

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

## Sharp Financial Advisors

### Part 1: Your Job

You run a small consulting business, giving advice to people who are thinking about applying for credit. For a small fee, you offer your customers advice on whether they should apply for a loan. Your business has been successful because you understand the advantages and disadvantages of using various forms of credit. You ask your clients what is most important to their future success, and you compare the advantages of using credit to the disadvantages of using credit, according to the following general principles.

#### Advantages of using credit:

- Credit can help people acquire valuable assets.
- Credit can help people lead happier lives.
- Credit can help people in an emergency.

#### Disadvantages of using credit:

- People may use too much credit in relation to their income.
- Credit requires borrowers to pay interest to lenders; interest payments leave borrowers with less money to spend on things they may want to have now and until the loan is paid off.
- Misusing credit can put borrowers at a disadvantage, threatening their ability to qualify for loans in the future or requiring them to pay higher rates of interest on loans they may obtain in the future.

Bearing these general principles in mind, read the four cases described on the next two pages. After reading each client's case, answer the questions that follow.



**Part 2: The Four Cases****Client 1**

I am 17 years old and a high school senior. I have earned good grades in high school. I have been admitted to a good state university. I would like to go to college full-time and work only a few hours a week. With this schedule, I think that I can complete my college degree in four years. I am planning to major in chemical engineering. My college advisor has told me that chemical engineering is a hard major. My parents have no money to support me in college. I am planning to apply for aid and to use college loans to pay for my college tuition and books. I plan to live at home and work in the summer to earn spending money for use during the school year. I will be borrowing about \$50,000 in total. Should I apply for the loan?

- a. What is the main advantage of getting credit in this case?
- b. What is the main disadvantage of getting credit?
- c. Is the loan being used to purchase a valuable asset?
- d. Do you think the client is likely to be able to repay the loan?
- e. Do you recommend that this client apply for the loan? Explain.

**Client 2**

I am 18 years old. I attend the local vocational-technical school. My area of study is commercial heating and cooling. My school tuition is relatively low and I will complete my program of study in nine months. I can pay most of my expenses by working full-time in the summer and part-time during the school year. I am still living at home, and I plan to get an apartment of my own next year. I am an avid sports fan. I have a little 12-inch television set in my room. I'd like to use my credit card to buy a flat screen 38-inch television set at a cost of \$1,300.

- a. What is the main advantage of getting credit in this case?
- b. What is the main disadvantage of getting credit?
- c. Is the loan being used to purchase a valuable asset?
- d. Do you think the client is likely to be able to repay the loan?
- e. Do you recommend that this client apply for the loan? Explain.

**Client 3**

I am 21 years old and finishing my last year in college. I have been studying hard and have earned relatively good grades. My major is English. A small group of my friends want to bust out for spring break and take a one-week vacation in Florida. I have never really had a vacation while in college except for two trips with my family. If I book my reservations now, I can get relatively low air fare and hotel rates. In all, the trip will cost me about \$1,500. I am a little low on cash. I am planning to charge the \$1,500 on my credit card.

- a. What is the main advantage of getting credit in this case?
- b. What is the main disadvantage of getting credit?
- c. Is the loan being used to purchase a valuable asset?
- d. Do you think the client is likely to be able to repay the loan?
- e. Do you recommend that this client apply for the loan? Explain.

**Client 4**

I am 22 years old. I am just about to complete a two-year dental hygienist program at a local vocational school. My first-year pay will be about \$25,000 plus fringe benefits including health insurance and a 401k program. My workplace is 20 miles from my apartment and is not on a city bus route. The car I have has 225,000 miles on the odometer, and it burns more oil than gas. Yesterday, I noticed that I can see the road through a hole in the floor in front of the driver's seat! I have saved \$2,000 for a down payment on a new car, but I will need to borrow several thousand more to buy a new car that is fuel-efficient and dependable.

- a. What is the main advantage of getting credit in this case?
- b. What is the main disadvantage of getting credit?
- c. Is the loan being used to purchase a valuable asset?
- d. Do you think the client is likely to be able to repay the loan?
- e. Do you recommend that this client apply for the loan? Explain.