

## CHAPTER

# 16

## Credit

### Part 1: Content Review

#### Matching

*Write the letter of the correct term for each definition on the line provided.*

#### Terms

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|---------------------|----------------------|
| A. credit           | F. credit policy     |
| B. creditor         | G. credit report     |
| C. principal        | H. credit score      |
| D. finance charge   | I. credit risk       |
| E. unsecured credit | J. collection agency |

- \_\_\_\_\_ 1. A company that collects past-due bills for a fee.
- \_\_\_\_\_ 2. The total amount paid by a borrower to a lender for the use of credit.
- \_\_\_\_\_ 3. The amount of money borrowed.
- \_\_\_\_\_ 4. A numerical measure of a loan applicant's creditworthiness at a particular point in time.
- \_\_\_\_\_ 5. A record of credit history and financial behavior for a business or individual.
- \_\_\_\_\_ 6. An agreement between two parties in which one party lends money or provides goods or services to another party with the understanding that payment will be made at a later date.
- \_\_\_\_\_ 7. The party extending credit.
- \_\_\_\_\_ 8. Credit granted based on a signed credit agreement.
- \_\_\_\_\_ 9. A written set of guidelines used by an organization to determine how many and which customers will be approved for credit.
- \_\_\_\_\_ 10. The potential of credit not being repaid.

## Multiple Choice

*Place the letter of the correct answer to each question on the line provided.*

- \_\_\_\_\_ 1. The party receiving credit is known as the \_\_\_\_\_.  
A. creditor  
B. debtor  
C. principal  
D. credit agency
- \_\_\_\_\_ 2. One of the benefits of credit is \_\_\_\_\_.  
A. the opportunity to buy costly items  
B. interest charges  
C. finance charges  
D. credit risk
- \_\_\_\_\_ 3. Credit loans that require collateral are known as \_\_\_\_\_.  
A. secured credit  
B. unsecured credit  
C. open-end credit  
D. installment loans
- \_\_\_\_\_ 4. The finance charge for the use of credit has two parts: \_\_\_\_\_.  
A. interest and credit  
B. interest and principal  
C. interest and fees  
D. fees and APR
- \_\_\_\_\_ 5. The total amount paid for the use of credit is based on which of the following factors?  
A. Interest rate charged  
B. Amount of credit used  
C. Length of repayment period  
D. All of the above.
- \_\_\_\_\_ 6. Which of the following is *not* an example of a proprietary credit card issuer?  
A. Target  
B. ExxonMobil  
C. Visa  
D. Sears
- \_\_\_\_\_ 7. The three Cs of credit are character, capacity, and \_\_\_\_\_.  
A. consumer  
B. cash  
C. co-signer  
D. capital
- \_\_\_\_\_ 8. The movement of money into and out of a business is \_\_\_\_\_.  
A. cash flow  
B. capacity  
C. collateral  
D. capital

Name \_\_\_\_\_

- \_\_\_\_\_ 9. Property that a business uses to secure a loan is \_\_\_\_\_.  
A. capital  
B. conditions  
C. collateral  
D. cash flow
- \_\_\_\_\_ 10. Supplier financing and banking financing are two types of \_\_\_\_\_.  
A. open-end credit  
B. business credit  
C. installment loans  
D. unsecured credit

## Completion

*In the space provided, write the word(s) that best completes each of the following statements.*

- \_\_\_\_\_ 1. A loan for a specific amount that must be repaid with interest by a specified date or according to a specified schedule is \_\_\_\_\_ credit.
- \_\_\_\_\_ 2. A loan for a specific amount of money that is repaid with interest in regular installments is a(n) \_\_\_\_\_ loan.
- \_\_\_\_\_ 3. A schedule that shows the amount of interest and principal for each payment so a loan can be repaid with a specific period of time is a(n) \_\_\_\_\_.
- \_\_\_\_\_ 4. The \_\_\_\_\_ is the annual cost of credit charged by a lender.
- \_\_\_\_\_ 5. A(n) \_\_\_\_\_ credit card is one that can only be used in the stores of the company that issued it.
- \_\_\_\_\_ 6. A credit score is also known as a \_\_\_\_\_ score.
- \_\_\_\_\_ 7. A list of the individuals or businesses that owe money to a company is the \_\_\_\_\_.
- \_\_\_\_\_ 8. \_\_\_\_\_ is the owners' investment in a business.
- \_\_\_\_\_ 9. \_\_\_\_\_ is the ability of a business to repay a loan.
- \_\_\_\_\_ 10. Credit extended by a business to another business is called \_\_\_\_\_ credit.

