

NAME: _____

SCORE: _____/50 points

Multiple Choice: Read each item carefully; then select the best answer. (1 point each)

- ___ 1. What is the guideline for the maximum amount you should owe each month for loan payments (not including a home loan payment)?
- 10 percent of monthly gross income
 - 10 percent of monthly net income
 - 20 percent of monthly gross income
 - 20 percent of monthly net income
- ___ 2. Which is not a type of credit?
- Car loan
 - Car registration
 - Phone service
 - Credit card
- ___ 3. Madeline is comparing her options to borrow \$5,000 to buy inventory and equipment for her new sub sandwich shop. Which loan appears to be the best deal? (Hint: Use the simple interest formula to estimate the interest.)
- 7 percent interest loan due in two years
 - 8 percent interest loan due in 18 months
 - 10 percent interest loan due in one year
- ___ 4. Suki will soon turn 18 and wants to move into her own apartment in a few years. But she is worried that she won't be able to rent an apartment without any credit history. What can Suki do to start building a good credit history?
- Rent an apartment with a friend who already has signed a lease.
 - Continue to use her debit card responsibly, being careful to not overdraw on the account.
 - Close her checking account to avoid bouncing a check.
 - Get and use a store credit card or major credit card and pay off amounts due each month.
- ___ 5. Which of the following agencies provide free credit reports for consumers?
- Equifax, credit unions
 - Credit unions, banks
 - Experian, Credit Reports Association
 - TransUnion, Experian
 - None of the above; you must pay a fee for any credit report

- ___ 6. Credit experts recommend that you check the status of your credit reports at least
- every time you apply for a loan or credit card
 - when you apply for your first loan or credit card
 - once a year
 - once every five years
- ___ 7. Who may review your credit report without your permission?
- Your parents after you are 18 years old
 - Your current employer
 - The car salesperson you talked to when you inquired about a loan to buy a car
 - Your doctor
- ___ 8. Which of the following can impact your credit score?
- Getting bonus pay from your employer
 - Living with your parents to cut down on monthly expenses
 - Paying cash for a used car
 - Making a late car loan payment
- ___ 9. If you use a credit card to buy something online from the Internet, look for the following on the Web site page:
- 
 - "SECURE"
 - "APPROVED BY THE FEDERAL TRADE COMMISSION"
 - 
- ___ 10. Who is responsible for reporting identity fraud?
- The victim of fraud
 - The company that accepted a stolen credit card or false information
 - Any of the three credit reporting agencies
 - The police
- ___ 11. You can't find your credit card, and you think it may have been stolen. What should you do?
- Wait at least 90 days to report the card as missing or stolen in case you find the card
 - Immediately apply for another card to cancel out the stolen card
 - Contact your bank for a replacement
 - Call the credit card company as soon as you are aware the card is missing

Short Answer: Read each item carefully; then write an answer based on what you learned about using and managing credit. [3 points each]

12. Imagine you are comparing loans to buy a car. List at least three things you should compare to help you determine if which loan is right for your situation.

a. _____

b. _____

c. _____

13. List at least three pieces of personal information you should be prepared to provide to a lender when you apply for a credit card or car loan.

a. _____

b. _____

c. _____

14. List three strategies you can apply as you turn 18 to build a good credit history.

a. _____

b. _____

c. _____

15. What can you do to deter someone from using your personal information to avoid becoming a victim of identity theft?

a. _____

b. _____

c. _____

16. Use the 20-10 Rule to calculate the debt limits for the income amounts below. If you earn any income now, also compute your debt limits. [6 points total]

Annual Net Income	Maximum Total Debt	Maximum Monthly Payments
\$3,400		
\$20,500		
\$45,000		

17. Are these situations appropriate or inappropriate ways to use credit? Place a check in the correct column to show your decision. In the right column, write at least one sentence to justify your answer. [Each situation response is worth 2 points]

Situation	Appropriate (✓)	Inappropriate (✓)	Explanation
Take out a one-year loan to buy a mountain bike.			
Borrow \$5,000 to pay for a wedding reception.			
Use store credit to buy a new refrigerator to replace one that is no longer working.			
Sign a five-year loan for a used car.			
Set up a six-month payment plan to pay hospital X-ray fees after being injured in an accident.			

True/False: Read each statement carefully. Show whether the statement is True (T) or False (F) by writing either “T” or “F” in the blank space. [1 point each]

- ___ 18. When items are bought on credit and paid for over a long period of time, the cost to the buyer is the same as if the items were bought with cash.
- ___ 19. If your payment for your full credit card is received by the lender before the due date, you will not owe any interest.
- ___ 20. Using a debit card for purchases is a convenient way to buy now and pay later.
- ___ 21. The maximum amount you can charge on a credit card is called the capacity.
- ___ 22. Under the Fair Debt Collection Act, creditors are allowed charge a new debt collection fee without informing the borrower notice.

Matching: Read each statement carefully. Select the term that best matches the statement by writing the letter of the matching term in the blank. [1 point each]

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|---|------------------|
| ___ 23. The total amount of money you owe other people. | A. APR |
| ___ 24. A period of time before interest starts accumulating on charged purchases. | B. Capital |
| ___ 25. What you pay to use another person’s money. | C. Collateral |
| ___ 26. A reference of how you have used credit in the past. | D. Contract |
| ___ 27. Something of value that lenders can repossess if you are unable or unwilling to repay a loan as promised. | E. Credit |
| ___ 28. A way for you to buy something now and pay for it later. | F. Credit Report |
| | G. Credit Score |
| | H. Debt |
| | I. Garnish |
| | J. Grace Period |
| | K. Interest |

NAME: KEY SCORE: _____/50 points

Multiple Choice: Read each item carefully; then select the best answer. (1 point each)

- b_ 1. What is the guideline for the maximum amount you should owe each month for loan payments (not including a home loan payment)?
- 10 percent of monthly gross income
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- b_ 2. Which is not a type of credit?
- Car loan
 - Car registration
 - Phone service
 - Credit card
- c_ 3. Madeline is comparing her options to borrow \$5,000 to buy inventory and equipment for her new sub sandwich shop. Which loan appears to be the best deal? (Hint: Use the simple interest formula to estimate the interest.)
- 7 percent interest loan due in two years [$\$5,000 \times .07 \times 2 \text{ years} = \$700 \text{ total interest}$]
 - 8 percent interest loan due in 18 months [$\$5,000 \times .08 \times 1.5 \text{ years} = \$600 \text{ total interest}$]
 - 10 percent interest loan due in one year [$\$5,000 \times .1 \times 1 \text{ year} = \$500 \text{ total interest}$]
- d_ 4. Suki will soon turn 18 and wants to move into her own apartment in a few years. But she is worried that she won't be able to rent an apartment without any credit history. What can Suki do to start building a good credit history?
- Rent an apartment with a friend who already has signed a lease. [Although this is a way to be able to live in an apartment, this won't help Suki build a credit history because her name won't be on the lease.]
 - Continue to use her debit card responsibly, being careful to not overdraw on the account. [No, a debit card has no impact on a credit history because it doesn't involve using credit.]
 - Close her checking account to avoid bouncing a check. [This won't impact Suki's credit history. She is better off keeping her account to have a relationship with a bank or credit union where she might later request a credit card or loan.]
 - Get and use a store credit card or major credit card and pay off amounts due each month.
- d_ 5. Which of the following agencies provide free credit reports for consumers?
- Equifax, credit unions
 - Credit unions, banks
 - Experian, Credit Reports Association
 - TransUnion, Experian
 - None of the above; you must pay a fee for any credit report

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- __d_ 7. Who may review your credit report without your permission?
- Your parents after you are 18 years old
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- Getting bonus pay from your employer
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- __a_ 10. Who is responsible for reporting identity fraud?
- The victim of fraud
 - The company that accepted a stolen credit card or false information
 - Any of the three credit reporting agencies
 - The police
- __d_ 11. You can't find your credit card, and you think it may have been stolen. What should you do?
- Wait at least 90 days to report the card as missing or stolen in case you find the card
 - Immediately apply for another card to cancel out the stolen card
 - Contact your bank for a replacement
 - Call the credit card company as soon as you are aware the card is missing

Short Answer: Read each item carefully; then write an answer based on what you learned about using and managing credit. [3 points each]

12. Imagine you are comparing loans to buy a car. List at least three things you should compare to help you determine if which loan is right for your situation.

any of the following responses:

- Annual Percentage Rate (APR)
- interest rate
- minimum down payment required
- any financing fees
- length of loan
- penalties or any fees for early or late payments
- the monthly payment
- the total cost including interest and financing fees

13. List at least three pieces of personal information you should be prepared to provide to a lender when you apply for a credit card or car loan.

any of the following responses:

- full name
- social security number
- date of birth
- phone number
- where you live
- residence status (rent, own home)
- rent or home loan payments
- annual or monthly income
- amount requested

14. List three strategies you can apply as you turn 18 to build a good credit history.

any of the following responses:

