



Lesson 9—Handout 2

Cost of Credit

Shiloh, 19, High School Senior

Shiloh just graduated high school and has been accepted to a state university 300 miles from home. The cost of tuition, room and board are covered by grants and scholarships, but the meal plan, which is \$3,000 per year, books and additional living expenses are not covered.

The financial aid offer Shiloh received gives the option of taking a federal student loan up to \$9,500 per year to help cover the additional costs.

\$3,000 per year

\$5,000 per year

\$9,500 per year

Which would you choose? List the advantages and disadvantages of your choice.



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Cost of Credit (Cont.)

Reece, 19, Guest Services Clerk

Reece is currently working part time as a guest services clerk at a local hotel. As a part-time employee, Reece doesn't qualify for health insurance. After an accident in the kitchen at home, Reece received stitches at a local urgent care. The final bill was \$800, and Reece couldn't afford to pay the bill with cash nor has any family or friends to borrow money from. The three options Reece is considering are below.

Option 1: Pay the bill on a credit card and make fixed monthly payments for a year.

Option 2: Pay the bill on a credit card and make minimum monthly payments until the debt is paid off.

Option 3: Apply for a payment plan (loan) with the urgent care and make fixed monthly payments for 2 years.

Which would you choose? List the advantages and disadvantages of your choice.



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Cost of Credit (Cont.)

Avery, 22, Social Media Strategist

Avery recently moved to Houston, Texas, for a new job and is currently using a ride-sharing app to commute to work. The cost of using the ride-sharing app is about \$600 per month. Avery is considering purchasing a car and has budgeted \$500 per month for the payment and insurance. Below are the estimated costs of each choice.

| | 4-year loan | 6-year loan |
|------------------|-------------|-------------|
| Auto price: | \$14,000 | \$20,000 |
| Loan term: | 48 months | 72 months |
| Interest rate: | 5.3% | 6.7% |
| Down payment: | \$2,000 | \$2,000 |
| Monthly payment: | \$312.50 | \$338.11 |

Which would you choose? List the advantages and disadvantages of your choice.