

Objective 5.01 – Understand Credit Management

I. MAIN TYPES OF CREDIT

- A. Consumer credit – credit used by _____ for _____ reasons
- B. Commercial credit – credit used by _____
- C. Credit is an _____ to obtain _____, goods or services _____ in exchange for a _____ to _____ in the _____.
- D. Types of credit accounts
1. Charge Account is a _____ between _____ and _____. Charge accounts allow _____ (customers) to _____ goods or services from suppliers (_____) and _____ for them at a _____ date.
 - a. Deadbeats: Pay credit card bill _____ month with no _____. You want to be a deadbeat!!!!
 - b. Charge accounts are the most _____ type of short-term or _____ credit.
 - c. Types of Charge Accounts
 - i. Regular charge accounts _____ that you pay for _____ in _____ within a _____ period of _____. Example: a charge account with an electrician who re-wired a house
 - ii. Revolving Charge Accounts allow you to _____ or charge up to a certain _____ of _____ (credit _____) and pay back a _____ or the _____ balance. Example: a charge account with Duke Power utility company.
 - iii. Budget charge accounts allow you to pay for _____ items in _____ payments spread out over a period of _____, 6 months same as _____ Example: home equity credit line
 2. Credit cards – allow debtors (_____) to receive goods and services from suppliers (_____) and pay for them later.
 - a. Bank = MasterCard and Visa; Travel and Entertainment = American Express and Diners Club; Oil Company = BP and Exxon; Retail Store = Belk and American Eagle
 - b. Single purpose: can only be used to buy goods or services at the _____ that _____ the card
 - c. Multipurpose: Similar to a _____ charge account; may be used at _____ locations
 - d. Travel and Entertainment: Similar to a _____ charge account; must be paid _____ each month
 3. Installment Sales Credit is a _____ issued by the _____ that requires _____ payments at _____ times such as _____ or _____.
 4. Consumer Loans require _____ to make _____ payments of a specified _____ for a _____ of _____.
 5. Credit types: Student, mortgage, automobile, etc.
 - a. Secured vs. Unsecured: Secured loans are _____ by _____ (help _____ the _____ of a loan).
 - b. Closed vs. Open Ended: Closed-end credit is used for a _____ purpose and involves a _____ amount of _____. Open-ended gives you a certain _____ on the amount of money you can _____
 - i. Cosigner: person responsible for the _____ of a loan if the _____ party does _____ pay.
 6. Business/Government forms of credit: Bonds – written _____ to repay a _____ with interest on a specific _____. The buyer of the _____ is considered the _____
 - a. Corporate Bond – usually used to _____ building and _____

- b. Municipal Bond – State and _____ governments use these to _____ *projects*.
- c. Savings Bonds – sold by the _____ government.

E. Other sources of credit for businesses:

- 1. Small Business Administration – offers a number of _____, technical and _____ programs to help businesses.
- 2. Credit Bureau – An _____ that collects _____ on how promptly people and _____ pay their _____ Information retrieved from _____, finance companies, stores, credit _____ companies and other _____

F. Definitions:

- 1. Trade Credit: _____
- 2. Loan credit: _____
- 3. Sales credit: _____
- 4. Finance charge: _____
- 5. Down payment: _____
- 6. Installment loan: _____
- 7. Promissory note: _____
- 8. Collateral: _____
- 9. Co-signer: _____

G. Who uses credit?

- 1. Terms:
 - a. Credit is the _____ of using someone else's _____ for a period of time.
 - b. Creditor – one who _____ on _____ or makes a _____
 - c. Debtor – anyone who _____ on _____ or _____ a loan. Obligated to _____ back the loan.
 - d. Usury Laws: _____ the amount of _____ that can be charged.
- 2. Why use credit?
 - a. Convenience
 - b. Immediate _____
 - c. Emergencies

II. COMMON ADVANTAGES AND DISADVANTAGES OF BUSINESSES USING CREDIT

A. Advantages

- 1. Establishing _____ credit _____
- 2. Keeping business _____ from personal expenses
- 3. Minimizing _____ and receipts
- 4. Keeping _____ of what _____ are sending
- 5. Earning _____
- 6. Growth of the _____ - buying goods will help the economy _____

B. Disadvantages

1. Experiencing _____ of _____ records/databases
2. By _____
3. Overusing _____
4. Credit _____ - _____ paid on balance

C. Result of overuse:

1. Repossession = _____ of property because of failure to _____ loan.
2. Bankruptcy = Legal procedure for _____ a business which cannot fully pay its debts out of its current _____.

III. COST OF CREDIT

A. Using someone else's _____ has a _____

1. _____ is the cost of using _____ money.

B. Factors for _____ interest include:

1. Principal **P** = _____ of the loan
2. Interest Rate **R** = Percent of _____ charged or earned
3. Time **T** = Length of time for which _____ will be charged, usually expressed in _____ or _____ of years
4. Formula for computing simple interest: _____

C. How is time determined for a loan for each of the following lengths?

1. Years = _____ by the _____ of years
2. Months = multiply by the _____ of the year. Such as 2 months = $2/12$.
3. Days = _____ of the year such as $30/160$

D. How is the _____ date calculated?

1. Months – the maturity date is the _____ day of the month that the loan was _____
2. Days – determine the _____ the loan was made, and then count the _____ number of days of maturity.

E. How is a decreasing loan payment calculated?

1. Interest is calculated on the _____ of the loan that is _____

F. What is disclosed in Annual Percentage Rate (APR)?

1. Percentage _____ of _____
2. Service _____

G. Cost of credit terms:

1. Interest Rates - _____ that is applied to debt.
2. Principal - Amount of money _____
3. Time Factor - _____ of time for which interest will be _____
4. Maturity Date - _____ on which a loan must be _____
5. Finance Charge or Fees - _____ of credit stated in a _____ figure
6. Annual Percentage Rate (APR) - Indicates how much credit _____ on a _____ basis.
7. Grace Period - Time period during which _____ finance charges will be _____ to an account.
8. Cash Advance - _____ money on a _____ card.

