

NAME: \_\_\_\_\_ CLASS PERIOD: \_\_\_\_\_

## Evaluating Three Loan Applications

Listed below are three loan applicants who are interested in buying a new car. Based solely on the information provided and their credit score, determine whether you would approve or decline their loan requests. There is no specific credit score for which lenders would deny a loan automatically, based only on a score. However, the credit score does provide useful information about the creditworthiness of the individual. If you decide to make a loan to the applicant, assign an interest rate appropriate for the applicant's score. Check your response and then write the reason for your decisions. Interest rates typically assigned to various credit scores are provided on the following page.

*All are borrowing \$10,000 for 48 months*

Status codes given at the end of the reports.

JANICE BROWN		Credit Score 450				
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Sears	2	2,016	24	838		R3
Dept. of Educ.	7	1,507		1,507	158	I5
Dept. of Educ.	2	512		512	512	I5
ABC Credit Card	8	3,000	29	1,363		R1
Record of Month	6			28	38	O3

\_\_\_\_\_ Approve    \_\_\_\_\_ Decline    \_\_\_\_\_ Not Sure    \_\_\_\_\_ Interest Rate

Why?

TITO SANDERS		Credit Score 770				
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Hometown Bank	24	11,000	60	5,350		I1
ABC Credit Card	6	2,500	36	0		O0
Dept. of Educ.	5	2,000	24	1,380		I1
XYZ Credit Card	12	3,000	24	495		R1

\_\_\_\_\_ Approve    \_\_\_\_\_ Decline    \_\_\_\_\_ Not Sure    \_\_\_\_\_ Interest Rate

Why?

EXERCISE

13.3

THEME 4 | Lesson 13: Applying for Credit

MARIA MARTINEZ			Credit Score 620			
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Hometown Bank	13	7,200	48	5,800		I1
ABC Credit Card	7	2,000	24	488		R1

\_\_\_\_\_ Approve    \_\_\_\_\_ Decline    \_\_\_\_\_ Not Sure    \_\_\_\_\_ Interest Rate  
 Why?

Status Codes

**Type of account**

- O = Open
- R = Revolving
- I = Installment

**Timeliness of payment**

- 0 = Approved, not used
- 1 = Paid as agreed
- 2 = 30 days past due
- 3 = 60 days past due
- 4 = 90 days past due
- 5 = 120 days past due
- 7 = Making regular payments under wage earner plan
- 8 = Repossession
- 9 = Seriously delinquent/bad debt (paid or unpaid; charged off account)

FICO SCORE	APR
720-850	6.098%
690-719	7.644%
660-689	9.059%
620-659	11.761%
590-619	15.478%
500-589	16.202%

## Evaluating Loan Applications

### **Janice Brown**

- \$10,000 loan Approved or Denied
- Reasoning for decision:
- Approved interest rate APR:
- Monthly interest rate: :
- Total owed at the end of the loan:
- Monthly payment over 48 months:

### **Tito Sanders**

- \$10,000 loan Approved or Denied
- Reasoning for decision:
- Approved interest rate APR:
- Monthly interest rate: :
- Total owed at the end of the loan:
- Monthly payment over 48 months:

### **Maria Martinez**

- \$10,000 loan Approved or Denied
- Reasoning for decision:
- Approved interest rate APR:
- Monthly interest rate: :
- Total owed at the end of the loan:
- Monthly payment over 48 months: