



Introduction to Business  
Chapter 25 What is Credit


(A) credit, (B) charge accounts, (C) creditor, (D) revolving account, (E) debtor, (F) consumer credit, (G) installment loans, (H) interest, (I) commercial credit, (J) credit rating,

1. \_\_\_\_\_ A (n) \_\_\_\_\_ lends money or provides credit.
2. \_\_\_\_\_ A form of credit account, which allows one to borrow or charge up to a certain amount.
3. \_\_\_\_\_ Loans repaid in regular payments over a period of time are called.
4. \_\_\_\_\_ Credit used by business to buy goods, pay salaries, or buy property is called.
5. \_\_\_\_\_ The \_\_\_\_\_ is the one who borrows the money or uses the credit.
6. \_\_\_\_\_ Credit used by consumers for personal purchases is called.
7. \_\_\_\_\_ is the opportunity to obtain money, goods, or services now in exchange for a promise to pay in the future.
8. \_\_\_\_\_ Creditors usually charge \_\_\_\_\_, or a fee for using their money.
9. \_\_\_\_\_ Some factors that determine a person's \_\_\_\_\_ are income, current debt, and debt history.
10. \_\_\_\_\_ A short-term credit arrangement provided by a store or company to purchase their product is called. a \_\_\_\_\_.

Review What You Learned.

11. What is the cost of using credit?
12. What are the factors that determine a person's credit rating?

Federal Trade Commission : See the [FTC's](#) answer to credit scoring at the bottom of page 2.

<p><b>Your Credit Score</b> 551 - 950 351 - 550 150 - 350</p>	<p><b>Your Interest Rate</b> 5.66% 7.47% 9.29%</p>	<p><b>Do you know YOUR Score?</b> <b>Find Out Instantly!</b></p> 
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13. How does credit contribute to the growth of the economy?
14. Why does it often cost more to purchase an item on credit than it does when you purchase the item with cash?
15. What is the difference between a short-term, medium-term, and long-term loan?
16. Who usually borrows money from consumer finance companies?
17. Explain the differences between a regular charge account, a revolving charge account, and a budget charge account?
18. MasterCard® and Visa® are examples of what type of credit cards?
19. Why is it strongly recommended that you not use a “borrow until payday” loan as a source of credit?
20. How can offering credit become a disadvantage to a business?



Good credit sites

Kiplinger <http://www.kiplinger.com/personalfinance/basics/archives/2003/03/credit2.html?>

Money Matters for Students <http://www.smartcredittips.com/estab.html>

Investopedia <http://www.investopedia.com/terms/c/creditbureau.asp>

FTC <http://www.ftc.gov/bcp/online/pubs/credit/scoring.htm>

## Credit Scoring

Ever wonder how a creditor decides whether to grant you credit? For years, creditors have been using credit scoring systems to determine if you'd be a good risk for credit cards and auto loans. More recently, credit scoring has been used to help creditors evaluate your ability to repay home mortgage loans. Here's how credit scoring works in helping decide who gets credit — and why.

### What is credit scoring?

Credit scoring is a system creditors use to help determine whether to give you credit.

Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — a credit score — helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments when due.

Because your credit report is an important part of many credit scoring systems, it is very important to make sure it's accurate before you submit a credit application. An amendment to the federal Fair Credit Reporting Act (FCRA) requires each of the major nationwide consumer reporting companies to provide you with a free copy of your credit reports, at your request, once every 12 months.