Name \_\_\_\_\_

## Part 2: Concept Review

### Open Response

*Write your response to each of the following statements or questions in the space provided. Use complete sentences.*

1. What are four benefits provided by credit? Explain the risks of using credit.

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2. What is the advantage of using the annual percentage rate (APR) to measure the annual cost of credit charged by a lender?

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3. What are the potential benefits to a business of extending customer credit? What are the potential costs?

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Name \_\_\_\_\_

4. What is a credit policy? Identify the common elements of a credit policy.

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5. Establishing a good credit history makes it easier to obtain credit in the future. List the five factors that determine a FICO score. Explain how you can manage each of the factors to build and maintain a good credit score.

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Name \_\_\_\_\_

## Part 3: Math Skills

### Interest

Credit is an agreement between two parties in which one party lends money or provides goods and services to another party with the understanding that payment will be made at a later date. Credit is not free. The total amount paid for credit includes interest and any fees. Interest is based on the amount borrowed, the interest rate, and the length of time of the loan. Simple interest is one formula that is used to calculate the interest cost of a loan:

$$P \times R \times T = \text{Interest}$$

Where: P = amount borrowed

R = interest rate

T = length of time of loan

The amount the borrower must repay when the loan is due is the amount borrowed plus the interest:

$$P + \text{Interest} = \text{Repayment Amount}$$

*Answer the following questions involving interest.*

1. Reynold borrows \$15,000 to make improvements to his loading dock. The interest rate on the loan is 8 percent. The term of the loan is one year, during which time Reynold repays the amount borrowed plus interest. What is the interest on the loan? What is the repayment amount?

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2. Marc Jones borrows \$5,000 on his business credit line to purchase raw materials. The loan plus interest is repaid after 3 months, or 3/12 of one year. The interest rate on the credit line is 6 percent. What is the interest charge? What is the amount that is repaid?

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3. Jeanne Smith normally uses a business credit line to purchase supplies for her printing business. The interest rate on this line is 10 percent. A supplier offers Jeanne a special deal. She will be shipped \$20,000 of supplies, but will not have to pay for six months, or 6/12 of one year. The supplier will not charge interest. How much interest will Jeanne save by purchasing from this supplier?

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Name \_\_\_\_\_

4. RJ Industries ships \$50,000 of merchandise to a customer. RJ allows the customer to pay the bill within one month with no interest due. Interest is charged on any balance remaining after one month at a 5 percent annual interest rate. The customer pays \$10,000 after one month, and the remaining \$40,000 after the second month. How much interest does RJ charge the customer?

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5. Refer to the previous problem. The customer tells RJ that it will only purchase the \$50,000 of merchandise if it can repay after 3 months with no interest due. RJ agrees because it does not want to lose the sale. How much interest will RJ lose compared to its normal policy?

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Name \_\_\_\_\_

## Part 4: Communication Skills

### Writing

Analogies can be very helpful when making presentations to customers. An *analogy* is a comparison of two things based on their being alike in some way, though dissimilar in every other way.

#### Section I

The following is a list of incomplete analogies. Decide which word completes each analogy, and write the answers in the space provided.

- \_\_\_\_\_ 1. *Open* is to *close* as *near* is to \_\_\_\_\_.
- \_\_\_\_\_ 2. *Clothes* is to *closet* as *car* is to \_\_\_\_\_.
- \_\_\_\_\_ 3. *Lemon* is to *sour* as *candy* is to \_\_\_\_\_.
- \_\_\_\_\_ 4. *Referee* is to *basketball* as *umpire* is to \_\_\_\_\_.
- \_\_\_\_\_ 5. *Team* is to *play* as *crowd* is to \_\_\_\_\_.
- \_\_\_\_\_ 6. *Bird* is to *fly* as a *fish* is to \_\_\_\_\_.
- \_\_\_\_\_ 7. *Meow* is to *cat* as *bark* is to \_\_\_\_\_.
- \_\_\_\_\_ 8. *Sun* is to *day* as *moon* is to \_\_\_\_\_.
- \_\_\_\_\_ 9. *Knife* is to *cut* as *pen* is to \_\_\_\_\_.
- \_\_\_\_\_ 10. *Son* is to *father* as *daughter* is to \_\_\_\_\_.

#### Section II

Next, write ten of your own analogies in the space provided.

11. \_\_\_\_\_  
\_\_\_\_\_
12. \_\_\_\_\_  
\_\_\_\_\_
13. \_\_\_\_\_  
\_\_\_\_\_



Name \_\_\_\_\_

14. \_\_\_\_\_  
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15. \_\_\_\_\_  
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16. \_\_\_\_\_  
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17. \_\_\_\_\_  
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18. \_\_\_\_\_  
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19. \_\_\_\_\_  
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20. \_\_\_\_\_  
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