

Chapter 6 – Consumer Credit

I-Summary

This chapter teaches you about the importance of consumer credit, including how to build, protect, and manage it. Consumer credit is the use of credit for personal needs, arranging to receive cash, goods, or services now, and then paying for them later.

A one-time loan that you pay back over a specified period of time in payments of equal amounts is called “closed-end” credit. A loan with a limit on the amount of money you can borrow for goods and services is called “open-end” credit.

Remember the five C’s that creditors use to determine who will receive credit:

1. Character
2. Capacity
3. Capital
4. Collateral
5. Credit history

Always consider the length of the loan, the amount of monthly payments, and the interest rate when selecting a loan or credit card.

To build and protect your good credit, always pay your bills and loans promptly, and manage your personal finances carefully. Also, correct mistakes related to your credit bills and credit reports immediately, and dispute any billing errors in writing, while paying the amounts that are not in question.

If your credit or identity is ever stolen, take the following four steps as soon as possible:

1. Contact all your credit card companies and make a report.
2. Close and open new bank accounts.
3. Change all PINs.
4. Notify law enforcement agencies and credit bureaus.

Also remember, when purchasing online, *never* share your PINs, Social Security numbers, or passwords.

To manage your debt problems, contact creditors or debt counseling services promptly before the problems get worse. Bankruptcy should always be a last resort.

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I-Quiz

1. What is a creditor?
 - A. an entity that lends money
 - B. a person in debt
 - C. a debt tracker
2. What is the income you receive composed of your take-home pay, allowance, gifts, and interest called?
 - A. regular income
 - B. gross income
 - C. net income
3. Which of the five C's of credit is the one that measures your past record of making payments?
 - A. capacity
 - B. character
 - C. capital
4. Which organization helps supervise debt-repayment plans?
 - A. Credit Counselors of America
 - B. Debt Repair
 - C. Consumer Credit Counseling Service
5. What is the total dollar amount that you pay to use credit called?
 - A. the annual interest rate
 - B. the finance charge
 - C. the average rate

Answer Key

1. A
2. C
3. B
4. C
5. B