- pay bills on time
- have and use a credit card responsibly, paying any balance due each month
- have steady income
- only co-sign with someone you trust to be a responsible borrower
- check your credit report at least once a year for any inaccurate information
- only borrow what you can afford to repay (follow the 20-10 Rule for Debt guidelines)

15. What can you do to deter someone from using your personal information to avoid becoming a victim of identity theft?

any of the following responses:

- check your credit card statements and bank statements for any unauthorized transactions
- check your credit report annually for any activity you did not authorize
- only share your Social Security number with people you trust when necessary for tax reporting
- be careful about who knows your personal data (Examples: birth date, address, social security number, account numbers, passwords, security questions and answers)
- control privacy settings to limit who can see personal information online
- use strong passwords that contain a mix of numbers, symbols, and capital and lowercase letters
- do not respond to callers or messages requesting your personal data or account information unless you initiated the contact to conduct business
- sign up for email or text-messaging alerts to receive notices for any account changes
- request a fraud alert on your credit report

16. Use the 20-10 Rule to calculate the debt limits for the income amounts below. If you earn any income now, also compute your debt limits. [6 points total (1 point for each correct calculation)]

Annual Net Income	Maximum Total Debt 20% annual net income	Maximum Monthly Payments 10% monthly net income
\$3,400	$3,400 \times .2 = \$680$	$3,400 / 12 \times .1 = \$28.33$
\$20,500	$20,500 \times .2 = \$4,100$	$20,500 / 12 \times .1 = \170.83
\$45,000	$45,000 \times .2 = \$9,000$	$45,000 / 12 \times .1 = \375.00

17. Are these situations appropriate or inappropriate ways to use credit? Place a check in the correct column to show your decision. In the right column, write at least one sentence to justify your answer. [Each situation response is worth 2 points (1 point for correct checkmark, 1 point for acceptable explanation)]

Situation	Appropriate (✓)	Inappropriate (✓)	Explanation
Take out a one-year loan to buy a mountain bike.		✓	Unless the loan APR is low, the total cost of the loan will potentially far exceed the cost or value of the bike.
Borrow \$5,000 to pay for a wedding reception.		✓	A better option is to save money in advance to pay for the event in advance or immediately after to avoid having loan payments long after the wedding is over.
Use store credit to buy a new refrigerator to replace one that is no longer working.	✓		This is an example of using credit to buy now and pay later for an unexpected large expense that is considered a necessity. [Note: Accept an "inappropriate" if the student explanation refers to having an emergency fund on hand to cover this type of unexpected expense.]
Sign a five-year loan for a used car.		✓	This loan term is too long compared to the value of the used car and also considering that the car might not be in the owner's possession five years from now.
Set up a six-month payment plan to pay hospital X-ray fees after being injured in an accident.	✓		[Same as the refrigerator response.]

True/False: Read each statement carefully. Show whether the statement is True (T) or False (F) by writing either “T” or “F” in the blank space. [1 point each]

- F 18. When items are bought on credit and paid for over a long period of time, the cost to the buyer is ~~the same as~~ more than if the items were bought with cash
- T 19. If your payment for your full credit card is received by the lender before the due date, you will not owe any interest.
- F 20. Using a ~~debit~~ credit card for purchases is a convenient way to buy now and pay later. [Using a debit card is not a form of using credit because a debit card payment is withdrawn from the user’s bank account the same as when writing a check.]
- F 21. The maximum amount you can charge on a credit card is called the ~~capacity~~ credit limit.
- F 22. Under the Fair Debt Collection Act, creditors are not allowed charge a new debt collection fee without informing the borrower notice. [Creditors must reveal all terms, fees, and charges in advance.]

Matching: Read each statement carefully. Select the term that best matches the statement by writing the letter of the matching term in the blank. [1 point each]

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| <p><u> </u> <u>H</u> 23. The total amount of money you owe other people.</p> <p><u> </u> <u>J</u> 24. A period of time before interest starts accumulating on charged purchases.</p> <p><u> </u> <u>K</u> 25. What you pay to use another person’s money.</p> <p><u> </u> <u>F</u> 26. A reference of how you have used credit in the past.</p> <p><u> </u> <u>C</u> 27. Something of value that lenders can repossess if you are unable or unwilling to repay a loan as promised.</p> <p><u> </u> <u>E</u> 28. A way for you to buy something now and pay for it later.</p> | <p>A. APR</p> <p>B. Capital</p> <p>C. Collateral</p> <p>D. Contract</p> <p>E. Credit</p> <p>F. Credit Report</p> <p>G. Credit Score</p> <p>H. Debt</p> <p>I. Garnish</p> <p>J. Grace Period</p> <p>K. Interest</p> |
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