

## **Chapter 26: How to Get and Keep Credit**

**I-Summary:** This chapter explains how to acquire and use credit. To acquire and use credit, it is important to develop a good credit history. Most people develop a credit history by applying for a credit card, being approved for it, using it to make purchases, and making payments on time. When applying for a credit card, a person should consider the annual percentage rate, fees, and the grace period for paying the money back without interest. To obtain a credit card, companies look at an applicant's capacity, character, and capital. When approved for credit, an applicant receives a credit limit for how much he or she can purchase each month. The applicant must pay back at least a minimum amount each month. There are differences between credit cards and other types of loans. Loans are money lent at interest. They are usually paid back in monthly installments. Most loans require collateral, such as property, to secure the loan. These types of loans are called secured loans. A fixed rate loan requires the same payment each month. A variable rate loan's monthly payments can vary over the life of the loan.

### **I-Quiz**

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

#### **Question 1**

What might happen to a consumer who uses credit irresponsibly?

- a. His or her credit history will improve.
- b. His or her interest rate will be lowered.
- c. His or her credit limit will be raised.
- d. His or her ability to make future purchases may be harmed.

#### **Question 2**

If the annual percentage rate is 15 percent, how much would you pay for every \$100 you owe?

- a. \$10 per year
- b. \$10 per month
- c. \$15 per month
- d. \$15 per year

### **Question 3**

Which term refers to a credit applicant's ability to repay a loan?

- a. capacity
- b. character
- c. capital
- d. grace period

### **Question 4**

When creditors ask for credit references or check with credit bureaus, what are they trying to determine about an applicant?

- a. capacity
- b. character
- c. capital
- d. grace period

### **Question 5**

Which term refers to the maximum amount a person can charge on a credit card?

- a. cash advance
- b. creditworthiness
- c. grace period
- d. credit limit

### **Answer Key**

**1.** The correct answer is D, his or her ability to make future purchases may be harmed. It may become difficult to obtain credit if you have a history of using it irresponsibly.

- 2.** The correct answer is D, \$15 per year. The annual percentage rate determines the cost of credit on a yearly basis.
- 3.** The correct answer is A, capacity. To determine an applicant's capacity to pay, creditors will verify the applicant's employment and income.
- 4.** The correct answer is B, character. Creditors may ask for credit references as well as personal or professional references to determine the person's character.
- 5.** The correct answer is D, credit limit. The credit limit is the maximum amount a person can charge. If a person pays his or her bill on time, most creditors will raise the person's credit limit.