

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

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?

**EXCEL PROBLEMS**

Use Excel to solve the problems below and email the spreadsheet as an attachment.
MAKE SURE TO USE FORMULAS IN YOUR WORK!
(don't just type the answers)

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?