

LOAN CONSIDERATIONS

Person:

This factor considers the person; their reputation, their community standing, their character.

Payment:

This factor considers how the payment will be made and if the payment is similar to the nature of the loan.

Performance:

This factor considers how have other debts of the borrower paid.

Protection:

This factor considers how will the lender get the money back if the borrower stops paying,

Prospects:

This factor evaluates the probability that the loan will be repaid or will continue to be paid in the future.

Application Problems and Key

You have a choice between three credit cards:

- (a) Offers no credit line and no interest if you pay the balance within 30 days. It charges 21% if you don't pay by then. There is a \$50 annual fee
- (b) Offers a \$5,000 credit line, charges 12% and no annual fee.
- (c) Offers no credit limit, charges 13% and gives 2% cash back on purchases.

Which card would you choose if:

- You have a \$1,000 balance and are not charging anything else
- You do not have a balance and expect to make nonrecurring purchases and expect to pay them in two months
- You have a business account which pays you back with in 30 days, and you need a temporary source of funds.

b, c,a

---You have a bank account with \$5,000 earning 2% interest. You have planned a vacation which will cost \$2,000. You plan to pay for the vacation with a credit card costing 12% and pay it off over 5 months. Explain the difference between this method of financing, or taking the funds from the account. Show all calculations.

The credit card would cost approximately \$100 in interest. You would lose approximately \$17 in interest from Savings.

---You want to purchase a used car for \$5,000. The financing options are 8% for 3 years (\$156.68 per month) , 7% for 4 years (\$119.73 per month), and 6% for 5 years (\$96.66 per month). Explain and show the differences in these borrowing options.

The total payments for

8% over 3 years would be \$5,640
7% over 4 years would be \$5,747.04
6% over 5 years would be \$5,799.60