balance transfers and cash advance checks through your first 12 statement closing dates After that, the standard APR of 7.9% for Gold accounts or 13.99% for Silver accounts applies. The Introductory APR may end sooner if your payment is late.

However, the rates usually apply to the balance from the old card only and only for a short period of time.

Sometimes credit card companies provide access checks. These checks look like regular checks, but they are used to borrow money. When you use a check to buy goods or to pay off another credit card, you are transferring the balance to your credit card.

When you have more than one rate being charged, credit card companies apply your payment to the balance with the lowest rate first. This means you will pay an overall higher rate than the balance transfer rate.

## Technology Corner

### APPLYING FOR CREDIT ONLINE

Today you can find major creditors, even mortgage lenders, and apply for credit online. In some cases, you can get a decision on whether the loan is approved in just a few minutes.

Online applications will require sensitive personal data. You will be asked for your address, Social Security number, income, and bank account numbers. The creditor will need to be sure that the person applying is really you. You may be asked to verify

data that others would not know, such as your place of birth. Be careful that you are using a secure site anytime you give out this type of information.

When applying online, do not respond to credit offers sent to you. They may be scams. Instead, only apply when you initiate the contact. If you want to apply online, first do research to be sure the site is the real one for a reputable company. You can also call a reputable lender and ask for its Web site address.

# CHECKING CREDIT STATEMENTS

When you receive a credit account statement, you should check it carefully. You want to be sure that the charges, payments, interest, fees, and new balance are correct. Follow these steps to check a credit statement:

1. Compare the charges listed on the statement with your sales receipts and records of online or telephone purchases. Make sure the amounts are the same.
2. Verify that payments you have made are shown on the statement.
3. Verify that credits (such as for returned items) are shown on the statement.
4. Take note of any fees or penalties you have been charged. Determine whether the creditor is allowed to charge these fees according to the credit agreement.
5. Verify that the interest amount and the new balance (amount owed) are correct.

If you find what you think are errors on the statement, contact the company using the method given in the credit agreement. You will typically be required to make the complaint in writing. A form may be provided on the back of the statement to use in filing complaints. You will learn more about consumer rights regarding credit and credit disputes in Chapter 9.

## Ethics

Creditors (lenders) are in business to make a profit. They provide a valuable service to consumers by allowing them to charge purchases and pay for them later. They are entitled to good-faith use of credit and payment for its use.

Using a credit card that does not belong to you to charge purchases is both unethical and illegal. This crime is called credit card fraud. Credit card fraud costs businesses a great deal of money. This results in higher charges for all consumers.

You can help prevent credit card fraud by closely guarding your cards and card numbers. Some precautions you can take follow:

- Sign your cards in ink as soon as you receive them.
- Be sure your card is returned to you by the salesperson after each purchase.

## CREDIT CARD FRAUD

- Carry only one or two credit cards at a time. This gives you fewer cards to report if the cards are lost or stolen.
- Record the telephone numbers for reporting lost or stolen cards, and report lost or stolen cards right away.
- When you keep cards at home, store them in a safe place that will not be quickly located by a burglar.
- Guard your purse or wallet when away from home.
- Do not lend your cards to anyone. If you want to help someone buy an item, make the purchase yourself.
- When you need to throw away a card, cut it into several pieces.
- Tear credit card receipts into small pieces before throwing them away.

## 7-3 REVIEW

### 7-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. List some costs associated with using credit.
2. Explain the difference between accounts that have fixed interest rates and those that have variable interest rates.
3. Describe how finance charges (interest) may be computed on credit cards using three common methods.
4. What does the minimum payment amount on a credit card statement indicate?
5. Describe fees and penalties charged by credit card companies.
6. Why do credit card companies offer low introductory annual rates for purchases and account balance transfers?
7. What items should you verify when you receive a credit card statement?

### 7-3 Activity 1 Credit Card Offers



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Credit card offers can vary considerably. Some credit cards have annual fees; others do not. Some have variable interest rates; others have fixed rates. Some have high minimum payments of 5 percent or more. Others have low minimum payments of 1 percent or less. Most credit card accounts charge you for balance transfers (to pay off other accounts). Some provide access checks with which you can easily borrow cash. Some offer rewards programs with points or other bonuses for money you spend.

Shopping for a credit card involves decisions similar to those involved in making purchases. You should follow the same steps as in a buying plan. First, think about why you want or need a credit card. Next, consider how you will use it. Set criteria that you want the credit card agreement to meet. Then, do comparison shopping to find the card that most closely matches the criteria you have set.



1. Pretend that you are ready to apply for a credit card. You will use the card to make shopping more convenient. You plan to pay the entire balance each billing period to avoid paying interest charges.
2. You have thought about the criteria for the card you want. The card should have:
  - A low annual fee (\$50 or less) or no annual fee
  - A reasonable annual interest rate
  - A low introductory annual interest rate
  - A rewards program that interests you
3. Access the Internet. Search the Web using terms such as **low credit rates**, **credit card offer**, or **credit card application**.
4. Visit several sites that provide information about credit card offers. Read the information about fees and interest rates. Find a card that meets the criteria listed in step 2.
5. Record the name of the card, the annual fee, the introductory annual interest rate, and the regular annual interest rate. Describe the rewards program the card offers. Explain why you selected this card over other cards you considered.





## EXPLORING CAREERS IN BUSINESS, MANAGEMENT, AND ADMINISTRATION

Does the world of business interest you? Would you enjoy creating plans and managing people, projects, and resources? Do you want to own your own business someday? If the answer is yes, a career in business, management, and administration might be right for you. This career area includes a wide variety of jobs. Workers in human resources, sales, marketing, accounting, customer support, and business communications are all part of this career area. These workers, along with managers of many types and support personnel, are all needed to make businesses run smoothly.

Jobs in business, management, and administration are found in government and in private companies. This job area also includes entrepreneurs. Many small business owners create plans, promote and sell products, hire employees, and handle the daily management of their companies. The need for jobs in this area is expected to grow. The outlook varies by job.

### Skills Needed

Some of the skills and traits needed for a career in business, management, and administration include the following:

- Knowledge of business operations
- Management skills
- Communications and math skills
- Computer skills
- Problem-solving skills
- Leadership skills

### Job Titles

Many jobs are available in business, management, and administration. Some job titles for this career area include the following:

- Accountant
- Benefits manager
- Financial analyst
- General manager
- HR assistant
- Real estate agent
- Receptionist
- Salesperson
- Trainer

### Explore a Job

1. Choose a job in business, management, and administration to explore.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information to answer these questions:
  - What is the nature of the work this job involves?
  - What is the job outlook for this job?
  - What training or qualifications are needed for this job?
  - What are the median annual earnings for this job?



### Summary

- Following a buying plan can help you make better buying choices. It helps you identify your wants and needs and the items or services that can fill those wants and needs.
- Impulse buying brings little or no satisfaction and often results in buyer's remorse.
- Buying criteria are features that you want in products or services you have decided to buy.
- Gathering information is the second step of a buying plan; it begins with comparison shopping.
- Making a purchase involves careful checking and asking questions, keeping receipts, and knowing about warranties and return policies.
- Evaluating a purchase will help you make better choices in the future.
- Credit is the ability to borrow money with the agreement to pay it back later. The repayment usually includes interest.
- The purpose of credit is to allow buyers to purchase items at the present time and pay for them in the future. Use of credit allows consumers to buy products that they otherwise could not purchase.
- In most cases, the borrower must fill out a credit application to be approved by the lender.
- Bank credit cards are a type of revolving credit. The account holder can make charges up to a set credit limit and make periodic payments.
- Store accounts can be revolving credit accounts, or they can be installment plans. With installment credit, an amount is set for the purchase. Payments are made and the balance is paid off in a set period of time.
- Charge cards are a type of credit, but the balance is paid in full each month.
- Using credit has many advantages, such as convenience and increased spending power. Credit receipts and statements provide good records of purchases made.
- Property that can be used as security for a loan is called collateral.
- Interest and fees you pay for the use of credit are called finance charges.
- A fixed rate of interest does not go up and down frequently, but it can change with proper notice to customers.
- A variable rate of interest goes up and down at the discretion of the creditor.
- Three basic methods are used to compute interest on revolving credit accounts. These methods are the adjusted balance method, the previous balance method, and the average daily balance method.
- Borrowers are charged penalties and fees for violating any term of the credit agreement, such as for making a late payment or spending over the credit limit.
- When you receive a credit account statement, you should check to be sure that the charges, payments, interest, fees, and new balance are correct.



## Key Terms

<b>adjusted balance method</b>	<b>impulse buying</b>	<b>rebate</b>
<b>average daily balance method</b>	<b>installment credit</b>	<b>revolving credit</b>
<b>collateral credit</b>	<b>line of credit</b>	<b>service credit</b>
<b>criteria</b>	<b>over-the-limit fee</b>	<b>spending limit</b>
<b>fixed rate</b>	<b>penalty</b>	<b>store accounts</b>
	<b>previous balance method</b>	<b>variable rate</b>

## ACTIVITY 1 Review Key Terms

Use the key terms from Chapter 7 to complete the following sentences:

1. A fee called a(n) \_\_\_\_\_ is assessed to customers who go over their credit limit.
2. Credit offers through individual stores, companies, or other merchants are called \_\_\_\_\_.
3. \_\_\_\_\_ is the practice of buying first and thinking about it later.
4. With a method of computing finance charges called the \_\_\_\_\_, charges and payments are applied first, and then interest is calculated.
5. An interest rate that changes at the discretion of the creditor is called a(n) \_\_\_\_\_.
6. Property that can be used as security for a loan is called \_\_\_\_\_.
7. Money borrowed now with the agreement to pay it back later is called \_\_\_\_\_.
8. A partial refund of the purchase price of an item is a(n) \_\_\_\_\_.
9. An interest rate on credit that remains the same each month is called a(n) \_\_\_\_\_.
10. The use of electricity, water, and other utilities that you will pay for later is called \_\_\_\_\_.
11. A method of computing finance charges in which interest is calculated using the average daily balance for all the days of the billing cycle is called the \_\_\_\_\_.
12. A type of credit in which you repay a fixed balance with periodic payments is called \_\_\_\_\_.
13. With the type of credit called \_\_\_\_\_, you make payments and continue charging to the account.

14. The maximum amount you are willing to spend for an item is called your \_\_\_\_\_.
15. Standards or features used to judge an item you want to purchase are called \_\_\_\_\_.
16. A fee charged for violating a credit agreement is called a(n) \_\_\_\_\_.
17. A method of computing finance charges in which interest is calculated using the final balance from the previous period is called the \_\_\_\_\_.
18. A preapproved amount that can be borrowed is a(n) \_\_\_\_\_.

## ACTIVITY 2 Math Minute

Use spreadsheet software, if available, to complete these problems, or do them manually. Round to the nearest cent.

1. The following table shows the activity on your credit card for the past month. What is the new balance using the adjusted balance method of computing interest?
2. Using the same information, what is the new balance using the previous balance method for computing interest?
3. Using the same information, what is the new balance using the average daily balance method for computing interest?

Credit Card Activity		
Previous Balance	\$800.00	
Charges	September 5	\$35.78
	September 18	\$124.87
	September 21	\$528.00
Payments	September 22	\$750.00
Annual Interest Rate	14%	

## ACTIVITY 3 Comparison Shopping



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Comparison shopping leads to better buying decisions. You can make a better choice when you know all of the options available. Work with two classmates to complete this activity.

1. As a group, identify a product you would like to buy that you think costs between \$100 and \$500. Ask your teacher to approve your choice.



2. Make a list of criteria that the product should have.
3. Each team member should search the Internet, catalogs, sales brochures, or other sources. Find the following information about the product from at least two stores or Web sites:
  - Product name or brand
  - Product make or model number
  - Criteria on your list that this product meets
  - Price of the product
  - Other costs that will apply, such as taxes or shipping charges
  - Product rebates or other special offers
  - Product warranty
  - Store return policy
4. As a group, compare the information from all the sources. Consider product prices and other charges. Remember that the lowest price is not always the best price. Discuss whether each product meets the criteria you listed. Compare the warranties and return policies from the various sellers.
5. As a group, decide from which source you would buy the product. Give reasons why you selected this source.

## ACTIVITY 4

### *Evaluate Credit Terms*



1. Credit card companies offer different rates, fees, penalties, and other terms. Study the two examples of credit card terms that follow.
2. Evaluate these two credit card offers. Which one would you choose? Why?

#### **Credit Card A**

Credit Card A has a fixed annual interest rate of 8.9 percent. It also has an over-the-limit fee of \$50. If you are late for even one payment, the interest rate rises to 19.99 percent. If you have two or more offenses (such as an over-the-limit fee and a late payment), the interest rate rises to 29.99 percent.

#### **Credit Card B**

Credit Card B has a variable annual interest rate of 4.9 percent for 1 year. After that, the rate is based on the prime rate plus 6 percentage points. This card has an over-the-limit fee of \$35. If you are late making a payment, the interest rate will rise to 9.9 percent plus the prime rate.

## ACTIVITY 5

### *Reconcile Credit Records*



You should check credit statements carefully when you receive them. You want to reconcile (make sure there is agreement between) your credit receipts and records and the information shown on the credit statement.

1. Open and print the PDF file *CH07 Statement* from the data files. This file contains a credit card statement and charge and payment records for 1 month.
2. Compare the charges listed on the statement with the list of receipts. Which, if any, amounts are different?
3. Are any payments that were made shown on the statement?
4. Are any credits (such as for returned items) shown on the statement?
5. Are any fees or penalties shown on the statement? If so, what is the reason for them?
6. Are the interest amount and the new balance (amount owed) correct?
7. What should you do if you find what you think is a mistake on a credit account statement?

## CHAPTER

# 8

# PAYING FOR CREDIT



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Chapter 8 discusses paying for credit, types of loans, and managing credit wisely. You will learn about payment options and their advantages and disadvantages. You will discover the various types of consumer loans and debt options. You will also take a careful look at some tips for using credit wisely.

## ONLINE RESOURCES

*Personal Financial Literacy*  
Web site:

- Data File
- Vocabulary Flashcards
- Beat the Clock: Paying for Credit
- Chapter 8 Supplemental Activity

### Search terms:

- money order
- wire transfer
- mortgage
- student loan
- balloon payment
- rebate



# Payment Methods

## OUTCOMES

- Describe manual and electronic options for making payments.
- Explain the advantages and disadvantages of manual payment options.
- Explain the advantages and disadvantages of electronic payment options.
- Name the primary advantage of wire transfers.
- Discuss prepayment penalties and why a loan might be repaid early.

## MANUAL PAYMENTS

When you use some form of credit, you must decide how you will make payments on the account. When you make a payment on an account, you are reducing the amount you owe. Several payment options can be used. Each payment method has advantages and disadvantages.

### Cash

Cash is a traditional payment option. Many people prefer to deliver cash to local stores and banks rather than mail a check. An advantage to using cash is that cash is accepted everywhere for payments. Be sure to get a receipt for any payment you make in cash. The receipt serves as proof of payment and is another advantage to this payment method. A disadvantage to paying with cash is that carrying large amounts of cash can be unsafe. You may be robbed, or you may lose the money. Another disadvantage is that the cash must be delivered in person. Never send cash through the mail.

