Grade 7/8 Math Personal Finance

Loans – Payday Loans

Name: ____________________________________ Class: ______ Date: _______________________

Payday Loans are short-term loans that are typically are to be paid back as soon as two-weeks.

Google the definition of a Loan Shark. Write it below:

____

____

Follow this link to a website and fill in the answers as you go through the steps.

https://youtu.be/Ea2-qytKw6Q (you will also find it posted on my Math website.)

What does APR stand for?

____

Fill in the missing words based on what you see on the website.

A __________ is a sum of money provided temporarily on the condition that the amount borrowed will be repaid, usually with interest. When people borrow money, they are using money that belongs to someone else. The price or fee for using someone else's money is __________. You can think of interest as a way to compensate a lender for giving up other uses of the money for a time. For Max, dessert served as interest, but for most transactions interest is money. The amount of interest on a loan is often expressed as an ______________________, such as 5 percent, which is the percentage of the principal that must be repaid (in addition to the principal) over a specified time period.

An ______________________________ is the percentage cost of credit on an annual basis. Lenders are required by law to disclose the APR to borrowers. Consider this:

- The annual percentage rate (APR) may be different from the stated interest rate.
- APR is the __________________ to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front. APR is commonly used to compare loan programs from different lenders in order to help consumers make a better-informed choice. (Note: Rules regarding fees that must be included in APR are different for mortgage loans than for auto loans and short-term loans.)
- Although APR is a great way to measure the total cost of a loan, the actual monthly payment amount is a function of the amount borrowed, the interest rate and the length of the loan.

The interest being assessed on short-term loans of less than one year are often simply stated as a dollar amount rather than as an interest rate. The lender may say, "I'll lend you $200 for two weeks, with a $20 finance charge." The finance charge is a 10 percent interest rate being applied to the two-week loan.

Use the following steps to compute the annual percentage rate (APR) for a loan of less than one year. For example, calculate the APR for a consumer who borrows $500 for car repairs. The sum of the fees and interest charges is $50. The term of the loan is 21 days.

Step 1:	Divide the sum of the fees and interest charges by the amount financed. Example: $50 divided by $500.00 = ________
Step 2:	Multiply the answer by the number of days in a year. Example: .1 x 365 = _______
Step 3:	Divide the answer by the term of the loan in days. Example: 36.5 divided by 21 = ________________
Step 4:	Move the decimal point two places to the right and add a percent sign. Example: 1.7381 becomes ____________(rounded) to state the annual percentage rate.

Follow the same steps (or figure out your own steps) to answer the questions on the website.

What was the APR for Andrew's Loan for his car? _______________

What was the APR for Shondra's Loan for her books? _______________

What was the APR for Mario's Loan for his doctor's bill? _______________

What is the average loan according to the website? ___________________

What is it in Ontario (Google it): _________________________

What fees do a payday loan have? ___________________________________

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What is the average annual interest rate for payday loans? ________________

What percentage of borrowers is unable to repay their payday loans? ______

What percentage of payday loans go to repeat customers? _________

What do you think about payday loans? Who do you think uses them the most? Why do they use them? Do you think that they should be illegal?