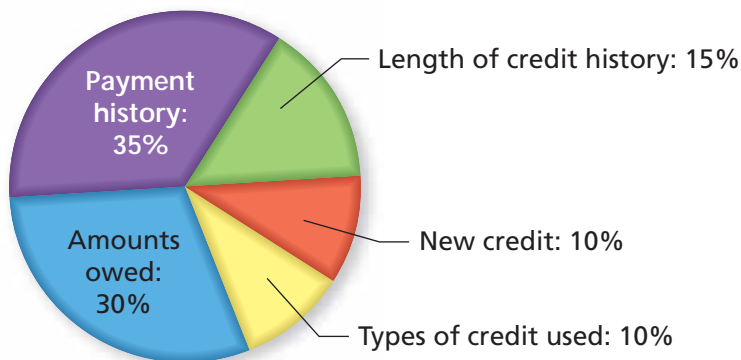


When you apply for a credit card or any other type of loan, the lending institution will check your credit score. Your credit score is a number from 300 to 850. The higher your score, the better your credit rating.

Excellent	760–850
Good	700–759
Fair	620–699
Poor	300–619

The two most important things in determining your credit score are (1) your past history of making payments on time and (2) your total indebtedness.

Factors Used to Determine Credit Score



EXAMPLE 4 Comparing Rates

You apply for a small business loan for \$30,000 for 6 years. If your credit score is 800 or greater, then the annual percentage rate is 6%. If your score is less than 800, then the rate is 8%. How much can you save in interest by having a credit score of 800 or greater?

SOLUTION

6% for 72 months:

$$M = 30,000 \left[\frac{0.005}{1 - \left(\frac{1}{1.005}\right)^{72}} \right]$$

$$= \$497.19$$

After 72 payments, you will have paid $72(497.19) = \$35,797.68$, of which \$5797.68 is interest.

8% for 72 months:

$$M = 30,000 \left[\frac{0.00667}{1 - \left(\frac{1}{1.00667}\right)^{72}} \right]$$

$$= \$526$$

After 72 payments, you will have paid $72(526) = \$37,872$, of which \$7872 is interest.

So, if your credit score is 800 or greater, you can save more than \$2000 in interest on this loan.

✓ Checkpoint

Help at Math.andYOU.com

You apply for a debt consolidation loan for \$40,000 for 5 years. If your credit score is 760 or greater, then the APR is 5%. If your score is less than 760, then the rate is 8%. How much can you save in interest by having a credit score of 760 or greater?