### Personal Checks

A personal check is another traditional payment option. The check can be mailed or delivered in person. Before you write the check, compare the bill with your receipts to be sure everything is correct. For revolving credit accounts, pay the outstanding balance if you can. If not, choose a payment amount that is more than the minimum required, if possible.

Paying by check has some advantages. Checks are easy and inexpensive to use. Mailing checks is relatively safe. Cancelled checks or bank statements showing checks that have been processed provide proof of payment. A disadvantage of paying by check is that the check can get



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Be sure to verify charges before you pay credit bills.

lost or delayed in the mail. If the check does not reach the creditor before the due date, you may be charged a late fee. You can explain that the check was delayed in the mail and ask to be excused from paying the late fee. However, the creditor may not accept this excuse. Some creditors will waive at least one late fee.

When paying by check, you should plan ahead so that checks are written and mailed in time to reach the creditor by the due date. Be sure to mail payments from a secure location. Leaving mail in the unlocked box outside your house may not be a safe option. Instead, you can take the mail to a post office or mailbox that is secure.

## Money Orders

A **money order** is a type of check that directs payment of a sum of cash to a payee (a person or company). A money order typically has two parts. One part is the check that is sent to the payee. The other part is a receipt kept by the person buying the money order. The amount of the money order is printed on both parts. Money orders can be purchased at banks, U.S. post offices, and some stores. There may be a limit to the amount for which the money order is issued. For example, a postal money order may be limited to \$1,000.

An advantage to using a money order is that it is prepaid. The payee is guaranteed payment because this type of check cannot bounce. A money order can also be sent safely by mail.

A disadvantage to using money orders is that getting one can be inconvenient. At some locations, you may have to stand in line and

pay for the money order using cash. At other locations, you may be able to pay by personal check. Another disadvantage is that you must pay a fee for the money order. Often the fee is based on the amount of the money order. For example, a \$100 money order might cost \$5 (or more) for a total of \$105.

Money orders can also be purchased on the Internet. To find a Web site that sells money orders, search using the term *money order*. At the Web site, you will need to enter the amount of the money order and select a delivery method, such as U.S. mail. You will also need to enter the recipient's name and address. Then you enter your name, address, and credit card information. Fees for buying a money order online are about the same as when buying one in person. For example, a \$100 money order might cost \$6.48 for a total of \$106.48.



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Money orders can be purchased at banks and other locations.

## Bank Checks

A cashier's check is another payment option. You can purchase a cashier's check at a bank or credit union. You can pay for the check in cash or have the money taken from your account with the bank. An advantage to using a cashier's check is that it is prepaid. The payee is guaranteed payment. Unlike a money order, a cashier's check can be written for large amounts. A cashier's check can also be sent safely by mail. A disadvantage to this payment option is that you may have to pay a fee for the cashier's check. Some checking accounts include this service as a part of the account.

A **certified check** is a personal check for which payment is guaranteed by the bank on which it is drawn. To use this payment option, you write a check and have the bank certify it. The bank sets aside from your account the amount of the check. This amount will be used only for payment of the certified check. When the check is presented for payment, the money is waiting. An advantage to using a certified check is that it is prepaid. The payee is guaranteed payment. A certified check can also be sent safely by mail. A disadvantage to this payment option is that you may have to pay a fee for having a check certified. It may not be convenient to go to the bank and wait for service.

## ELECTRONIC PAYMENTS

Using your checking account, you can set up electronic payments for some credit accounts. There are several types of electronic payments, such as online payments, online banking, payment by telephone, and automatic withdrawals. Electronic payments have several advantages. All of these methods save you postage. Once set up, they are quick and easy to use. Many people make most of their payments in this manner.

Electronic payments also have disadvantages. You will be charged fees for using some types of electronic payment services. You must monitor the balance in your checking account carefully. Be sure enough funds are available to cover the electronic payments. Otherwise, you may have to pay overdraft fees. If funds are not available, the bank might refuse the payment. Then you would have to pay late fees to the creditor.

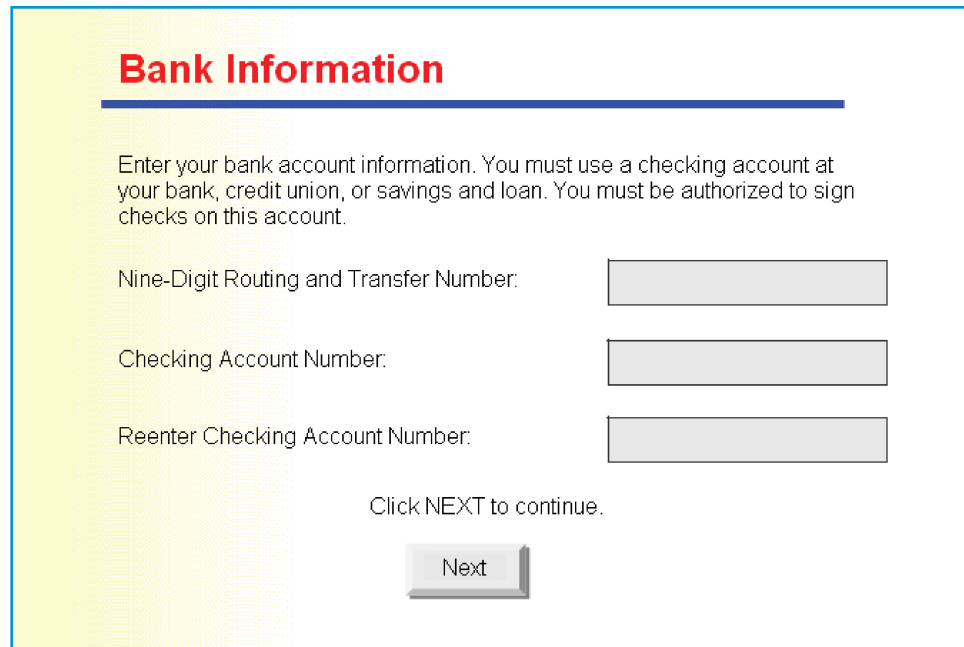
### Online and Telephone Payments

You may be able to make payments online at the creditor's Web site. At the Web site, you access your account with a user name and password. Then you enter your bank account information. This includes the bank routing number and checking account number. A sample screen for entering data is shown in Figure 8-1.1 on page 224. Now you are set to make online payments. When you want to make a payment, you authorize a withdrawal from your checking account. There usually is no fee for this service. You can choose the date the money is withdrawn from your account.

Some creditors allow you to authorize payments from a checking account by telephone. You must supply information such as your account number with the creditor. You will also need to give the creditor the bank routing number and your checking account number. Some banks allow

**FIGURE 8-1.1**

*You must enter your bank account information to set up online payments.*



**Bank Information**

Enter your bank account information. You must use a checking account at your bank, credit union, or savings and loan. You must be authorized to sign checks on this account.

Nine-Digit Routing and Transfer Number:

Checking Account Number:

Reenter Checking Account Number:

Click NEXT to continue.

you to make payments and manage your account using the telephone. A fee may be charged for this service, especially if you must speak to a person who assists you with the process.

## Online Banking

Another type of online payment is made through your bank or credit union. This service, called **online banking**, allows you to make payments and manage your account using the bank's or credit union's Web site. Convenience is the main advantage to online banking. A disadvantage is that banks or credit unions may charge a monthly fee based on the number of payments you make. A major drawback to this method is that all of your creditors may not be set up to receive electronic payments. In this case, the bank creates a check and mails it to the creditor. In order to avoid late fees, you must allow mailing time when you authorize the payments.

## Automatic Payments

**Automatic payments** occur when you ask the bank to transfer money electronically from your checking account to some other account. For example, many people choose to pay their car insurance premiums with automatic payments. The payment is made automatically each billing period. An advantage to this option is convenience. You do not have to remember to pay the bill each month. Another advantage is that you may get a discount for using this payment method. A disadvantage to this method is that you must be sure to keep enough money in the account to cover the automatic payment. If you do not, you may have to pay overdraft or late fees.

## Wire Transfers

A **wire transfer** is the process of sending money electronically rather than using paper checks. This service is available from companies such

as Western Union. Banks and other financial institutions also do wire transfers for their customers. The sender pays the amount of the money transferred plus a fee. The money is delivered to a designated location where the recipient can collect it. For example, Western Union has sites called agent locations. They are businesses such as grocery stores, drug-stores, and travel agencies. Customers can send a wire transfer or receive money from a wire transfer at these locations. The fee for this service depends on the amount of the transfer. For a wire transfer of \$100, the fee could be \$15 or more.

An important advantage to using wire transfers is that the transaction is completed very quickly. Money is transferred in just minutes, and you are assured that it arrives safely. A disadvantage to using wire transfers is that they can be inconvenient to purchase in person. You have to go to a bank or business that offers wire transfers. At some locations, you may have to pay cash for the amount being wired.

Wire transfers can also be arranged online and by telephone. Companies such as Western Union have Web sites and telephone numbers you can use to make a wire transfer. You pay for the transfer using a credit or debit card. This method may be more convenient than visiting a business to complete the transfer.

## PREPAYMENT PENALTIES

Some types of loans may have penalties for early repayment. A **prepayment penalty** is a fee charged when you repay a loan before the agreed-upon time. For example, suppose you borrow money and agree to repay the loan over a 15-year period. A short time later, you decide to pay the entire loan balance. The loan agreement may specify a 30- to 90-day interest penalty. The lender has certain costs related to setting up the loan. These costs are spread over the life of the loan. If the loan is repaid early, the lender charges a penalty fee to cover these costs.

An example of a 60-day interest penalty on a \$10,000 loan that is paid off after one year is shown in Figure 8-1.2.

Repaying a debt early may be a wise choice, even with a prepayment penalty. If the penalty amount is less than the interest you would pay if you paid on the original schedule, paying off the debt would be to your advantage.

INSTALLMENT PAYMENT PLAN	
<b>Terms:</b> \$10,000, 5-year loan at 8% interest, with a 60-day interest penalty for early repayment	
Initial Balance	\$10,000.00
Monthly Payment	\$ 202.76
Current Loan Balance (at payoff after 1 year)	\$ 8,305.60
60-Day Interest Penalty	\$ 110.74
Balance to Be Paid	\$ 8,416.34

FIGURE 8-1.2

### PREPAYMENT PENALTY EXAMPLE

## Building Communications Skills

### FORMAL SPEAKING

The purpose of a formal speech is to convey information, to entertain, or to persuade. When preparing a speech, begin with a clear statement of the goals you want to accomplish. These goals will guide you as you prepare the content of the speech.

Use an outline to develop the content. The outline should have three main parts: the introduction, the body, and the conclusion. The introduction briefly explains your topic. The body gives the details or substance of the speech. The conclusion is a summary or request for action.

As you develop the content, consider the listeners who will hear the speech. Why will these people be listening? What do they have in common (age, place of work or residence, hobbies, other interests)? How much do they already know about the topic? Answering these questions will help you create content that will accomplish your goals.

Many formal speeches are presented using electronic slides. Projection equipment

and software such as *Microsoft PowerPoint*® are often used. The slides help illustrate points and add interest to the speech. Slides should list only the main points being covered. If more detailed information must be shared, use a handout for that material.

A time limit is often set for formal speeches. Practice delivering the speech so you can stay within the required time limit. As you deliver the speech, make eye contact with members of the audience. Use an appropriate tone, rate, and volume. Speaking with confidence and enthusiasm will help you keep the audience interested. Pause briefly after important points to allow listeners to think about the point.

Effective formal speaking often takes lots of practice and refining of skills over time. After you make a speech, evaluate yourself. Think about what you did well and what you could do better the next time. You may also want to ask the audience to evaluate the speech.

## 8-1 REVIEW

### 8-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read.  
If you cannot answer a question, read the related section again.

1. List four types of manual (not electronic) ways to make payments on a credit account.
2. What are the advantages and disadvantages of making payments using cash?
3. What are the advantages and disadvantages of making payments using a personal check?
4. What is a money order? What are the advantages and disadvantages of making payments using a money order?
5. How is a cashier's check different from a certified check? What are the advantages to using these methods of payment?
6. What are some advantages of using electronic payments? What are some disadvantages?
7. What types of activities can customers do using online banking? Give one advantage and one disadvantage to making payments using online banking.
8. What types of information must customers provide to set up online payments at a creditor's Web site?
9. What is a wire transfer? What is its primary advantage?
10. What is a prepayment penalty? Why might you still wish to pay off a loan early, even when there is a prepayment penalty?

### 8-1 Activity 2 Payment Options



Assume the following options are available to you for paying bills:

- Pay in person with cash.
- Send a personal check by mail.
- Make an online payment (at the creditor's Web site).
- Use the online banking payment system (at your bank's Web site).
- Set up a monthly automatic payment from your account.
- Buy and mail a money order.
- Secure and mail a cashier's check.
- Send a wire transfer.

What payment method would you choose for each of the following payments and why?

1. Monthly cell phone bill
2. Monthly electric utility bill
3. Monthly credit card bill
4. Monthly loan payment to your credit union
5. An online purchase of a book from a merchant with whom you are not familiar
6. \$100 cash for your brother who is in another town and needs the money right away



# Consumer Loans

## OUTCOMES

- Describe types of consumer loans.
- Explain how a personal loan differs from a secured loan.
- Explain how a fixed rate mortgage differs from an adjustable rate mortgage.
- Describe the purpose of a mortgage calculator.
- Explain the purpose of a student loan.
- Describe rent-to-own agreements and give their advantages and disadvantages.

## TYPES OF LOANS

In addition to using credit cards, you can borrow money in the form of a loan. An **installment loan** is a type of debt in which you borrow money for a period of time. The loan has an agreed-upon interest rate and repayment plan. Many loans have monthly payments. Creditors make money by charging interest on the amount borrowed.

### Personal Loans

Loans that are based on personal creditworthiness are called **personal loans**. The borrower submits a loan application asking for a fixed amount of cash. The amount of the loan that a creditor will approve is based on factors such as the following:

- The purpose for which the money will be used
- The borrower's credit payment history
- The borrower's existing debts and current payments to other creditors
- The borrower's monthly and yearly income
- The borrower's job security (whether the job is likely to continue)

Borrowers who already have a lot of debt may be denied a personal loan. If granted a loan, the borrower may be charged a high interest rate. This is because a personal loan represents a bigger risk to the lender than a secured loan.

### Secured Loans

A **secured loan** is a debt agreement in which the borrower pledges property of value as security. This property is called collateral. A house or a car owned by the borrower is often used as collateral. If the borrower fails to repay the loan as agreed, the lender can sell the property and use



© Getty Images/PhotoDisc

A consumer may need a loan to pay for an expensive item.

the proceeds to repay the loan. Secured loans are often used to buy durable goods. Durable goods are assets (items of value) that will last longer than a year. The goods being purchased, a riding lawn mower, for example, may serve as collateral for the loan.