IV. MAIN FACTORS EXAMINED FOR GRANTING CREDIT

A. Creditors examine several factors about _____ debtors when deciding whether to _____ them _____ such as.....

B. The Four C's of Credit

1. Character = _____ to pay a debt when it is _____ How _____ debt obligations were _____
2. Capacity = refers to how _____ debt can _____ be handled
3. Capital = current _____ assets that _____ be used to _____ debt if _____ was to become _____
4. Collateral = _____ to help _____ that the creditor will be _____

C. Credit worthiness terms:

1. Credit history = indicates the _____ of debt you have and your _____ history
2. Capital = how much you _____ beyond what you _____
3. Credit limit = _____ amount you can _____
4. Co-signer = _____ responsible for a _____ if you, the _____ debtor, do _____ pay

D. Process of obtaining credit:

1. Credit Application

- a. a _____ used by _____ to obtain _____ from applicants in order to make a decision about _____ credit.
- b. Should be filled out _____ accurately and _____.
- c. Requires _____ of applicant, which indicates _____ information is _____
- d. Credit data makes up the _____ that applicants provide on credit applications.
- e. Documentation of credit data may be _____ by:
 - i. Employers (former and _____). Types of data include employment dates and _____
 - ii. Financial _____. Types of data include _____ and checking account information
 - iii. Personal _____. Type of data includes manner how _____ business is _____
- f. Information provided by _____ Bureaus
 - i. Credit bureaus _____ lenders credit information about credit _____ such as _____ records, payment _____, and if any actions has been taken to _____ overdue _____

V. CREDIT DOCUMENTS

A. Credit documents – checking loan features and credit activities for _____ minimize potential credit _____ . Two commonly used credit _____ that assist with _____ credit problems are

1. Credit contract – legal _____ documents that allow _____ to use _____ to obtain goods and services.

a. Debtors should know the _____ of the credit contract _____ signing such as:

i. Amount of finance _____

ii. Repairs _____

iii. Add-on features

iv. Reduction of finance charge if contract _____ in full prior to _____ date

v. Receive the _____ of the contract

vi. _____ Conditions

2. Statement of account

a. Comes once credit is _____ and purchases are made on _____ .

b. Mailed _____ and includes _____ of transactions completed during the _____ period.

c. Information included:

i. _____ Due

ii. amounts _____ or _____ during the billing period

iii. current _____

iv. minimum amount of next _____

B. Underwriting - _____ loan for _____

1. Consumer Reporting Agencies – company that _____ and keeps records on _____ payment habits; used to evaluate _____

2. Examples: Equifax, Experian and TransUnion

C. Closing a loan and funding

1. Real estate

a. meeting with _____ financial _____ and _____ to sign all documents

b. attorney files documents indicating a _____ on the _____

c. 3 days after _____ funds are _____

2. Auto or personal

a. car _____ or lending _____ institution will _____ all documents indicating a _____ on the property

b. financial institution _____ all documents

VI. CREDIT REGULATIONS

A. Credit regulations – exist to _____ rights of credit _____ and rights of credit _____ from _____ and _____ practices.

1. **Truth in Lending Law** requires _____ to reveal the _____ of credit (APR and _____ charge) and _____ before _____ an application or contract.

2. **Equal Credit Opportunity Act** allows credit applications be _____ on financial _____ of credit applicants. The _____ areas of responsibilities are low _____, large _____, and a poor _____ record.
3. **Fair Credit Billing Act** requires creditors to _____ billing _____ promptly.
4. **Fair Credit Reporting Act** allows individuals to _____ any information shared by credit reporting _____ with potential creditors and _____. Individuals also may _____ any incorrect credit information.
5. **Consumer Credit Reporting Reform Act** requires that the credit _____ agency must be able to _____ that credit information they provide is _____.
6. **Fair Debt Collections Act** prohibits _____, harassing, and unfair practices for _____ debt from debtors.
7. **Credit Card Accountability, Responsibility, and Disclosure Act** is an amendment to the _____ Act. The act institutes _____ and _____ practices of providing credit.
8. **FTC: Federal Trade Commission** _____ laws on credit
9. **CARD Act:**
 - a. Inform customers of _____ of cost of credit not less than _____ days _____ to _____ date.
 - b. Provides information about _____ it would take to _____ a loan if _____ payments are paid.
 - c. Protects potential credit consumers under the age of _____ who must have a _____ with a _____ to repay debt of the consumer.

VII. CREDIT ASSISTANCE

- A. Credit assistance is available to _____ or _____ credit problems of credit users.
- B. Credit assistance available includes:
 1. Debt repayment plan – An _____ between a _____ and _____ that allows the _____ to pay off a debt with more _____ payment plan.
 2. Credit counseling – provides _____ on actions to take in order to _____ debt
 3. Bankruptcy – may be used by _____ to _____ debt or amount owed to _____. Legal process in which some or _____ of the _____ of a debtor are _____ among the _____ because the _____ is _____ to _____ his or her debts.
 - a. Chapter 7 (_____) – Draw up a _____ listing _____ and _____. Most of the debtor's _____ are _____ to pay off creditors. _____ release debt on _____ child support, _____, fines, _____ loans, and _____ fees.
 - b. Chapter 11 – (_____) Businesses Only
 - c. Chapter 13 - Propose a plan for using _____ earnings and assets to _____ debts over a period of time.
 - d. Effects of bankruptcy – kept on file with credit bureau for _____ years. Affects credit rating, _____ extensions of credit, loss of _____