

4.4 Loan Fundamentals

## *Student Activity Packet*

## UNIT: TYPES OF CREDIT

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Name:

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| **Students will be able to:**  * Interpret data to understand what types of debt the average American household has * Differentiate between amortized installment loans and revolving credit lines * Read an amortization table and understand how the payments are structured * Describe how Buy Now, Pay Later plans work   **NOTE:** Vocabulary for this unit can be found in the [NGPF Personal Finance Dictionary](https://docs.google.com/document/d/1YH07bp18mb2fLOlJqvRMpiEAJ0oodsZRzEhEHPwjEDo/edit#heading=h.z6ne0og04bp5) |

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| **""** | LEARN IT |

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## **EDPUZZLE:** [**Amortization**](https://edpuzzle.com/media/62b63b721f765140f30c549e)

Home mortgages, auto loans, and student loans are all typically structured as amortized loans. While the minimum monthly payment on a credit card changes each month, the monthly payment of an installment loan is the same every month until the debt is paid off. Watch this video and follow your teacher's directions to answer the questions either in your student activity packet or within the EdPuzzle itself.

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*NOTE: EdPuzzle videos shuffle answer choices and do not always match the order provided here.*

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1. **A fully amortized payment is split into which two components?** 
   1. The principal and the payment
   2. The principal and the interest
   3. The loan term and the interest
   4. The interest rate and the total interest
2. **Casey has an amortized loan payment of $400, and the interest they owe for that month is $50. By how much does Casey pay down the principal?** 
   1. $50
   2. $350
   3. $400
   4. $450
3. **As the months progress on an amortized loan...**
   1. The payments stay the same, but the principal is paid down more quickly
   2. The payments stay the same, but the principal is paid down more slowly
   3. The payment sizes decrease, but the principal is paid down at the same rate
   4. The payment sizes decrease, and the principal is paid down more quickly
4. **If you can afford it, why is it a great idea to pay MORE than your amortized payment on a car, home, or other loan? Select all that apply.**
   1. You will pay your loan off faster
   2. You will pay less total interest
   3. You will pay less total principal
   4. You will pay less money overall

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| **""** | DO IT |

## **ACTIVITY:** [**ANALYZE: Understanding Amortization**](https://docs.google.com/document/d/1DCerkouzVNqXPuuA7ZbFhX77i2-mYkxzzEYfuToQu3Q/edit)

Amortized loans are straightforward when it comes to making payments: The same amount is due every single month, and if you can make larger payments, you’ll pay the loan off quicker. But understanding exactly how the amortization table works and how those monthly payments are distributed is a little more complicated. Follow the directions on the worksheet to complete this activity.

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## **FINCAP FRIDAY:** [**What’s Buy Now, Pay Later?**](https://docs.google.com/presentation/d/13UkNrLy6WJkIdnaIt_hgtClJknncWk7dz-XHsNPPN-8/edit#slide=id.ga210c36efa_0_172)

In recent years, a different type of installment loan has become popular on online shopping checkout screens and even in some stores. It’s commonly referred to as “Buy now, pay later.” As your teacher progresses through the slides, answer these questions, just writing A, B, C, or D for questions 1 - 5.

1. **Question 1:**
2. **Question 2:**
3. **Question 3:**
4. **Question 4:**
5. **Question 5:**
6. **If Buy Now, Pay Later loans are just breaking your payment into 4 equal parts, how could this deal possibly become problematic to the borrower?**

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