Some borrowers do not have property that can be used as collateral. In this case, another person may agree to serve as a cosigner on the loan. A **cosigner** is a person who agrees to repay the loan if the borrower does not repay the loan. The cosigner typically must have property that can be used as security for the loan or a very good credit rating.

### CAR LOAN

Many people who buy cars borrow money in the form of a car loan. This type of debt is a secured loan. The car itself serves as collateral. The creditor holds the title to the car until the loan is paid in full. If the borrower cannot make the payments as agreed, then the car is repossessed and sold by the creditor to pay off the debt.

### HOUSE LOAN

A **mortgage** is a loan that is used to secure financing for the purchase of a house or other real estate. The mortgage usually requires 10 to 30 years of monthly payments. A mortgage is a form of secured loan. If you do not make payments as agreed, you can lose the house. Some mortgages have prepayment penalties. The borrower must pay an extra fee if the loan is repaid before a set period of time, such as 5 years.

Many mortgages have fixed interest rates. The interest rate does not change over the life of the loan (typically 10 to 30 years). With a fixed interest rate, the payment also does not change over the life of the loan.

Another type of mortgage is the adjustable rate mortgage (ARM). With an **adjustable rate mortgage**, the interest rate on the loan can change over time. As interest rates go up or down in the economy, the mortgage rate can change as well. If the rate goes up, the payment amount increases. The term of the loan may also increase. Typically, there is a limit to the amount the loan interest rate can go up or down each year. Often an adjustable rate mortgage starts with a lower rate. This lower rate allows the borrower to afford the payments. A higher rate and higher payments may be charged in later years.

Some mortgages have a balloon payment. A **balloon payment** is a large sum that must be paid at a set time. The balloon payment is typically the last loan payment. For example, a mortgage may have equal monthly payments of \$800 for 10 years and a final balloon payment of \$5,000. Like adjustable rate mortgages, balloon payments are often used so the loan will have lower monthly payments. This allows people who could not otherwise afford to buy a house to purchase a home. The buyer may sell or refinance the loan before the balloon payment is due. At that time, the buyer may qualify for a fixed rate mortgage with more favorable terms.

Most secured loans also have closing costs. **Closing costs** are expenses you must pay in order to get a loan. They include charges for items such as appraisal fees, credit report fees, loan origination fees, recording costs, and inspection fees. Closing costs can be hundreds or even thousands of dollars. Before agreeing to a loan, be sure to ask about all the costs you will be expected to pay to get the loan.

If a mortgage is for more than 80 percent of the value of the home, the borrower is typically required to purchase mortgage insurance. This insurance will pay the lender if the borrower does not repay the loan. The loan agreement may also require the borrower to carry a homeowner's insurance policy.



Many people who buy houses finance the purchase with a mortgage loan.

### AMORTIZATION

Repaying a debt by making regular payments of principal and interest over a period of time is called **amortization**. A formula can be used to calculate payments on an amortized installment loan. The formula is more complicated than the formula you learned earlier for simple interest. This is true because payments reduce both the principal and the interest amounts. Interest is charged on the outstanding balance, which decreases over the life of the loan. Amortization tables and calculators are available on the Internet. An example calculator is shown in Figure 8-2.1. These tools can help you quickly calculate loan payments. The payment is based on the principal, interest rate, and number of monthly payments.

Mortgage Calculator	
Loan Balance	\$150,000
Yearly Interest Rate	9%
Loan Term in Years	20
	Calculate
Monthly Payment Required	\$1,349.59

FIGURE 8-2.1

MORTGAGE CALCULATOR

## Focus on . . .

When you have credit standing by in case you need it, it can actually cost you in ways you never suspected. For example, you may have five or six credit cards with zero balances. On the surface, this seems to be a very good thing. Lots of credit is available to you, but your outstanding debt is zero.

Suppose you now apply for a loan for a car or another large purchase. Because you have five or six credit cards with potential

### UNUSED CREDIT

for debt of \$25,000 or more, the lender may be reluctant to extend more credit to you. The lender may ask you to close several of those unused credit accounts. Then the lender will feel more secure about your ability to repay the loan.

Having some credit available is useful. If you have too much, however, you may find yourself at a disadvantage when applying for a loan.

A mortgage calculator can also be used to show how much of each payment made goes toward repaying the principal and how much goes toward paying interest.

You may see two different rates given for a loan offer. The loan interest rate is used to compute monthly payments on the principal borrowed. The term *annual percentage rate* (APR) takes into account the other loan fees, such as closing costs, that the borrower must pay as part of the loan payments. Comparing the APRs for two different loans gives you a better picture of the total charges you must pay for each one. When comparing the APRs for loan offers, be sure the same fees are covered in the APR numbers. APR calculators are available on the Internet.

## Student Loans

A **student loan** is debt that is used to finance education costs. Student loans can be secured from banks and other financial institutions. Students who meet certain criteria can also get student loans from the U.S. government. On some student loans, called subsidized loans, interest is paid by the federal government while the borrower attends school at least half-time. The borrower repays the loan after finishing or leaving school. To qualify for student loans, you must fill out a loan application. If you live with your parents, they will also have to fill out paperwork showing income and assets. To get a subsidized loan, the borrower must show proof of financial need. Other loans are available and are not related to financial need. The borrower must pay all interest on these loans.

Many students take out several student loans to pay for attending college or other schools. After they complete their education, they often have these loans consolidated. Several loans are rolled into a single loan with one payment. This makes it easier to pay off the debt over a long period of time.

If you decide to get a student loan, compare the terms for loans from various sources. Information about student loans from the U.S. government



**Source:** U.S. Department of Education, Federal Student Aid, Direct Loans, <http://www.ed.gov/offices/OSFAP/DirectLoan/index.html> (accessed June 5, 2006).

**FIGURE 8-2.2**

*Student loans are available for those who qualify.*

and other sources is available online. Figure 8-2.2 shows the Web site for the Direct Loan program. The National Student Loan Data System for Students Web site is also provided by the U.S. Department of Education. This site is a central database of information for student aid. The site will help you compare sources of loans and grants for education. Links to both sites are provided on the Web site for this textbook.

## LEASE/RENT-TO-OWN

Another way of buying is by leasing or renting to own. You select an item, such as a television. You take the item home and use it just as if you had purchased the item. Each week or month, you make rent payments. At this point, you do not own the item. However, the rent-to-own agreement may state that if you make a certain number of payments, you will then own the item.

There are advantages to this type of agreement. You do not have to make a large down payment at the time of purchase. Some lease or rent agreements require that no cash be paid at the time you sign the agreement. You can try the item before you buy it. If you decide you do not want the item, you can return it and end the rent agreement according to the terms of the contract. The contract also provides you with a guaranteed price that will not go up later.

The disadvantages of this option usually outweigh the advantages. You may not have much choice in the models or features available for items. If you decide not to buy the item, no part of your rent payments is returned to you. The main disadvantage, however, is that the total price you will pay for the item if you make payments until you own it is often much higher than if you buy the item outright. For example, suppose you rent-to-own a television that sells for \$220. You make weekly payments of \$10. After making 78 weekly payments, you own the television. You will have



paid a total of \$780 for an item that sells for \$220. This amount compares to paying a loan interest rate of 220 percent. A better option would be to take out a personal or secured loan at a bank to get money to buy the television. You could also charge the purchase on a credit card. In both cases, the interest rate would be much lower.

## Success Skills

Your personal behavior can have a big effect on the success of your personal relationships and activities. Your behavior also affects your success at school and work. *Reputation* is a word that means the opinion others have of you, especially as it relates to character or personal behavior. People form opinions about you, in part, from seeing the way you behave. They also form opinions from what others say about you. For example, a classmate may tell another person that you are prompt after noticing that you always come to class on time. Another person may notice that you did not do your part of a group task. This person may think that you are lazy or not cooperative.

Building a positive reputation is an important success skill. People may form opinions about you based on your reputation even before they meet you. This can be good or bad, depending on your reputation. Suppose you have a reputation for being a hard worker and treating others fairly. People will likely welcome you to their group or team. You will have a better chance of getting a job than another person with similar skills who has a poor reputation. Suppose you have a reputation for submitting work late that is poorly done. Others may not want to be on your team. You may find it difficult to get a good recommendation

### BUILDING A POSITIVE REPUTATION

from former teachers or employers. This might keep you from getting a job or from being accepted to a college.

Follow these suggestions to build a positive reputation and be successful in your relationships:

- Treat others with courtesy and respect.
- Be fair and honest in your dealings with people.
- Be courteous to everyone, but choose your friends carefully.
- Be reliable. Always be on time for classes and appointments. Complete work or projects on time.
- Be willing to listen to new ideas and learn new skills.
- Show appreciation for the talents and accomplishments of others.
- Do your best whatever the task, but be willing to admit that you do not know all the answers all the time. Ask for help when you need it.
- Show maturity. For example, a mature person can admit that he or she made a mistake. A mature person can also accept disappointments or criticism tactfully.
- Be a team player. Do your share and be willing to help others.

## 8-2 REVIEW

### 8-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is a personal loan? What factors affect the amount of a personal loan for which you may be approved?
2. How is a secured loan different from a personal loan? Give two examples of secured loans.
3. Explain how a fixed rate mortgage differs from an adjustable rate mortgage.
4. What is a balloon payment? Why might this type of payment be included in a loan agreement?
5. What types of fees are typically included in loan closing costs?
6. What is the purpose of a mortgage calculator?
7. What is the purpose of a student loan? From what sources are student loans available?
8. Describe how a rent-to-own agreement works. What are the advantages and disadvantages of this purchase method?

### 8-1 Activity 1 Compare Buying and Leasing Options

Consumers often do not have enough money to pay the full price of items they want or need to buy. Using credit makes buying these items possible. Different forms of credit have different costs. In this activity, you will compare paying for an item using a credit card, renting to own an item, and leasing an item.

1. You have decided you need a laptop computer. The purchase price of the computer is \$1,200. You can charge this item on your credit card and pay for it over the course of 1 year. The interest rate is 18.99 percent. Each month for 11 months, you will pay \$110. In the last month, you will pay the remainder of the outstanding balance. (For the purposes of this problem, assume there will be no other charges or fees on the credit card bill.) The credit card company uses the adjusted balance method to compute interest. What is the total amount (purchase price plus interest) that you will pay if you use this method to buy the computer?
2. Another option for buying the computer is to get it from a rent-to-own company. With this type of arrangement, you pay fixed monthly rental payments. At this point, you are renting the computer; you do not own it. You can stop renting and return the item at any time.

If you continue renting until you have paid a certain set amount, you will own the computer (and make no more rental payments). You must pay a monthly rental fee of \$200. You will own the computer after you make 12 payments. What is the total you will pay for the computer using this option?

3. Another option you can choose is to lease a computer for 1 year. You will be required to make monthly payments of \$125 for 1 year. At the end of that time, you can return the computer to the leasing company, lease it for another year, or lease a newer computer instead. What is the total amount that you will pay for 1 year if you choose this option?
4. Which of the three options—charge to a credit card, rent-to-own, or lease—would you choose? Why would you choose this option?





## Credit Tips

### OUTCOMES

- Explain why using credit may tie up future income.
- Discuss why you should consider the state of the economy when planning credit purchases.
- List the terms typically included in a credit offer.
- List ways you can reduce and avoid credit costs.

## USING CREDIT WISELY

When you begin using credit, plan to use it wisely. Go slowly; do not use too much credit at first. It is very important to establish credit when you do not need it so that it will be available to you when you do. Build a solid credit history by paying all credit bills on time. Later, when you want to use credit, you will be considered a low (good) risk. You may also be able to borrow at lower interest rates than someone who is considered a high (bad) risk.

Buying items using credit can tie up future income. For example, suppose you buy an item for \$500 using a credit card. If you pay the entire amount in one billing cycle, future income is not tied up with this debt. However, suppose you pay the \$500 plus interest over six billing cycles. Part of your income for the next 6 months must be used to pay for the item you purchased this month. You may have to forgo buying some items you want or need during the next 6 months because the money must be used to pay an existing debt.

As your earnings go up over time, save more money rather than spending the full amount of the pay increase. Think about future needs rather than only things you might want, but not need, in the present.

You may feel secure in your job and your prospects for the future. However, you should always have a back-up plan for handling expenses if you are out of work for a time. Save a cash fund, and have some unused credit available. If the worst happens, you will have money to pay bills until you begin earning money again. You will also have some credit available to make purchases.

### *Consider the Economy*

When the economy is doing well and people can get jobs easily, consumers may feel optimistic about the future. This optimism often leads to increased



Using credit to buy items can tie up future income.

buying. When credit is used to buy more items, future income may be tied up as well. During good economic times, interest rates are usually rising. Thus, rather than buying on credit, this could be a good time to save money.

The opposite is true when the economy is slowing down. People are being laid off, and jobs are scarce. People may feel pessimistic, and this can lead to decreased buying. Because people are buying less, prices may be dropping. Thus, this could be a good time to buy because you can get better values. If you do not spend all of your money (and credit) during the optimistic stage, you will have money available to spend when prices may be more favorable.

## Study Credit Offers

If you are like many people, you will receive credit offers soon after you begin working. These offers are mailed, e-mailed, or found in advertisements. Carefully examine each offer and compare the terms and conditions if you are considering the offer. A credit offer typically includes these terms:

- **Interest rates.** Are they fixed or variable? How often can they change? What will cause them to change? Fixed rates often do not stay fixed and can be changed with some notice from the creditor. However, they are usually better than variable rates, which can rise without advance notice.
- **The grace period.** The **grace period** is the amount of time you have before a credit card company starts charging you interest on your new purchases. Most credit offers allow for a grace period of at least 20 days. The longer the grace period, the longer you have to pay without being charged interest on the purchase amount.
- **Method of computing interest.** Many creditors use the two-cycle average daily balance method. This means if you have a balance any time during the two-cycle billing period, you will be charged a finance

charge. A billing cycle is typically about 1 month. This method is not good for consumers.

- **Annual fee.** Some credit cards charge an annual fee or a membership fee. This fee can be \$25 to \$50 or more. Once your credit is established, you should be able to find a credit card offer that does not require an annual fee.
- **Minimum finance charge.** Some credit cards require a minimum charge of \$1 or more for each billing period.
- **Transaction fees.** If you transfer balances from other credit accounts, you may be charged a transaction fee. This fee is usually a percentage, such as 3 percent of each transaction. There is often a minimum of \$5 and a maximum of about \$75.

## Technology Corner

### APPLYING FOR A LOAN ONLINE

Getting a loan online can be a very attractive option. You give personal information and fill out an application. When you submit the application electronically, you may have an answer quickly. You can fill out the application in the privacy of your own home and at a time that is convenient for you.

Be cautious about applying for a loan online. Deal with lenders you know. Do not respond to online offers. Instead, go to the Web site of a reputable lender by keying a URL in the browser's address box. If you do not know the URL, call the lender and ask for this information. You may be required to create an account with a user name, password, and other data before you can fill out an application. A sample screen for entering information to set up an account is shown in Figure 8-3.1 on page 240.

