

Borrowing Money



Objective

In this lesson, you will

Loan, Principal, and Interest

loan = money you _____ and must _____

- different types of loans include home loans, car loans, personal loans, and college loans
- must be applied for
 - lender will assess creditworthiness (ability to _____ the loan)
- generally, the borrower must pay back principal along with interest
 - _____ = the original amount of money loaned to you
 - _____ = a percentage of the _____ charged for letting you use the money
- Most people prefer borrowing from a _____.
 - Consumer finance companies generally charge _____ less _____ more interest than banks.

Lesson Activity

Ken took out a loan for \$1,000 from his bank.

After one year, he had to repay it along with 15 percent interest.

His interest after one year was \$150.

principal	
interest paid	\$ 150
total amount repaid	

Interest Rates

annual percentage rate (_____) = the annual _____ of _____ charged for a loan


Types of Interest	
Fixed Interest Rate	Variable Interest Rate
The interest rate is fixed (_____ over time)	The interest rate can increase or decrease depending on _____ factors
Example: Carol got a loan at a fixed interest rate. She will pay the same amount every month.	Example: Bob got a variable rate loan. He may pay different amounts for some months during the loan period.

Banks borrow money from:

- people who _____ with them
 - ❖ the bank pays you interest on the deposited amount because
 - ❖ you are actually _____ them money
- other banks

Secured vs. Unsecured Loans

Lenders consider factors such as loan value, _____ of the loan, _____ of the borrower, and type of loan to classify loans into secured and unsecured loans.

Secured Loan	Unsecured Loan
based on (requires) _____  Key Term collateral = property or another asset the lender receives if the borrower cannot repay the loan.	based on _____ (lender does not ask for any _____)

Liens and Credit

lien = the right to sell collateral to _____ a loan

Example: Alice's family used their house as collateral, or _____, for the repayment of a mortgage.

The bank now has a lien, and if Alice's family fails to pay the mortgage, the bank will take ownership of the house and _____ it.

credit = the ability to make purchases _____ and pay _____

Example: David has taken out a credit card, which is similar to an _____ loan.

Summary

If you were offered a loan of \$250, what are some details you would need to know about the loan?