**Chapter Notes: The Cost of Credit and Credit Worthiness**

*Read the third section, The Cost of Credit (pgs. 480-482), in your textbook, and answer the following questions.*

1. What are the six factors in determining the interest cost of credit?
2. What is the formula for the total cost of a loan?
3. What factors must be taken into consideration when calculating interest on a loan?
4. Why is having a good credit rating important?

*Read the fourth section, Credit Worthiness (pages 483-489), and answer the following questions:*

1. What is credit worthiness?
2. When applying for a loan, a lender evaluates a borrower’s credit worthiness by examining an individual’s or business’s character, capacity and capital – the three C’s of credit. Briefly describe how and why each of these is assessed. Identify the on questions a lender seeks to answer for each characteristic.

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| --- | --- | --- |
| Character | Capacity | Capital |
|  |  |  |

1. What is a credit rating?
2. List the actions that can influence whether a borrower’s credit rating is good or poor.

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| --- | --- |
| A good credit rating results when a borrower…. | A lower credit rating results when a borrower… |
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