You will need the same type of information as you would to complete a paper application. Thus, you need to gather all the data and have the data ready. You will need to give very sensitive and private information in the credit application. Be sure the Web site is secure to lessen the chances that your information will be stolen. A secure Web site will have a message to tell you that the site is secure. The

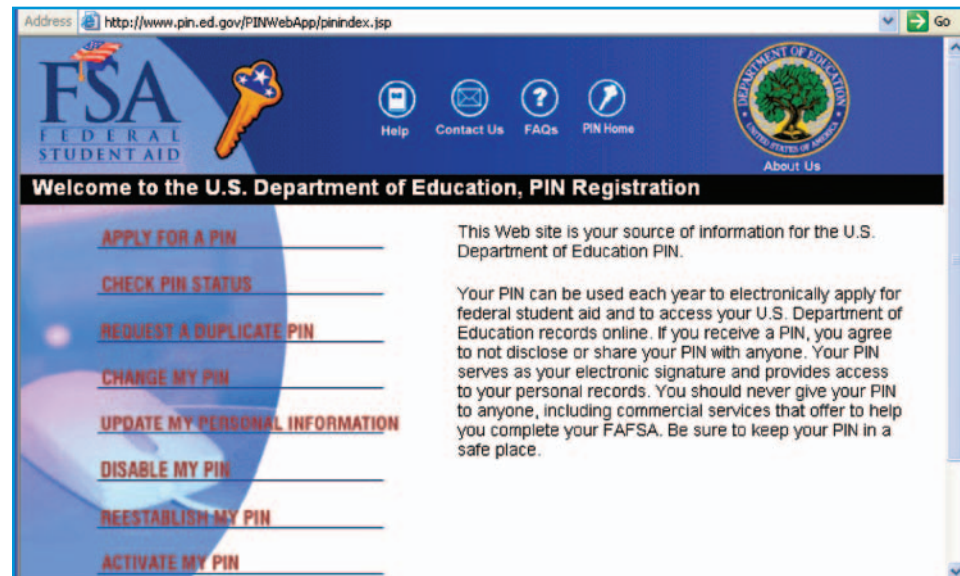
message is often next to a padlock icon. You may be required to provide written documents, such as pay stubs, to verify the information in the loan application.

Before accepting the loan, read the entire contract. Study the conditions, rates, and other items in the agreement. Print everything so that you will have a complete copy of the application and all of the loan documents. Some lenders will assign a loan advisor to your account. You can contact this person by phone or e-mail to ask questions about the loan or the application process.

Once your loan is approved by the lender and you agree to the loan terms, you must sign the loan papers. Some lenders have an online process in which borrowers can provide an electronic signature. Figure 8-3.1 shows a Web page at which students can learn about using an electronic signature when applying for a loan. Some lenders will send a notary public to an agreed-upon location, such as your home or work site. This person will witness you signing the documents and will return them to the loan company. Once the loan documents are signed, the funds are released to you.

**FIGURE 8-3.1**

Students can apply for a PIN at the Federal Student Aid Web site.



**Source:** U.S. Department of Education, Federal Student Aid, PIN Registration, <http://www.pin.ed.gov/PINWebApp/pinindex.jsp> (accessed June 12, 2006).

- **Cash advance fees.** Some credit cards allow you to take cash advances at ATM machines and at banks. There is often a fee for this type of transaction. It is usually a percentage, such as 3 percent with a minimum amount of \$5 or more.
- **Late fees and over-the-limit fees.** The fee for late payments can be \$15 to \$50 or more. The fee may depend on the balance on your card. The over-the-limit fee is usually a flat amount, such as \$35 or more. Having late fees or over-the-limit fees can cause the interest rate you are charged to rise.

Some credit card offers state that the company reserves the right to change the account terms at any time for any reason. This includes raising interest rates. When an interest rate goes up, you must accept the change or cancel the card. Thus, being in a flexible position is important. You want to avoid being in the position of having to accept higher rates and fees.

## REDUCE AND AVOID COSTS

When you use credit, there is usually a cost. You may want to pay cash for small purchases instead of using credit to avoid credit costs. When you do use credit, try to pay the full account balance each billing cycle. If you do, you will not have to pay any interest. Here are several other ways you can reduce your costs:

- Keep the number of credit cards and accounts you have to a minimum. Avoid having an account at every store in town and with every bank card available. Only carry with you the cards you will be using. Having a bank card is a good idea because it is accepted at many different businesses. Using a bank card also eliminates the need to have several individual store accounts.





© Getty Images/PhotoDisc

The method used to pay for a large purchase is as important as the item being purchased.

- Comparison-shop when getting a loan. Compare the costs of credit from at least three different sources. When planning a large purchase, such as a car, arrange the financing ahead of time. That way, you will know the dollar amount you can spend and the interest rate you can get. You can then compare any offers that the seller might have.
- Consider financing and special deals arranged by the seller. A **sales finance company** is a type of lender that makes loans for the purchase of consumer goods, such as cars or household appliances. The finance company may also purchase time-sales contracts from merchants. The finance company often works closely with the seller. This makes it easy for customers to arrange financing at favorable terms. For example, GMAC (General Motors Acceptance Company) is a sales finance company. One of the services offered by GMAC is loans for the purchase of automobiles. When buying a car, you may be offered a sales incentive, such as 0 percent interest on a loan or \$2,500 cash back on a purchase. These deals are worth considering.
- Use credit to take advantage of sale prices. With the help of credit, you can buy things on sale that you would not buy if cash were your only option. Thus, you can avoid higher prices and save money.
- Time your credit purchases. If you buy right after the closing date of your billing cycle, you may be able to delay payment for 2 months after the purchase. Most credit accounts have a 25- to 30-day billing cycle.
- Take advantage of cash rebates and rewards. Many credit cards offer rebate programs. A rebate is a partial refund of the purchase price

of an item. For example, a 5 percent rebate would give you back 5 percent of the purchases you made during the month or year. This increases your spending power. Be careful, however, not to overspend because of this reward. Some credit accounts also offer gift certificates and other incentives. Choose the reward that benefits you the most, and use cards that have rewards rather than those that do not.

## Ethics

### UNETHICAL LOAN PRACTICES

Some people use unethical loan practices. They take advantage of people who can least afford to pay. Because some people have poor credit ratings or have not used credit wisely in the past, they may not be able to get loans from legal sources. They may decide to take out illegal loans, and the interest may be very high.

A loan shark is one source of illegal loans. A loan shark is a person who offers illegal unsecured loans at very high interest rates. Because the borrower is desperate, she or he borrows the money. At such a high rate, however, the debt grows rapidly and is very difficult, if not impossible, to repay. The borrower may receive threats of violence if the loan is not repaid.

Many people have lost money in advance-fee loan scams. In this type of scam, a lender agrees to make a loan if the borrower pays an up-front fee. The lender may promise to refund the fee or to apply it to loan payments once the loan has been secured. The fee may be several hundred dollars. The borrower may have a bad credit history and may be desperate for the loan, so he or she agrees and pays the fee. Later, the borrower learns that the lender is not reputable. The borrower may be told that the loan has been denied and that the

fee will not be refunded as promised. In some cases, the borrower may not hear from the lender again. However, money may be illegally withdrawn from the borrower's bank account using information provided on the loan application.

An unethical practice related to home mortgages is called equity stripping. In this situation, a person with a home needs money. A lender points out that the person has built equity (monetary value) in the home. A loan is arranged using the home as collateral. The borrower may not have enough monthly income to make the loan payments. However, the lender approves the loan anyway. The lender may even encourage the borrower to overstate her or his income to get the loan. Once the borrower starts missing payments, the lender will foreclose and take the home.

These examples are just a few of the ways you can be deceived by unethical or illegal lenders. Whenever you come upon a deal that sounds too good to be true, it probably is. There are always people looking to take advantage of others. Beware of offers for loans with terms that sound unreasonable. They may sound good, but in reality they are deceptive, unethical, and sometimes illegal.

## 8-3 REVIEW

### 8-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read.  
If you cannot answer a question, read the related section again.

1. Explain why using credit may tie up future income.
2. Explain how your credit history relates to the interest rate you may have to pay for credit. Why are some people who really need credit unable to get it?
3. Why should you consider the economy when planning credit purchases?
4. List the terms typically included in a credit offer.
5. Why is it important for you to be able to cancel a credit card whenever you wish?
6. List three ways you can reduce or avoid credit costs.
7. Describe one unethical loan practice.

### 8-3 Activity 1 Research Loan Offers

1. Find three advertisements of offers for loans. The loans can be personal loans, secured loans, or student loans. Newspapers, magazines, and the Internet are places where you may find loan offers. You could also ask about loans available at local banks or credit unions.
2. Find the following information for each loan offer:
  - Type of loan (secured, unsecured, or student loan)
  - Interest rate charged
  - Length of the loan in months or years
  - Application fees, closing costs, and other fees
  - Penalties that may apply, such as a prepayment penalty
3. Evaluate each offer. Do you think the lender is reputable? Are any of the terms questionable? Which offer has the most favorable terms for the borrower?



## EXPLORING CAREERS IN HEALTH SCIENCE

Do you enjoy working with other people? Are you interested in helping people stay healthy? Do you like to analyze problems and search for solutions? If the answer is yes, a career in health science might be right for you. Jobs in this area are varied. Some workers, such as nurses, work directly with patients to provide health care. Others are employed in labs or research facilities to run diagnostic tests or develop new drugs. Support staff are needed in hospitals, labs, and other places to make patient care possible.

Jobs in this career area are found in government and businesses. Health care is one of the largest and fastest-growing industries in the United States. The need for jobs in health science is expected to grow. Job outlook varies by job.

### Skills Needed

Some of the skills and traits needed for a career in health science include the following:

- Math and science skills
- Communications skills
- Computer/technology skills
- Ability to work well with others
- Decision-making skills
- Problem-solving skills

### Job Titles

Many jobs are available in the health science field. Some job titles for this career area include the following:

- Billing clerk
- Clinical laboratory technician
- Dietitian
- Medical records technician
- Medical scientist
- Paramedic
- Pharmacist
- Physician
- Registered nurse

### Explore a Job

1. Choose a job in the health science field to explore further. Select a job from the list above, or choose another job in this career area.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information about the job you selected to answer these questions:
  - What is the nature of the work this job involves?
  - What is the job outlook for this job?
  - What training or qualifications are needed for this job?
  - What are the median annual earnings for this job?





### Summary

- Cash, personal checks, money orders, and bank checks are manual or traditional methods of making payments.
- An advantage to using a money order or a bank check is that the payee is guaranteed payment.
- Online payments can be made at some creditors' Web sites. Online banking, payment by telephone, and automatic withdrawals are available for some accounts.
- A wire transfer is the process of sending money electronically rather than using paper checks.
- A prepayment penalty is a fee charged when you repay a loan before the agreed-upon time. Repaying a loan early may be to your advantage even when there is a prepayment penalty.
- An installment loan is a type of debt in which you borrow money for a period of time. The loan has an agreed-upon interest rate and repayment plan. Personal loans, secured loans, and student loans are three types of installment loans.
- A personal loan is granted based on your creditworthiness. A secured loan is a debt agreement in which the borrower pledges property of value as security for the loan.
- Many mortgages have fixed interest rates and payments over the life of the loan (typically 10 to 30 years). An adjustable rate mortgage has a variable interest rate that goes up or down at the discretion of the lender.
- A student loan is debt used to pay for education. You must qualify based on creditworthiness. For some student loans, you must also qualify based on need.
- Lease or rent-to-own agreements are another option for buying items. The total price you will pay for the item if you make payments until you own it is often much higher than if you buy the item outright.
- It is very important to establish credit when you do not need it so that it will be available to you when you do. Build a solid credit history by paying all credit bills on time.
- Buying items using credit can tie up future income if the debt is paid over several months or years.
- During good economic times, interest rates are usually rising. This could be a good time to save money. When the economy is slowing down, prices may be dropping. This could be a good time to buy because you can get better values.
- Carefully study and compare credit offers. Fixed versus variable rates, the method of computing interest, all types of fees, and grace periods are some items that should be carefully examined.
- To reduce and avoid costs, keep the number of credit cards and accounts you have to a minimum. Comparison-shop for loans and other types of credit. Use credit to take advantage of sales. Use credit cards that have rebate or rewards programs.



## Key Terms

<b>adjustable rate mortgage</b>	<b>cosigner</b>	<b>prepayment penalty</b>
<b>amortization</b>	<b>grace period</b>	<b>sales finance company</b>
<b>automatic payments</b>	<b>installment loan</b>	<b>secured loan</b>
<b>balloon payment</b>	<b>money order</b>	<b>student loan</b>
<b>certified check</b>	<b>mortgage</b>	<b>wire transfer</b>
<b>closing costs</b>	<b>online banking</b>	
	<b>personal loans</b>	

## ACTIVITY 1 Review Key Terms

Use the key terms from Chapter 8 to complete the following sentences:

1. A type of mortgage loan called a(n) \_\_\_\_\_ has an interest rate that can change over time, at the discretion of the lender.
2. A debt instrument called a(n) \_\_\_\_\_ is used to secure financing of a house purchase.
3. A loan for which property has been pledged as collateral called a(n) \_\_\_\_\_.
4. A large payment, called a(n) \_\_\_\_\_, is much larger than other loan payments and must be paid at a set time, often as the last loan payment.
5. \_\_\_\_\_ are loans that are based on personal creditworthiness (that have no collateral).
6. A(n) \_\_\_\_\_ is the process of sending money electronically rather than using paper checks.
7. The amount of time you have before a credit card company starts charging you interest on your new purchases is called the \_\_\_\_\_.
8. A type of lender that makes a loan for the purchase of consumer goods, such as cars or household appliances, is called a(n) \_\_\_\_\_.
9. A personal check for which payment is guaranteed by the bank on which it is drawn is called a(n) \_\_\_\_\_.
10. A service that allows you to make payments and manage your bank account using the bank's Web site is called \_\_\_\_\_.
11. A(n) \_\_\_\_\_ is a type of prepaid check that directs payment of a sum of cash to the payee.
12. A fee charged for repaying a loan before the agreed-upon date is called a(n) \_\_\_\_\_.
13. A(n) \_\_\_\_\_ is debt used to finance education costs.

14. Payments that are made by transferring money electronically from a checking account to another account (such as a creditor's) every billing period are called \_\_\_\_\_.
15. Expenses the borrower must pay to get a loan, such as appraisal fees, credit report fees, recording costs, and inspection fees, are known as \_\_\_\_\_.
16. A(n) \_\_\_\_\_ is a person who agrees to repay a loan if the borrower does not repay it.
17. A type of debt in which you borrow money for a period of time with an agreed-upon interest rate and repayment plan is called a(n) \_\_\_\_\_.
18. Repaying a debt by making regular payments of principal and interest over a period of time is called \_\_\_\_\_.

