Homework

What Is Your Credit Report?
Credit reports are used by banks, credit card companies, and even some employers. They are very important as they can prevent you from buying a house or car later in your life and may even keep you from getting a job.

This is a true account of one single mother's experience purchasing a vehicle.

Linda already had a well-running car, but it was older with lots of miles. On the suggestion of her mother, she decided to buy a new one. They went to Bob's Auto Park and decided to purchase a used 2004 Ford Explorer for $17,258. Because of her low credit score, Linda's mom had to co-sign on the vehicle for her. The interest rate of her car was 22.79%, and her monthly payments were $445.95 for six years. Neither she nor her mother asked about the interest or considered how that would affect the end price of the car. Linda has been paying on her car for two years. She lost her job and got behind. Imagine her shock when she found out that she owes $17,565.79 - $307.79 MORE than the original cost of the car. After two years of paying, Linda was no longer able to make payments and is now $2,229.75 behind in her payments. The car is currently being repossessed.

How did this happen?

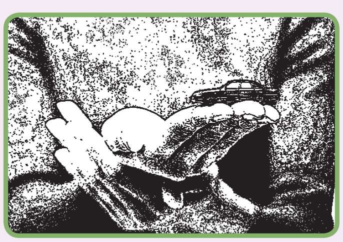
A buyer advocate (someone who helps advise buyers) was sought out for help. He explained that it was not unusual for people with low credit scores to buy at high interest rates. A low credit score can bring an interest rate of 18 to 25 percent. When that loan is paid off, it helps to raise the credit score so that the next time the buyer gets a loan, the interest will be lower. If it is not paid off, it further hurts the credit score. He then went on to explain that repossession can hurt the credit score for eight years or more.

When you accept a very high interest rate, here is an example of how this can happen:

Let's say that you get a car loan for $20,000 at a 20 percent interest rate for six years. After paying for six months, you fall behind in your payments.

Your situation would look like this for the first year of the loan:

Month	Principal Paid	Interest You Paid or Owe	Your Monthly Payments	What You Now Owe
1	$145.72	$333.33	$479.06	$19,854.28
2	$148.15	$330.90	$479.06	$19,706.12
3	$150.62	$328.44	$479.06	$19,555.50
4	$153.13	$325.93	$479.06	$19,402.37
5	$155.68	$323.37	$479.06	$19,246.69
6	$158.28	$320.78	$479.06	$19,088.41



Credit is good to help purchase a car, but make sure you can afford the payments with ease.

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Month	Principal Paid	Interest You Paid or Owe	Your Monthly Payments	What You Now Owe
7	$160.92	$318.14	missed	$19,424.55
8	$163.60	$315.46	missed	$19,758.02
9	$166.32	$312.73	missed	$20,088.75
10	$169.10	$309.96	missed	$20,416.71
11	$171.92	$307.14	missed	$20,741.86
12	$174.78	$304.28	missed	$21,064.14
Total	**$1,918.22**	**$3,830.46**	**$2,874.34**	**$21,064.14**

Notice that most of your monthly payment each month is interest. Even though you have paid nearly $3,000, you now owe over $21,000 on the car you bought for $20,000. And your credit is again ruined because you couldn't make the monthly payments. Even if you get back on track on payments, you will end up paying about $28,750 for your $20,000 car!

Now, let's apply this.

1. Jake and Bev walk into a car dealership and are immediately approached by a salesman, who is ready to tell them about all of the wonderful deals that they are offering that week. As they walk around the showroom, the salesman looks at Jake and asks how much he is looking to spend each month. Based on what you have learned about interest on auto loans, what are some questions that Jake should ask the salesman before answering that question?

2. Which is more important, the monthly payment or the end price of the loan including interest? Why?

Now, let's apply this.