

## THE COST OF BORROWING

Name:  Class/Block:  Date:

So you found a good deal and made a purchase. Should you pay cash or use a credit card? When you use your credit card, the cost depends on when you'll pay it off, and what the interest rate is. *Unless you pay before the due date, credit adds cost.*

Use the example below to calculate how much it costs to use credit:

Martin is starting university and wants a laptop computer. He finds one for \$200 off the regular price – with taxes, it's \$1,498, just below his credit card limit. He has the money in a savings account, but he decides to put the computer on his credit card so he can use his savings for other purchases. When the statement arrives, he doesn't have enough money to pay it, so he makes the minimum payment – 10% of the balance owing, \$149.80. He doesn't pay for the computer for three more months, except for the minimum payment each month.

1. If the annual percentage rate (APR) on his card is 18.9%, what's the true cost of the computer when it's fully paid? (Hint: Work out the monthly interest rate, calculate the added interest, and subtract the payments each month. Use an electronic spreadsheet if you choose, but be prepared to explain the formulas used.)

	Month 1	Month 2	Month 3	Month 4
Balance				
Interest at 1.58% per month (18.9% per year divided by 12 months)				
Subtotal (balance + interest)				
Minimum Payment (10% of balance)				
New Balance Owing (subtotal less payment)				
Final Payment				
Total (final payment + minimum payments + all interest payments)				

2. Calculate the cost of the sum of the items on your character's credit card statement, using the interest rate showing on the statement. Assume that your character makes only the minimum payments for three months.

You can find a variety of credit card cost calculators on the web like the one on the FCAC website (For consumers, interactive tools section – <http://www.fcac-acfc.gc.ca/iTools-iOutilsCreditCardCalculator-eng.aspx>) or the Credit Canada website ([www.creditcanada.com/debtCalc.asp](http://www.creditcanada.com/debtCalc.asp)).

## BORROWING MONEY AND MY FUTURE GOALS (cont'd)

### WHAT CAN YOU DO TO AVOID DANGEROUS DEBT?

- Keep your credit rating positive. Pay your bills on time and don't take on debt you can't pay off.
- Go to reputable agencies like banks and credit unions for loans.
- Keep some savings ready for emergencies.
- If you run into credit problems, you can get free or low-cost advice from community and government organizations.
- Be on the watch for scams and rip-offs. You can get information about scams in your area from the Better Business Bureau ([www.ccbbb.ca](http://www.ccbbb.ca)) and similar organizations.

### ASSIGNMENT: CREDIT IN MY FUTURE

Fill in the following:

When I leave secondary school, I plan to:

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If I borrow money or use credit to do this, it could affect my education and career goals. Some pros and cons to borrowing are:

Pros: 

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Cons: 

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So I'll manage my credit by: 

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Discuss with your parents or another adult how you plan to manage credit in your transition from secondary school. Write a summary of your discussion.

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