## ACTIVITY 2

### Math Minute

1. The following charges are part of the closing costs for a loan. What is the total amount of the closing costs?
 

Appraisal fee	\$500.00
Lender's inspections fee	\$250.00
Credit report fee	\$ 50.00
Loan origination fee	1 percent of the loan amount of \$250,000.00
Notary public fee	\$ 60.00
Document recording fees	\$ 75.00
Title search	\$250.00
Survey fee	\$250.00
Flood certification	\$ 30.00
Buyer's attorney fees	\$750.00
Mortgage insurance	0.5 percent of the loan amount of \$250,000.00
2. Albert Morrison took out a loan for \$90,000.00 at 10 percent interest for 15 years. Albert's monthly payments are \$967.14. Part of each payment is applied to the loan balance, and part is for interest. He has made payments for 2 years (24 payments). He now wants to repay the loan early. The current principal balance owed is \$84,257.19. The loan has a \$468.00 interest penalty for early repayment. Will Albert save money by repaying the loan (current balance plus penalty) at this time? If so, how much will he save?
3. Sue Thomson bought a house for \$178,750.00. She is getting a mortgage for \$145,000.00. If a mortgage is for more than 80 percent of the value of the home, Sue's lender requires that the borrower purchase mortgage insurance. Will Sue have to purchase mortgage insurance?

### ACTIVITY 3

## Mortgage Payments



1. Open the *Excel* file *CH08 Loan Payment Calculator* from the data files. Read the instructions provided in the file for using the loan payment calculator. (If you do not have *Excel*, search for a mortgage calculator on the Internet.)
2. Joe Chin bought a house for \$180,000.00. He made a 20 percent down payment. Joe secured a loan for the balance of the purchase price at 6.5 percent interest for 30 years. What will the monthly payments on the loan be?
3. Louisa Perez bought a house for \$300,000.00. She made a 10 percent down payment. Louisa secured a loan for the balance of the purchase price at 5.95 percent interest for 30 years. What will the monthly payments on the loan be?
4. Mary Roberts bought a house for \$255,000.00. She made a 5 percent down payment. Mary secured a loan for the balance of the purchase price at 6.75 percent interest for 15 years. What will the monthly payments on the loan be?

### ACTIVITY 4

## Group Presentation



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

1. Work with two or three classmates to complete this activity.
2. Choose a topic related to using credit, and get approval of the topic from your teacher. A few suggested topics follow:
  - The housing market in your local area or state
  - The employment market in your local area or state
  - The new and used car markets in your local area or state
  - Interest rates in the economy
  - Loan scams or deceptive practices
  - Making payments online or online banking
  - Comparison of interest rates and other credit terms for different lenders in your area
3. As a group, do research on your topic. Use local newspapers, magazines, and the Internet.
4. As a group, create an outline of the main points you want to include in your presentation. Then write down the details you want to cover. Include how the information you found could or should affect use of credit by consumers in your area.
5. Prepare electronic slides, transparencies, posters, handouts, or other visual aids that you can use during the speech delivery.
6. Decide which person will present each part of the speech. Practice as a group. Review the Building Communications Skills: Formal Speaking feature in this chapter to help you prepare.
7. Deliver the presentation to your class.



## ACTIVITY 5

### *Reducing Credit Costs*



Enrique is thinking about buying a large, flat-panel television. He will need to borrow money to make the purchase. He can arrange the financing ahead of time, or he can use the installment sales plan at the store.

1. What steps can Enrique take to minimize his total costs when choosing the television?
2. What steps can Enrique take to minimize his total costs when choosing a source of credit?
3. What steps related to his credit account can Enrique take to minimize his costs following the purchase?

## CHAPTER

# 9

# CREDIT PROBLEMS AND LAWS



© Andreas Pollock/Stone

Chapter 9 is about resolving problems with credit. In this chapter, you will learn about ways to avoid credit problems and how to resolve credit problems. You will also learn about bankruptcy and its purposes. You will study credit reporting and related laws. These laws protect both consumers and creditors in credit reporting, billing, collections, and granting or denying credit.

## ONLINE RESOURCES

*Personal Financial Literacy*  
Web site:

Vocabulary Flashcards  
Sort It Out: Credit Problems  
Chapter 9 Supplemental  
Activity

### Search terms:

- bankruptcy
- garnishment
- identity theft
- phishing
- recourse

## Resolving Credit Problems

### OUTCOMES

- Explain how to dispute an error on a credit statement.
- List ways to prevent credit card fraud.
- Describe the purpose of consumer advocacy groups.
- Explain how government consumer protection services help consumers.
- List ways to prevent garnishment and repossession of assets.

### ERRORS AND FRAUD

When buying goods and services, there may be times when you think that you were cheated or that an error has been made. You may be due some type of adjustment to your account or the amount you owe. This remedy for unfair treatment is often called **recourse**. Your recourse may be returning damaged goods for a credit to your account. The recourse could be having an amount on your account reduced to reflect a correct price. You may get recourse in some other way to compensate you for errors or fraud. To get recourse, you must take action.

#### *Disputing Charges*

When you receive a credit account statement, compare the charges to your receipts. If you find a charge on the statement that you did not make or that is incorrect, take action right away to dispute the charge. Disputing a charge is the process of informing the credit company of the mistake.

Disputing charges usually begins with a telephone call or a visit in person to report and discuss the problem. Always follow up with a written letter explaining what happened. When you keep good records, you have **documentation** that can help support your claim that the bill has an error or a false charge. Always keep receipts, statements, and other credit records you receive. Whenever you talk to a person about a dispute, write down the date, the person's name and title, the phone number, and the details discussed. Then you will have a record of what has happened and the steps you have taken.

Figure 9-1.1 on page 252 shows a letter of complaint written to dispute an incorrect charge on an account. A dispute letter should begin with your return address and the date. Read the credit account information to find the proper address to which you should send a dispute letter. Often, the address is not the same one you use for payments. Key the correct address

4550 Bay View Road  
Hamburg, NY 14075-4450  
April 7, 20--

Credit Company  
P.O. Box 87483  
Wilmington, DE 19850-7483

Dear Sir or Madam

DISPUTE ON ACCOUNT 2444 2344 2317 3243

Please register this dispute of a charge on my recent credit statement, which is dated April 2, 20--. The incorrect charge is circled on the enclosed copy of the statement.

I called to report this error today and talked to Melanie Smith in your Customer Service Department. The charge is for \$46.42 for the purchase of gasoline in Houston, Texas, on March 20, 20--. I did not make this purchase. I have never been to Texas. I have not loaned my card to another person or given permission to anyone to use my account. I have had my card with me at all times, and it is not lost or stolen.

Please remove this incorrect charge from my credit account. If you have any questions about this dispute, please call me at 716-555-0134.

Sincerely

*Joy B. Adams*

Joy B. Adams

Enclosure: Credit Statement



in the letter and on the envelope. Include your credit account number in a subject line in the letter. State the problem with the account clearly. Give all the details needed to make the problem easy to understand. State any earlier steps you have taken related to the problem. For example, describe any phone calls you made regarding the error. State clearly the action you want the company to take, such as removing a charge. Indicate that you are enclosing a copy of the statement that contains the error, and place an enclosure notation at the end of the letter. Continue to communicate with the credit company until the dispute is resolved.

## Credit Card Fraud

You may have improper charges made to your store or credit accounts. When someone intentionally uses your credit account to steal money or goods, this is a crime called **credit card fraud**. Credit card fraud is a felony (a serious crime). If you are a victim of credit card fraud, notify the creditor as soon as possible. Take steps such as these to help prevent credit card fraud:

- Carry only the cards you need.
- Keep a list of credit card account numbers and phone numbers to call so you can rapidly report a card that is lost or stolen.
- Verify purchases and account balances when you receive a statement.
- Shred receipts and statements that show your account number when you are finished with them.
- Do not loan your credit card to others.
- Know where your credit cards are at all times.
- Close inactive accounts because they are often targeted by thieves.
- Have mail delivered to a post office box or a secure mailbox.
- Mail bills only from a secure mailbox or a post office.
- Use only secure Web sites, and buy online only from reputable companies you know.
- Do not give out credit card or other private information over the telephone or by e-mail to people who say they are calling from your bank or credit card company.

## CONSUMER ADVOCACY GROUPS

Consumer advocacy groups are organizations that promote consumers' rights. They often provide information about laws related to consumer rights. Some groups also seek to have laws passed that will be beneficial to consumers. Some groups focus on a single area, such as food safety. Other groups address a wide range of issues.

Several groups deal with consumer issues related to using credit. You can visit their Web sites to learn about the latest frauds and about how to protect yourself. These Web sites are a good place to do research before you accept some offer that sounds suspicious. Remember, when an offer sounds too good to be true, it probably is. Figure 9-1.2 on page 254 shows a list of consumer advocacy groups. Links to the Web sites for many of these groups are provided on the Web site for this textbook.

Web sites such as the Fraud Bureau and the Independent Consumer Complaint Network allow users to log complaints about company practices

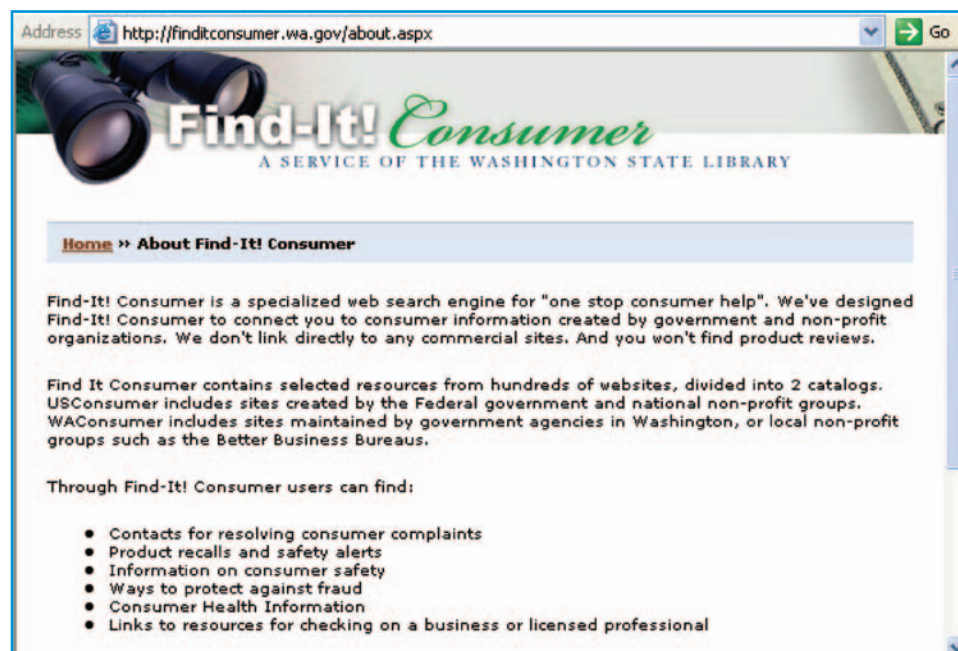
**FIGURE 9-1.2**

Consumer advocacy groups provide information and promote consumer rights.

CONSUMER ADVOCACY GROUPS	
Better Business Bureau	Promotes responsible business practices
Consumer Action	Promotes consumers' rights and advocates for consumers in the media and before lawmakers (a nonprofit organization)
Consumer Federation of America	Advocates for consumers through legislation
Consumers Union	Publishes <i>Consumer Reports</i> An independent, nonprofit testing and information organization that provides advice about products and services
National Consumers League	Sponsors the National Fraud Information Center and addresses a wide range of issues
Public Citizen	Addresses issues such as the right of consumers to seek redress in the courts; clean and safe energy sources; and strong health, safety, and environmental protections

**FIGURE 9-1.3**

### FIND-IT! CONSUMER WEB SITE



Source: Washington State Library, Find-It! Consumer, <http://finditconsumer.wa.gov/about.aspx> (accessed June 20, 2006).

or frauds and read complaints posted by others. Find-It! Consumer, shown in Figure 9-1.3, is a Web site that allows you to search for consumer information provided by government and nonprofit groups. This site is a service of the Washington State Library.

## GOVERNMENT CONSUMER PROTECTION SERVICES

Numerous federal and state agencies assist consumers. These agencies regulate trade, investigate crimes, and enforce laws. They test drugs, food, and other products for safety and to see if they live up to their claims.



## Federal Agencies

There are many agencies that protect and help consumers. The U.S. Consumer Product Safety Commission (CPSC) is one such agency. The CPSC is charged with protecting the public from unreasonable risk of death or injury from thousands of consumer products. The agency issues consumer recalls or alerts for products that are considered unsafe.

The U.S. Food and Drug Administration (FDA) is one of the nation's oldest health agencies. It is a science-based law enforcement agency. Its mission is to protect public health and safety related to certain areas. The FDA ensures that foods, cosmetics, and medicines are safe. It investigates complaints, tests products, and allows safe products in the marketplace. The FDA also removes products that are not safe.

The Federal Trade Commission (FTC) deals with issues that affect the U.S. economy. One of its goals is to keep a competitive marketplace for businesses and consumers. The Bureau of Consumer Protection is a part of the FTC. This bureau seeks to protect consumers against unfair, deceptive, or fraudulent practices. The FTC also provides consumer education. It publishes tips for avoiding scams and rip-offs and provides a place to file complaints online. A link to the FTC site is provided on the Web site for this textbook.

The Federal Bureau of Investigation (FBI) is a part of the U.S. Department of Justice. The FBI investigates fraud and other crimes. It also publishes information on issues such as identity theft. The FBI's Web site lists current scams and tells you how to avoid them. Consumers can file a complaint online at several government sites as shown in Figure 9-1.4. Links to the U.S. Department of Justice and FBI Web sites are provided on the Web site for this textbook.

## State Agencies

State governments also have consumer protection services. Consumers can read the latest information about products and crimes, file reports, and ask



Source: U.S. Department of Justice, What We Do: Investigate Fraud, [http://www.justice.gov/whatwedo/whatwedo\\_if.html](http://www.justice.gov/whatwedo/whatwedo_if.html) (accessed June 20, 2006).

**FIGURE 9-1.4**

Consumers can file complaints online at government Web sites.



questions. Many counties and cities provide consumer alerts and support as well. District attorneys' offices and nonprofit groups serve as places to get information. City and county government offices and local offices of consumer groups can be found using the Internet and the telephone book.

## CREDIT DELINQUENCY

**Delinquency** means the failure to do what your duty or the law requires. When the term is used with regard to credit, delinquency means an overdue debt. A credit contract requires that you make payments on time. When you do not make payments on time, your account is in delinquency. As soon as you find you are unable to make payments as agreed, contact your creditors and explain the situation. Many creditors are willing to work with you so that you can pay your account. They will often reduce or postpone payments, reduce interest, or make special arrangements so you can avoid penalties for late payment.

### Collection Agencies

If payments on your credit account are overdue, your account may be turned over to a collection agency. Collection agencies legally have the right to represent the creditor to collect the amount due. If you do not pay your debt, they may file a lawsuit to get a judgment against you. A judgment is a ruling of a court of law. The judgment may give the collection agency the legal right to take assets away or to garnish your wages. This is a situation you want to avoid. A judgment is likely to have a bad effect on your credit rating. You may have to pay certain fees to the collection agency, as well as the debt amount owed.

### Garnishment

**Garnishment** is a proceeding in which a creditor may legally take possession of money or goods held by a third party in payment of a borrower's debt. For example, a creditor may take money from a worker's pay each month to pay a debt the worker owes. The money is paid directly from the employer to the creditor. Because the creditor has a legal garnishment order, the employer cooperates. Garnishment is one way creditors enforce judgments to receive payment for a debt.

