

Financial Algebra - Consumer Credit (Ch. 4 Review)

True or False.

- ___ 1. A debit card is a type of charge card where the monthly bill must be paid in full.
- ___ 2. Last month the ending balance on Maryanne's Mastercard was \$1,789, the average daily balance was \$755, and the monthly periodic rate is 1.85%. Her finance charge can be calculated by multiplying the ending balance times the monthly periodic rate. So the finance charge is $\$1,789 \times 0.0185 = \33.10 .
- ___ 3. Taneeka borrowed \$12,000 for a car for 6 years at an APR of 7.25%. Her monthly payment will be \$206.03.
- ___ 4. Interest can be the money paid by a bank to a consumer as compensation for keeping their money in that bank. Interest can also be the money paid to a bank for the use of their money.
- ___ 5. The Truth-in-Lending Act protects consumers from harassment from creditors.
- ___ 6. A FICO score is named after its creator, Fair, Isaac, and Company. It summarizes the probability that a person with debt will repay that debt.
- ___ 7. FICO scores range from 300 to about 850. A score above 770 is excellent, a score above 700 is good, and a score below 600 is considered a credit risk.
- ___ 8. The total interest on a five-year 5.2% loan with a principal of \$10,000 is $10,000 \times 0.052 \times 5 = \$2,600$.
- ___ 9. Max found a car he wants to buy that costs \$16,000. He can afford to pay \$250 a month for the car. His bank offers him a car loan of 7.3%. The length of his loan should be about 5 years so he can afford the payments.
- ___ 10. Regina pays her credit card balance in full each month. Last month her average daily balance was \$345 and the APR is 11.2%. The finance charge on her current month's statement is \$13.22.

____ 11. Use the summary section of the monthly credit card statement below to calculate the finance charge.

SUMMARY	Previous Balance	Payments / Credits	Transactions	Late Charge	Finance Charge	New Balance	Minimum Payment
	\$750.00	\$70.00	\$110.00	\$0.00	?		\$40.00
				Average Daily Balance	# Days in Billing Cycle	APR	Monthly Periodic Rate
				\$805.00	30	15%	1.25%

- a. \$33.54
- b. \$12.98
- c. \$10.06
- d. \$9.38

____ 12. Jerry buys a \$2,700 motorcycle on a deferred payment plan. There is no down payment and no interest for eighteen months. Jerry must make a minimum payment of \$75 a month. To avoid a retroactive APR of 21%, he must pay the balance in full before the 18 months has passed. If he pays \$75 each month, how much should he pay the last month to avoid the interest charges?

- a. \$1,350
- b. \$1,425
- c. \$1,500
- d. \$2,075

____ 13. Mantago wants to borrow \$10,000 to buy a used car. He examined his budget and decides that he can afford a payment of \$200 a month. If his bank offers him an APR of 7.5%, how long should he borrow the money?

- a. 3.5 years
- b. 4 years
- c. 4.5 years
- d. 5 years

____ 14. Isabella wants to purchase a new refrigerator. When she applies for an installment loan at the appliance store, her loan application is turned down. What consumer law says that a lender must give her the reason, in writing, that she was denied the loan?

- a. Truth-in-Lending Act
- b. Equal Opportunity Act
- c. Fair Credit Reporting Act
- d. Fair Debt Collection Practices Act

____ 15. Yanni received her monthly credit card statement in the mail, the summary of which is shown below. When she calculated the new balance for the month, she arrived at a different amount than the credit card company. What should be the correct new balance?

SUMMARY	Previous Balance	Payments / Credits	Transactions	Late Charge	Finance Charge	New Balance	Minimum Payment
	\$3,569	\$130.00	\$275.00	\$0.00	\$82.28	\$3,796.28	\$100.00
Total Credit Line		\$ 10,000.00		Average Daily Balance	# Days in Billing Cycle	APR	Monthly Periodic Rate
Total Available Credit		\$ 6,203.72		\$3,558.71	31	21%	1.75%

- a. \$3,576.28
- b. \$3,676.28
- c. \$3,766.28
- d. \$3,776.28

- _____ 16. Dr. Drake is thinking about retirement and decides to sail around the world once he retires. He buys a sailboat for \$125,000. He borrows the money at an APR of 7.5% for five years. What will his total interest be? (Hint: Find the monthly payment first)
- | | |
|----------------|----------------|
| a. \$46,875.30 | c. \$25,284.61 |
| b. \$36,875.40 | d. \$17,388.80 |
- _____ 17. Jackson and Kate Jones do not pay their credit card in full each month, so they incur finance charges. On their last credit card statement, the average daily balance is \$875 and the monthly periodic rate is 2.25%. What should be the finance charge on the statement?
- | | |
|------------|-------------|
| a. \$19.69 | c. \$87.50 |
| b. \$20.25 | d. \$196.88 |
- _____ 18. What is the monthly periodic rate on a loan with an APR of 18.6%?
- | | |
|----------|----------|
| a. 0.62% | c. 1.55% |
| b. 0.93% | d. 1.86% |
19. How does a credit card company calculate finance charges on a credit card?
20. Jim wants to buy a computer. The total cost is \$1,180. If he can save \$60 a month, how long will it take for him to save up for the computer?
21. Rick carries a balance on his credit card each month. Today is the first day of the new, 28-day billing cycle. The current balance is \$2,360 and the APR is 21%. Rick is buying a friend an expensive gift that costs \$1,500 that he plans to put on his credit card. This will be his only purchase this month. How much in finance charges can he save by making the purchase on the last day of the billing cycle versus the first day of the billing cycle?
22. Trey is taking out a loan for \$85,000. It is a 20-year loan with an APR of 5.85% What will his monthly payment be?

23. According to the credit calendar below, what is the average daily balance?

June \$ 640.00 10	\$ 640.00 11	\$ 640.00 12	\$ 640.00 13	\$ 640.00 14	\$ 640.00 15	\$ 640.00 16
\$ 640.00 17	+125.00 \$ 765.00 18	\$ 765.00 19	\$ 765.00 20	\$ 765.00 21	\$ 765.00 22	+55.00 \$ 820.00 23
\$ 820.00 24	\$ 820.00 25	-100.00 \$ 720.00 26	\$ 720.00 27	\$ 720.00 28	\$ 720.00 29	\$ 720.00 30
July \$ 720.00 1	\$ 720.00 2	\$ 720.00 3	\$ 720.00 4	\$ 720.00 5	\$ 720.00 6	\$ 720.00 7
\$ 720.00 8	\$ 720.00 9					

24. Loretta was on vacation when her wallet was stolen. By the time she reported her 3 credit cards missing, the criminal had charged over \$10,000 on each card. How much of this will Loretta have to pay?
25. Miriam and Dave want to borrow \$25,000 to put an addition on their house. They went over their budget, and they can afford to pay \$450 a month. If the bank offers them a home improvement loan with an APR of 6.3%, what should the length of the loan be so they can afford the monthly payments?
26. Malika has a credit card balance of \$321. Her available credit on this card is \$4,679. What is her credit line on this card?
27. Yoshi carries a balance on her credit card each month. In May, she decides she wants to use her card to buy a new dishwasher. In which part of the billing cycle should she make her purchase in order to keep her finance charges to the minimum?
28. Jamal is going to borrow \$14,000 from his credit union to buy a used car. The APR is 7.0% and the length of the loan is 4 years. How much will Jamal pay in interest? (Hint: Find the monthly payment first)