To prevent garnishment, follow these steps:

- Make payments on time as stated in the loan agreement.
- If you cannot pay, contact your creditor immediately to arrange a payment plan.
- Be up-front and truthful about your situation.
- Keep good records so you can defend your actions.
- Ask to negotiate claims to avoid having your account turned over to a collection agency.
- Respond to all legal documents; stay current in paying claims.



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Keep your creditors aware if you are having problems making payments.



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Your car may be repossessed if you do not make your car loan payments on time.

## *Repossession and Foreclosure*

A loan that has collateral pledged for repayment is called a secured loan or debt. If the borrower does not make payments as agreed on a secured loan, the property used as collateral can be taken away to pay the debt.

**Repossession** is the process of taking an asset used for collateral, such as a car, and selling it to pay a debt. Having an item repossessed hurts the borrower's credit rating.

**Foreclosure** is a legal proceeding a creditor can use when a borrower does not make mortgage payments. The creditor may be able to force a sale of the property. Money from the sale is used to pay the mortgage. Debtors may lose the money they have paid so far as mortgage payments. They also may have to pay foreclosure costs. Foreclosure costs can include attorneys' fees, court costs, and interest charges. Foreclosure also hurts one's credit history.

The best way to avoid repossession or foreclosure is to be very careful when buying. Know what you can afford in a monthly payment. Do not take out a loan unless you are reasonably sure you can make the payments. If you find you cannot make payments as agreed, talk to the lender immediately. Work out an alternate arrangement, give back the asset, or find another way to resolve the problem.

## 9-1 REVIEW

### 9-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. Explain how to dispute an error on your credit statement.
2. List ways you can protect yourself from credit card fraud.
3. Explain the purpose of consumer advocacy groups.
4. List three federal government agencies that help protect consumers. Give a brief description of what each agency does to help consumers.
5. What does the term *delinquency* mean as it relates to a credit account?
6. What is a collection agency? Why might your credit account be turned over to a collection agency?
7. Describe what you can do to prevent garnishment or repossession of assets.

### 9-1 Activity 1 Research Consumer Advocacy Groups



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

Consumer advocacy groups have many different goals. They provide information to consumers. They may seek to have laws passed that help consumers. They may provide reports on companies or products or a place to file complaints. In this activity, you will learn more about one consumer advocacy group. You will present the information you learn to the class.

1. Select a consumer advocacy group from Figure 9-1.2 or another group approved by your teacher.
2. Search the Internet or other sources to find information about this group. You may find a Web site sponsored by the group or articles written about the group.

3. Write a summary of the information you find about the group. Include the points listed below and other information you think would be helpful for your classmates to know about the group.
  - The group's name
  - The main activities or mission of the group
  - Services offered to consumers by the group
  - Publications or Web sites published by the group
  - When the group was founded
  - Whether the group is a nonprofit organization
4. Give a short talk to the class to present the information you learned about this group.



# Bankruptcy

## OUTCOMES

- Explain the purposes of bankruptcy.
- List strategies to help avoid bankruptcy.
- Describe Chapter 7 Liquidation bankruptcy.
- Describe Chapter 13 Wage Earner Plan bankruptcy.
- Explain bankruptcy exemptions and how they affect consumers.

## AVOIDING BANKRUPTCY

Credit that is used wisely can be a valuable tool in reaching financial goals. When credit is not used wisely, however, the consumer may build debt to the point where it can never be repaid. **Bankruptcy** is a legal procedure to relieve a person who cannot pay his or her debts of those debts. The person may be relieved of (not have to pay) most debts or may be allowed to repay some debts over a set period of time. This depends on the type of bankruptcy granted. Bankruptcy must be granted by a federal court. The person may have to surrender assets to be sold to help pay debts. In a voluntary bankruptcy, the individual asks the court to declare bankruptcy. Creditors or lenders can also ask the court to declare bankruptcy for a debtor. This situation is called involuntary bankruptcy.

Some common reasons why debtors cannot pay their bills and seek bankruptcy are listed below.

- Excessive medical bills (even with insurance coverage)
- Small business failure (half of all small businesses fail each year)
- Overspending and unwise use of credit
- Losing employment and being overextended
- Having no savings when unexpected events (losses) occur

Consumers should try to avoid bankruptcy, if possible. Bankruptcy damages a person's credit rating. It stays on the credit record for 10 years. It prevents the consumer from getting low interest rates on credit accounts or loans. Bankruptcy can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. The consumer may be left with very little property. Thus, it pays to try to find other ways to solve debt problems rather than seeking bankruptcy. Credit counseling, debt management, and debt consolidation are three strategies consumers may be able to use to avoid bankruptcy.





**FIGURE 9-2.1**

*The U.S. Trustee Program provides a list of approved credit counseling agencies.*

Source: U.S. Department of Justice, U.S. Trustee Program, [http://www.usdoj.gov/ust/eo/bapcpa/ccde/cc\\_approved.htm](http://www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm) (accessed June 27, 2006).

## Credit Counseling

Credit counseling is available through nonprofit groups and other organizations. They work with debtors to arrange a payment plan for debts. They also provide lifestyle counseling to help people avoid credit problems in the future. Sometimes, these counselors are able to negotiate lower interest rates with creditors so that debt can be paid off sooner. This type of service allows people to pay their debts and get back on track with financial plans. Debtors must get credit counseling from a government-approved organization within 6 months before filing for any bankruptcy relief. You can find an approved credit counseling agency in your area on the U.S. Trustee Program Web site as shown in Figure 9-2.1.

## Debt Management

A debt management service works with you and your creditors to create a workable plan for paying off debt. Debt management begins with a careful look at each credit balance. Its interest rate, minimum payments, and how soon it will be paid off are considered. This service often involves turning over your checking account and your bills to the debt manager. It also requires that you have sufficient income to be able to pay the outstanding debt. There is usually a fee or a commission charged for this service. You give up your credit cards and live on an allowance. At the end of the agreed-on period of time (usually 3 to 5 years), your debt has been repaid. With education in how to prevent credit problems from happening again, you then have a fresh start.

Some debt management services that claim to be nonprofit charge unreasonably high fees. Many reputable services are accredited through



## Focus on . . .

A cosigner is a person who guarantees the debt of another person. In many cases, a person who does not have credit established will have a hard time getting a loan. The lender needs some assurance that the debt will be paid. A cosigner is a person with good credit or assets that can be used as collateral. The cosigner vouches for the person who needs credit.

The cosigner must repay the loan if the debtor does not repay the loan as agreed. The cosigner's credit rating will

### BEING A COSIGNER

also be affected by a delinquency. On credit reports, cosigning for a loan has the same effect as taking out a loan yourself. In other words, creditors will count it as existing debt to the cosigner.

Before you cosign for a loan, be sure to understand your position. Be prepared to repay the debt at any point in time. Some cosigners find it a good idea to make one payment in advance. This helps avoid having a late payment if the borrower does not pay on time.

the Association of Independent Consumer Credit Counseling Agencies or the National Foundation for Credit Counseling. Check with these organizations for information about a debt management company you are considering using.

### Debt Consolidation

**Debt consolidation** is the process of getting one loan to pay all your debts. Then a single monthly payment is made to repay that loan. The single payment is usually much less than the minimum payments on a number of loans or debts.

Consolidation loans are available through banks and other financial institutions. There are finance companies that specialize in loans to pay off credit card debt. Many debt consolidation loans require collateral to secure the loan. If you are making payments on a house, this would be in the form of a second mortgage. An **equity loan**, or second mortgage, is secured by the value of your home. For example, if your house is valued at \$150,000 and your mortgage is \$120,000, then you have equity of \$30,000. This amount could be borrowed to pay off high-interest credit cards and accounts. The interest rate is generally much lower, and the debtor can afford the payments.

## PURPOSES AND TYPES OF BANKRUPTCY

There are two purposes of bankruptcy law. One purpose is to give a debtor a fresh start. A fresh start is needed when bills are so high that they could never be repaid. The second purpose is to ensure fair treatment for creditors. Bankruptcy laws are there to help people in hopeless situations

FEDERAL BANKRUPTCY EXEMPTION EXAMPLES	
Exemption	Amount
Motor vehicle	\$ 2,400
Household goods (\$400 limit for a single item)	8,000
Jewelry	1,000
Tools (for debtor's trade)	1,500
Personal injury compensation payments	15,000
Other property	800
Public assistance	
Social Security benefits	
Veterans' benefits	

**FIGURE 9-2.2**

*A bankruptcy exemption is property that a debtor does not have to give up to pay off creditors.*

**Source:** U.S. Congress, *United States Code*, "Title 11—Bankruptcy, Chapter 5—Creditors, the Debtor, and the Estate, Subchapter II—Debtor's Duties and Benefits," GPO Access, <http://frwebgate3.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=0030315692+4+0+0&WAIAction=retrieve> (accessed October 4, 2006).

get back on their feet. Bankruptcy was never intended to be used for reckless spending and avoiding responsibility.

There are different types of bankruptcy. For example, Chapter 7 Liquidation and Chapter 13 Wage Earner Plan are for individuals. Chapter 11 is for businesses. Bankruptcy immediately stops all collections. This stay is automatic. When a debtor files for bankruptcy, all accounts and contracts are frozen. That means no further action, including lawsuits, can be taken.

## Chapter 7

Also known as straight bankruptcy, **Chapter 7 Liquidation** is used when an individual seeks to have her or his debts discharged. A **discharge** is a court order that pardons the debtor from having to pay debts. Chapter 7 bankruptcy is also called liquidation. The debtor's assets are sold (liquidated), and the money is used to repay as much of the debt as possible. Then all remaining debts (with a few exceptions) are discharged.

Most debts can be discharged. This includes credit card balances, bank loans, medical bills, and court judgments. There are some types of debt, however, that are not discharged by bankruptcy, such as tax debt, student loans, government fines for criminal charges, child support, and spousal support.

Before filing a Chapter 7 bankruptcy case, the debtor must get credit counseling and satisfy a means test. This test requires the debtor to confirm that his or her income does not exceed a certain amount. The amount varies by state.<sup>1</sup>

Under Chapter 7, many debtors do not lose all of their property. This is because there are exemptions. An **exemption** is property that a debtor does not have to give up to pay off creditors. For example, there is a homestead (housing) exemption that allows the debtor to keep \$15,000 worth of equity in a home. If the debtor's equity is that amount or less, the debtor can keep the home.

Examples of other federal bankruptcy exemptions are shown in Figure 9-2.2. This is not a complete list. Amounts are adjusted periodically,

<sup>1</sup> *Facts for Consumers: Knee Deep in Debt*, Federal Trade Commission, <http://www.ftc.gov/bcp/online/pubs/credit/kneedeep.htm> (accessed June 24, 2006).





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Chapter 13 bankruptcy is for people who have a good source of steady income.

and current amounts may be different from the ones shown here. Many states also have bankruptcy laws that affect the exemptions allowed.

## Chapter 13

Another form of bankruptcy for individuals is the **Chapter 13 Wage Earner Plan**. This type of bankruptcy is for debtors who have a good source of steady income. It is designed mostly for homeowners and working people. The debtor selects exemptions just as in Chapter 7. Rather than liquidate assets, debtors follow a plan to pay back as much debt as they can over a 3- to 5-year time period. After that time period, their debts are discharged.

Chapter 13 forces creditors to stop interest and late penalties. While a Chapter 13 plan is in effect, creditors cannot start or continue collection efforts. They must accept what the bankruptcy court decides will be their settlement. In some cases, creditors who have made unsecured loans receive no more than 10 to 30 percent of the amount owed to them.

## New Bankruptcy Legislation

The Bankruptcy Abuse Prevention and Consumer Protection Act was approved by Congress in

April 2005 and signed by President George W. Bush. Most parts of the law apply to cases filed on or after October 17, 2005. The law seeks to make

## Ethics

### BANKRUPTCY FRAUD

Bankruptcy fraud is the use of bankruptcy laws to take advantage of others or to make false claims. Bankruptcy fraud is a serious federal crime (a felony). People who try to hide assets from the bankruptcy court are committing bankruptcy fraud. Assets must be disclosed so that creditors can receive a fair share in the payment of debts.

Creating debts with the intent of denying creditors payment for goods and services is also illegal and unethical. It is abuse of bankruptcy laws to plan a bankruptcy with overspending and staying just below the exemption allowances. If the court suspects that a person is committing bankruptcy fraud, it may dismiss the bankruptcy and prosecute for fraud.

it more difficult for consumers to erase all debt by requiring more people to file under Chapter 13 rather than under Chapter 7 bankruptcy.

Some debtors who want to file under Chapter 7 must first complete a means test. This test is to see whether they have enough disposable income to repay debts under a Chapter 13 plan. The test compares the debtor's gross income to the median income in the state. Debtors who earn less than the median income in their state typically qualify for Chapter 7 bankruptcy. Other debtors may or may not qualify depending on other factors.

Debtors who do not qualify for Chapter 7 bankruptcy may file for Chapter 13 bankruptcy. They will be required to repay some or all of their unsecured debt. The court can also convert a Chapter 7 case to a Chapter 13 case or dismiss the case (not allow bankruptcy).

The new law requires most debtors to receive credit counseling at least 6 months before filing for bankruptcy. Debtors may also have to take a class on debt management techniques.

## Building Communications Skills

### PERSUASIVE SPEAKING

The focus of public speaking is often to convince people to take action or support an idea or position. To be effective, the speaker must be believable. Persuasive speaking is challenging because you may have to change people's minds. You may also have people in the audience who are biased against your ideas or position. Giving public speeches means you are often speaking to people you do not know. You are presenting a message and hoping for their support. For example, people who run for public office must prepare persuasive speeches.

Effective persuasive speeches are relevant, interesting, and decisive. You will need to capture the listeners' attention and hold it as you present information and logical conclusions. When giving a

persuasive speech, open with remarks that will get the attention of the audience. Clearly state the position or action you want the listeners to support. Give supporting data or quotes that will strengthen your position. When preparing the speech, think about negative reactions or questions the listeners may have. Prepare answers to have ready for these questions.

The next time you hear a campaign speech, listen carefully to what is being said. Also listen to the techniques used in presenting the speech. How did the person get your attention? What problems were discussed? What solutions were proposed? Was the speaker believable? Apply the techniques that you think were effective to your next speech.

## 9-2 REVIEW

### 9-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What are some reasons people get into extreme debt and seek bankruptcy?
2. Explain how credit counseling can help to avoid bankruptcy.
3. How is debt management different from debt consolidation?
4. What are the two purposes of bankruptcy law?
5. Why is Chapter 7 bankruptcy also called liquidation?
6. What are bankruptcy exemptions?
7. How is Chapter 13 bankruptcy different from Chapter 7 bankruptcy?
8. What is meant by bankruptcy fraud?

### 9-1 Activity 1 Credit and Bankruptcy Advice



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

When consumers have serious problems making payments and managing their debt, they may seek advice. Some credit counseling agencies offer free advice; others charge a fee. In some cases, bankruptcy may be the only course available. Consumers may seek legal advice in filing for bankruptcy. Some bankruptcy lawyers will give an initial consultation that is free. In this free session, the client explains her or his situation, and the attorney evaluates the options.

1. Visit the U.S. Trustee Program Web site. A link to the site is provided on the Web site for this textbook. You can also search the Web using the term **approved credit counseling agencies**.
2. Find a credit counseling agency that is approved for residents of your state. Give the agency name and address.
3. Look in the Yellow Pages or search online using the term **bankruptcy attorney**. Find ads or Web sites for bankruptcy attorneys. Review at least two ads or Web pages.
4. What types of claims do the attorneys make about bankruptcy? What kinds of fees do they charge? Is there a free initial consultation?

# Consumer Protection and Laws

## OUTCOMES

- Explain the purpose of a credit report and credit score.
- Explain consumer rights related to denied credit.
- State the purposes of several consumer protection laws.
- Explain the process of alternate dispute resolution.
- Describe the process of resolution through filing a lawsuit.
- List credit scams and ways to protect yourself from them.

## CREDIT REPORTS AND SCORES

Every person who has a Social Security number also has a credit file. Data in your credit file are shared with interested parties in a **credit report**. The purpose of a credit report is to give lenders and others information about your credit history and current status. A credit report contains a listing of your current credit accounts and their balances. Accounts you have had in the past may also be listed. If you have defaulted on a loan or made late payments, that is reported. The report contains personal data such as your address, phone number, Social Security number, and date of birth. It may include where you work and how much you earn.

The three major credit bureaus are Equifax, TransUnion, and Experian (TRW). Each of these bureaus collects and analyzes data about you and assigns a number called a credit score. The purpose of a credit score is to rate whether you are a good or poor credit risk. Example credit scores are shown in Figure 9-3.1 on page 268. The higher the score, the lower the risk. Many lenders use these scores provided by credit bureaus. Some lenders compute their own scores. There is no single cutoff score used by all lenders. The scores shown are examples only.

Consumers can get their credit scores from the credit bureaus, usually for a charge. Newly passed laws allow you to view your credit reports once a year free. However, the score itself will probably cost you \$30 or more. Follow these suggestions to improve your credit score:

- Pay all debts on or before the due dates.
- Pay more than minimum payments.

Credit Score	Description
Up to 499	Unacceptable. Debtor has no credit established or has a previous bankruptcy or current delinquencies. (Credit requests would be denied.)
500–599	Poor. Risk is high. Debtor is improving but had too much credit or too many collections in the past. (Credit requests are denied or carry very high interest rates to cover high risk.)
600–699	Fair. Medium risk. Debtor has too much credit and too many payments but is not currently delinquent or in collection; credit history is not perfect. (Credit requests are granted with medium interest rates and lower limits.)
700–749	Good. Lower risk. Debtor has a fair load of debt not exceeding recommended levels; payment record is good. (Credit requests are granted with low interest rates and good limits.)
749–799	Very good. Low risk. Debtor can take on more debt without a problem; payment history is very good. (Credit requests are granted with low interest rates and high limits.)
800+	Excellent. Risk is minimal. Debtor has very little debt and usually pays off balances in full each month. (Credit requests are granted with lowest rates and highest limits.)

- Keep your debt as low as possible.
- Do not charge more than 50 percent of the credit line available to you.
- Pay off credit card balances when possible.
- Have a good job with solid income.
- Stay in the same job for several years.
- Own your house rather than rent.
- Check your credit report regularly to be sure it contains correct information.

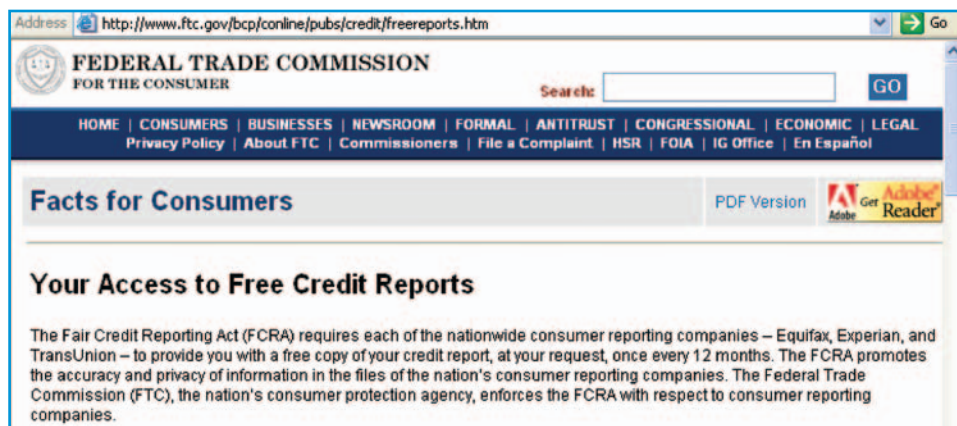
## CONSUMER RIGHTS

A number of laws protect consumers from unfair credit practices. These laws help consumers as well as outline their responsibilities. The laws cover topics such as credit reports, reasons a person may or may not be denied credit, and ways disputes can be resolved.

### *When You Are Denied Credit*

If you are denied credit, it may be because there is inaccurate information in your credit file. The **Fair Credit Reporting Act** gives you the right to know what is in your credit file. You can also find out who has seen your file. You may see your file at no charge within 30 days of a credit denial. You have the right to have inaccurate data investigated, corrected, and deleted from your file. The three national credit bureaus are required to furnish a new report. If information is correct, you can write your own statement giving your side of the issue. This statement must be added to the file and made available to lenders and others who see your credit report.





**FIGURE 9-3.2**

*The Federal Trade Commission Web site provides information about credit reports.*

**Source:** Federal Trade Commission, *Facts for Consumers*, <http://www.ftc.gov/bcp/online/pubs/credit/freereports.htm> (accessed June 29, 2006).

## Reviewing Your Credit Report

Consumers have the right to see one free copy of their credit reports annually. You can learn more about free credit reports on the Federal Trade Commission Web site, as shown in Figure 9-3.2. Consumers should check their credit files regularly to be sure there are no errors. When an error is discovered, it can be corrected before it results in denial of credit. Checking the report often can also help protect against credit card fraud.

### Technology Corner

#### GETTING A CREDIT REPORT ONLINE

You can order a credit report online by going directly to the Web site of a credit bureau. You can also get your credit score. You may have to pay a fee to see your credit score. However, you can get a free credit report once a year. AnnualCreditReport.com is a Web site that allows you to request a free credit report once every 12 months. Using this site, you can get a free report from each of the major consumer credit reporting companies: Equifax, Experian, and TransUnion.

To get a report, you will have to give personal information. A telephone call may be required to verify your identity.

The entire process is relatively quick and easy. Within minutes, you can find out what is in your report.

You can also enroll for credit protection services. For an annual fee that is often \$50 or more, consumers will be notified of changes to their credit files. They can see who is looking at their files. They are able to monitor any changes and check the accuracy of the file. This type of service is offered by credit bureaus, credit card companies, and others. It is considered by some people to be a good defense against credit fraud and identity theft.



## Being Fully Informed

The Consumer Protection Act of 1968 is also known as the **Truth-in-Lending Act**. This act requires that consumers be fully informed about the cost of credit. Before a credit agreement is signed, a lot of information must be given, in writing:

- Cash price of the item being purchased
- Down payment or trade-in price
- Amount financed
- Any service fees or other costs being added to the price
- Finance charges
- Annual percentage rate
- Deferred payment price
- Amounts and dates of payments
- Description of the item being purchased
- Method of computing finance charge in case of early payoff

Truth-in-Lending limits a person's liability to \$50 after a credit card is lost or stolen. There is no liability when a card is reported lost before its illegal use. The law requires that consumers be given a grace period of 3 days to change their minds about a credit contract in which their home is used for security. During those 3 days, consumers can change their minds and cancel a credit sale.

## Resolving Errors

The **Fair Credit Billing Act** protects consumers who have billing disputes. The law applies to open-end credit, such as store or credit card accounts. It does not apply to installment loans. A consumer has 60 days from the day the bill is received to file a dispute. Then, the creditor has 30 days to respond to the complaint. Within 90 days after receiving your complaint, the creditor must either correct the error or show why the bill is correct. This law helps consumers resolve errors on their accounts in a timely manner. When an amount is in dispute, the creditor cannot charge interest on that amount. The creditor also cannot try to collect that amount.

All credit card companies must have credit policies. They must tell their customers how to report errors. Figure 9-3.3 on page 271 shows an error correction policy for a credit card company.

## Discrimination

The **Equal Credit Opportunity Act** protects consumers from discrimination in the granting or denying of credit. The act makes it illegal to discriminate on the basis of these factors:

- Gender
- Marital status
- Religion
- National origin
- Race
- Color
- Age

In addition, credit cannot be denied because the person receives government payments, such as unemployment or Social Security

## IN CASE OF ERRORS OR INQUIRIES ABOUT YOUR BILL

The Fair Credit Billing Act requires prompt resolution of errors. To preserve your rights, follow these steps:

1. Do not write on the bill. On a separate piece of paper, write a description as listed below. A telephone call will not preserve your rights.
  - a. Your name and account number
  - b. Description of the error and your explanation of why you believe there is an error (Send copies of any receipts or supporting evidence you may have; do not send originals.)
  - c. The dollar amount of the suspected error
  - d. Other information that might be helpful in resolving the disputed amount
2. Mail your letter as soon as possible. It must reach us within 60 days after you receive your bill.
3. We will acknowledge your letter within 30 days. Within 90 days of receiving your letter, we will correct the error or explain why we believe the bill is correct.
4. You will receive no collection letters or collection action regarding the amount in dispute, nor will it be reported to any credit bureau or collection agency.
5. You are still responsible for all other items on the bill and for the balance less the disputed amount.
6. You will not be charged a finance charge against the disputed amount unless it is determined that there is not an error in the bill. In this event, you will be given the normal 25 days to pay your bill from the date the bill is determined to be correct.

payments. Certain questions cannot be asked, such as which church you attend. The law benefits consumers because only the consumer's credit standing may be used when evaluating whether or not to grant credit.

### *Debt Collections*

The **Fair Debt Collection Practices Act** protects consumers from abusive practices related to collecting debt. For example, threats and intimidation are not allowed. Debtors cannot be called at certain places, such as at work. The time of day is also important. Collection calls may not be made after 9 p.m. Collectors cannot call repeatedly throughout the day. Also, debt collectors must be sure the bill is accurate and allow the consumer to dispute it. Any disputed amounts must be resolved before they can be collected.



## GETTING RECOURSE

A consumer may have trouble settling a dispute with a creditor. Rather than give up, the consumer can seek alternate dispute resolution. If that method does not settle the dispute, the consumer might file a lawsuit.

### *Alternate Dispute Resolution*

Alternate dispute resolution (ADR) is a method of settling a dispute using a neutral third person. ADR is much less expensive than going to court. It is usually much faster also.

Negotiation occurs when two people get together, with or without a neutral third party, to come to an agreement. Both people talk about their point of view and how they want to see the issue resolved. They listen to each other and come to some type of agreement. The agreement usually involves both sides giving something and getting something in return.

Mediation, the next level of resolution, involves using a neutral third party to guide the process. The mediator talks to both parties and hears both sides of the issue. The mediator may allow the parties to talk to each other. The mediator then makes a proposed settlement.

Arbitration is the highest level of resolution. A third party, called an arbitrator, listens to both parties and then makes a decision. The decision may be binding on both sides. Arbitration may take several months. Both sides present their case formally, and rules of law are followed. The arbitrator is a professional who knows the law and is able to understand the issues.

### *Filing a Lawsuit*

When attempts to resolve a dispute have failed, a consumer may decide to file a lawsuit. Filing a complaint in small claims court is a simple and quick method of resolving a matter involving a small amount (usually less than \$5,000). The plaintiff files a document called a complaint. The complaint is served on the defendant. The two parties appear before a judge, whose decision is final. This process usually takes from a few

weeks to 2 months. Attorneys do not participate in small claims court.

For larger dollar amounts, regular trial courts settle disputes. Attorneys represent each side. The first step is hiring an attorney to represent you. The attorney tries to negotiate a settlement for you. If that fails, a lawsuit is filed. The case goes to trial, and the judge or jury makes a decision (called the verdict). If you win the lawsuit, you get a judgment against the defendant. This process often takes many months. It may also cost hundreds or thousands of dollars in attorneys' fees.



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Credit disputes can often be resolved by negotiation.

## Success Skills

### DEALING WITH CHANGE

Many people have trouble dealing with change. Even changes that a person thinks are good can cause stress. Why is change stressful? Changes at home, school, or work may mean that you have new duties or tasks to complete. You may feel uncertain about whether you can do these new duties or tasks well. You may think that they will take too much of your time or effort. You might feel uneasy because you do not know how the changes will affect your relationships with others. For example, if you attend a new school, will you still see your friends from your old school? You may worry that you are not making the best decision related to a change. For example, if you take a new job that pays more money, will you like the work you do? Such thoughts, feelings, and questions can cause a person to experience stress.

One thing is certain: changes will come throughout life. Learning to deal with change and the related stress is an important success skill. In some cases, you can choose to ignore or resist change. However, this may create even more stress. It may also have other negative effects. For example, if you refuse to change work methods, you could lose your job. If you ignore changes in your

health, you could become seriously ill. In many cases, the only reasonable choice is to accept change and to make the best of it. Some of the following suggestions can help you deal with change in a positive way:

- Learn as much as you can about how the change will affect you.
- Keep a positive attitude. Try to see something good or helpful in the change.
- Be objective. Do not let fears or bias rule your actions.
- Create a plan. List small steps you can take that will lead you through the change process.
- Get help, support, or counseling, if needed, to help you deal with making a change.
- Take care of your health. Eat a balanced diet, exercise, and get enough sleep. Take some time to relax. You will be better able to deal with stress if you are healthy and rested.
- Build your self-esteem. Have confidence that you will be able to deal with a new situation, coworker, or task.
- Expect change to be a part of your life. Look at every change as an opportunity to build new skills or relationships.

In a class action lawsuit, a group of people file a claim together. One attorney or law firm represents all the plaintiffs. Any judgment is then split among the plaintiffs, who may also share attorneys' fees.

## CREDIT SCAMS AND RELATED CRIMES

A **scam** is a fake offer, sale, or other gimmick that will cost you money if you agree to it. Every year, millions of American consumers lose money in scams. The scam may allow thieves to access their bank or credit accounts or to steal from them in other ways. For example, a disreputable lender

may offer a loan to a borrower who has a poor credit history and no assets to use as collateral. All the borrower has to do is pay a large, up-front loan application fee. The loan is then denied, and the application fee is not returned.

A common scam is carried out by thieves from foreign countries. They ask you to transfer money through your bank account and keep a portion of the money for your fee. They send you a check, which you deposit. The check appears to be good. You wire the money to an address provided. However, the original check is later found to be worthless. You lose the money you wired to the thief, and you may have to pay a fee to the bank for depositing a bad check.

Credit repair scams are also common. The company claims to be able to replace your poor credit history with a good one. No one can “fix” bad credit. The services provided (for a fee) by such companies are nothing more than what you can do for yourself. They cannot take true information from your file. They cannot change your credit rating. Any advice they give is available to you free of charge from various government and nonprofit agencies.

New scams are being developed daily. When in doubt, do not agree! Ask questions and research offers and companies to avoid being caught in a scam.

## Identity Theft

Identity theft occurs when someone uses your personal information without your permission to commit fraud or other crimes. According to the U.S. government, identity theft is one of the fastest-growing crimes in America. When a thief has your Social Security number, it can be used to get other personal data. The data may be used to apply for credit in your name. The credit card or loan is used to buy goods, but the credit bills are not paid. The account may have false address information, so the bills do not come to you. For this reason, you may not find out for some time that you are a victim of identity theft.<sup>2</sup>

Identity thieves may also open a bank account in your name and then write bad checks against the account. They may open service accounts in your name, such as for telephone or cable TV service, and not pay the bills. They may even take a job and file tax returns using your name and personal data.

One reason this crime is on the rise is because identity can be stolen without any contact with the thief. It can happen even if the victim does not make a purchase or do anything risky. Simple acts, such as giving personal information to an employer, can expose you to identity theft. Your information may be stolen from your employer’s records. Your data can also be stolen from your mail, such as credit card statements.

If you find that your identity has been stolen, or if you lose items that show your personal data, take the following steps quickly:

- Close credit and bank accounts. Open new accounts with new passwords and credit alerts.
- Have a fraud alert placed on your credit reports. This can help stop someone from opening a credit account in your name.

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<sup>2</sup> *Identity Theft and Your Social Security Number*, Social Security Administration, SSA Publication No. 05-10064, January 2006, <http://www.ssa.gov/pubs/10064.html> (accessed June 23, 2006).





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An identity thief may open an account in your name and write bad checks.

- Contact the government agencies that issued your identification documents, such as a driver's license. Follow the agency's procedure to get a replacement document, if needed. Ask the agency to place an alert in your file so that another person cannot get an identification document in your name.

## Phishing

Phishing is a common Internet scam. The thieves use e-mail messages and Web sites designed to look like the sites of real companies. They appear to be real businesses, banks, and government agencies. Consumers are deceived into giving account information and personal data, such as user names and passwords. The phishers then use that information to steal money from accounts and for identity theft. If you think that a message regarding your bank account or other financial matters may be real, contact the bank or other business by phone. Ask if there is a problem with your account. Do not reply to the e-mail message or go to the link provided.

## 9-3 REVIEW

### 9-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is the purpose of a credit report? What kind of information does a credit report contain?
2. What is the purpose of a credit score? How can you find your credit score?
3. What can you do if you are denied credit?
4. How often can you see your credit report (without charge)? What Web site can you use to get a free credit report?
5. List the basic provisions of the Truth-in-Lending Act.
6. Explain the procedures for resolving errors under the Fair Credit Billing Act.
7. List the items that cannot be the basis for discrimination in the granting or denial of credit.
8. List some activities that the law does not allow in the collection of credit debts.
9. Describe three types of alternate dispute resolution.
10. Describe the process of going to court to file a lawsuit to settle a dispute.

### 9-3 Activity 1 Taking Action

Write a few sentences for each of the situations below, telling what would you do to resolve it. Be sure to include any outside source of information or support you would contact.

1. You tried to use your credit card, and it was rejected. When you called your credit card company, you were told that your balance is over the limit. You have not used your card in the last week. There should be well over \$1,000 worth of credit available on it. What do you do?
2. A representative from your bank called and told you about a special offer—a free safe deposit box and a \$50 gift—if you upgraded your account. You verified your personal information with the caller. After the call, you phoned the bank to ask a question about the deal, but you found that no one from the bank had called you. What do you do?
3. You took your car in to have the brakes replaced. When the mechanic did the job, he also found that your muffler needed replacing. You authorized him to do the work. After you got home, you noticed a bill that shows your spouse had the muffler replaced 2 weeks earlier. What do you do?



# EXPLORING CAREERS IN ARCHITECTURE AND CONSTRUCTION



Are you fascinated by long bridges and tall skyscrapers? Do you like to take apart and rebuild machines to see how they work? Are you interested in measuring and mapping the earth's surface? Would you enjoy planning the location of buildings, roads, and walkways and the arrangement of flowers, shrubs, and trees? If the answer is yes, a career in architecture and construction might be right for you. Jobs in this area are varied. Some workers in this field design buildings or outdoor spaces such as parks. Others are engineers who develop solutions to environmental problems or design and test tools, engines, and machines. Surveyors, carpenters, electricians, highway builders, heavy equipment operators, and metalworkers are also part of this career area.

Jobs in this career area are found in government and businesses. Many general contractors and architects are entrepreneurs and have their own businesses. The need for jobs in this area is expected to grow.

## Skills Needed

Some of the skills and traits needed for a career in architecture and construction include the following:

- Math and science skills
- Communications skills
- Computer/technology skills
- Decision-making skills
- Problem-solving skills
- Leadership skills

## Job Titles

Many jobs are available in architecture and construction. Some job titles for this career area include the following:

- Architect
- Carpenter
- Equipment operator
- Electrician
- Engineer
- Iron/metal worker
- Landscape architect
- Mechanical engineer
- Surveyor

## Explore a Job

1. Choose a job in architecture and construction to explore further.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information to answer these questions:
  - What is the nature of the work this job involves?
  - What is the job outlook for this job?
  - What training or qualifications are needed for this job?
  - What are the median annual earnings for this job?



# REVIEW

## Summary

- Errors in your credit accounts and in your credit report can be corrected.
- Mistakes or false charges to a credit account should be disputed in writing.
- To avoid credit card fraud, the consumer must take precautions, such as shredding receipts and checking bills.
- Consumer advocacy groups and governmental agencies provide information and help for consumers who are victims of crime.
- Credit delinquencies can have serious outcomes. Your account may be turned over to a collection agency. Your earnings may be garnished. Items bought on credit, such as a car, may be repossessed. If you do not make mortgage payments, the creditor may be able to foreclose on the property.
- Bankruptcy is a legal procedure to relieve a person who cannot pay his or her debts of those debts. The person may be relieved of most debts or may be allowed to repay some debts over a set period of time. Bankruptcy should be used only as a last resort.
- Credit counseling, debt management, and debt consolidation are ways of avoiding bankruptcy.
- Chapter 7 Liquidation is also known as straight bankruptcy; the debtor gives up property and has many debts discharged.
- Chapter 13 Wage Earner Plan is bankruptcy for people who have a regular source of income. They pay off debts for 3 to 5 years, and some remaining debts are discharged.
- Credit reports are maintained for all people using credit. Consumers have the right to view and challenge items in a credit report.
- Truth-in-Lending is a law requiring full disclosure of all costs of credit. The law requires that consumers be given a grace period of 3 days to change their minds about a credit contract in which their home is used for security.
- Errors in credit accounts must be investigated and adjusted; time limits are imposed by the Fair Credit Billing Act.
- Discrimination is not allowed in the granting or denial of credit.
- Alternate dispute resolution and lawsuits are ways for consumers to get recourse in credit disputes.
- Every year, millions of American consumers lose money in scams related to credit or identity theft. Consumers should ask questions and research offers and companies to avoid being caught in a scam.



## Key Terms

**bankruptcy**

**Chapter 7**

**Liquidation**

**Chapter 13 Wage**

**Earners Plan**

**credit card fraud**

**credit report**

**debt consolidation**

**delinquency**

**discharge**

**documentation**

**Equal Credit**

**Opportunity Act**

**equity loan**

**exemption**

**Fair Credit Billing Act**

**Fair Credit Reporting**

**Act**

**Fair Debt Collection**

**Practices Act**

**foreclosure**

**garnishment**

**recourse**

**repossession**

**scam**

**Truth-in-Lending**

**Act**

## ACTIVITY 1

### Review Key Terms

Use the key terms from Chapter 9 to complete the following sentences:

1. Getting a loan to pay off other debts is called \_\_\_\_\_.
2. The \_\_\_\_\_ is a federal law requiring creditors to resolve disputes in billing within a specified period of time.
3. \_\_\_\_\_ is a legal procedure to relieve a person who cannot pay debts of those debts or to create a payment plan for paying some of the debts.
4. A federal law that makes discrimination in the granting or denial of credit illegal is the \_\_\_\_\_.
5. The \_\_\_\_\_ is a federal law giving consumers the right to know what is in their credit file and to challenge information in the file.
6. In a type of bankruptcy called \_\_\_\_\_, the debtor repays part or all of the unsecured debt over 3 to 5 years.
7. A remedy or action taken to seek aid, such as for the correction of an error in a credit account, is called \_\_\_\_\_.
8. A court order called a(n) \_\_\_\_\_ pardons a debtor from paying debts.
9. A proceeding in which a creditor may legally take possession of money or goods held by a third party in payment of a borrower's debt is called \_\_\_\_\_.
10. A(n) \_\_\_\_\_ is property a debtor is allowed to keep in a bankruptcy proceeding.
11. When someone intentionally uses another person's credit card to steal money, that is called \_\_\_\_\_.



12. A federal law, the \_\_\_\_\_, prohibits abusive practices when collecting debt.
13. A type of bankruptcy called \_\_\_\_\_ is also known as straight bankruptcy.
14. When a debtor gets behind in making payments, the account is said to be in \_\_\_\_\_.
15. Records that can be used to support a claim, also known as \_\_\_\_\_, can help win an adjustment to a credit account.
16. Borrowing money using the equity in your home as security is getting a(n) \_\_\_\_\_.
17. A fake offer, sale, or other gimmick, called a(n) \_\_\_\_\_, is designed to cheat consumers.
18. A document that gives a person's credit history and current status with regard to credit and income is called a(n) \_\_\_\_\_.
19. The \_\_\_\_\_ is a federal law that requires that consumers be fully informed about the true cost of credit.
20. A legal process a creditor can use to force the sale of mortgaged property to repay the mortgage when a borrower does not make mortgage payments is called \_\_\_\_\_.
21. The process of taking an asset used for collateral, such as a car, and selling it to pay a debt is called \_\_\_\_\_.

## ACTIVITY 2

### Math Minute

1. Juan Martinez has a house valued at \$250,000. His mortgage is for \$180,000. How much money can he borrow if the company will lend 80 percent of the equity in the home?
2. Joe Patel has a house valued at \$180,000. His mortgage is for \$150,000. How much money can he borrow if the company will lend 70 percent of the equity in the home?
3. Jeff Wong has a house valued at \$200,000. His mortgage is for \$190,000. How much money can he borrow if the company will lend 85 percent of the equity in the home?
4. Your credit card was stolen. You reported the theft within 24 hours. Before the theft was reported, the thief charged \$2,450 at a jewelry store and \$1,245 at an electronics store. How much of the fraudulent charges will you have to pay?
5. Gloria Perez owes a balance of \$5,000 on one credit card that charges 19 percent interest. She can pay off the balance in 2 years making monthly payments of \$252.02. She has another credit card with a balance of \$7,500 that charges 20 percent interest. She can pay off the balance in 2 years making monthly payments of \$381.72. Gloria owns a home valued at \$150,000. She can get a home equity loan for \$12,500 at 8 percent interest. Gloria can repay the loan in 2 years

making monthly payments of \$565.34. How much money will Gloria save if she takes out a home equity loan to pay off the credit card balances?

### ACTIVITY 3

#### *Filing Complaints*



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

1. Work with two classmates to complete this activity.
2. Review the information presented in this chapter, and search the Internet if needed. Find out where or how you could file complaints in the following situations:
  - a. You were the victim of a telemarketing scam. The caller offered to send you money if you provided your Social Security number and bank account number.
  - b. You bought items from a business on the Internet. The company did not send the merchandise that was ordered.
  - c. An investment scheme promised you a 50 percent return on your money in less than a year. You invested \$1,000, and you have not heard from the company since.

### ACTIVITY 4

#### *Letter Disputing a Charge*

Upon checking your credit card statement, you see that you were charged \$85 for the purchase of a hat at the Mad Hatter Shop on May 8, 20--. You have a receipt that shows a \$58 purchase at the Mad Hatter Shop on that date. Write a dispute letter to the credit card company to report this error. Review Figure 9-1.1 for the format and content of a dispute letter.

1. Use your return address. Use May 12, 20--, as the letter date.
2. Use this letter address and an appropriate salutation:  
Credit Company  
P.O. Box 87483  
Wilmington, DE 19850-7483
3. Use a subject line that indicates you have a dispute on Account 2444 2344 2317 1111.
4. State that you are registering a dispute. Explain the problem and ask for a credit of the extra amount charged on your statement. Indicate that you are enclosing a copy of the statement and a copy of your receipt.
5. Use an appropriate letter closing and your full name. Add an enclosure notation at the end of the letter.
6. Proofread the letter carefully and correct all errors. Print the letter.



## ACTIVITY 5

### *Handling Credit Problems*



In each of the following situations, explain what you would do or the advice you would give:

1. Jim and Fran have decided to get help with their credit problems rather than file for bankruptcy. They want more time to pay loans, and they have several credit card debts with high interest rates. What would you suggest?
2. Ramon is deeply in debt. He knows that he will not be able to pay all his debts. He wants to be fair to the creditors, but he also needs a fresh start. He has a good job with a steady income. Explain to him the differences between Chapter 7 and Chapter 13 bankruptcy. Which one do you think would be appropriate for Ramon?
3. Alicia is having trouble paying her bills. She is working two jobs and still cannot make all the payments. She has a very large medical bill (exceeding \$400,000) as a result of an illness 2 years ago. Because of the interest rate of 18 percent, she is making little progress in paying it off. What do you suggest?

# PUBLIC SPEAKING EVENT



The FBLA Public Speaking I Event and BPA Prepared Speech Event focus attention on current business topics. Students must prepare a 4-minute speech for FBLA and a 5- to 7-minute speech for BPA using an effective business style. Facts and working data that are used for the speech may be secured from any source. The speech should be well organized. Sources used for facts, quotes, or other data should be provided. Students may use notes to deliver the speech; however, no visual aids may be used. Points may be deducted if the speech does not keep to the set time frame.

## Evaluation

Students who take part in these events are judged on their ability to:

- Clearly state the goal of the speech.
- Develop the topic thoroughly.
- Present a logical sequence of ideas or facts.
- Present accurate information backed by current sources.
- Demonstrate effective public speaking skills.
- Present an informative speech.

## Sample Scenario

You have been asked to prepare a speech on identity theft. Identity theft occurs when someone uses your personal information without your permission to commit fraud or other crimes. The number of identity theft crimes in the United States is growing. The process for a victim to clear her or his name and credit report can be time-consuming and expensive.

## Think Critically

1. What are two credible resources you can use to find information on identity theft?
2. Prepare a 4- to 5-minute speech on identity theft. Include these points in the speech along with others you think are important:
  - An explanation of identity theft
  - Types of crimes related to identity theft
  - Statistics about identity theft, such as the number of crimes or people affected
  - Strategies for consumers to use to avoid identity theft

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[www.bpa.org](http://www.bpa.org)

