

Cost of Borrowing with Different Types of Credit

(Cost of Credit Options for \$1,000 Purchase over 12 months)

TYPE	INTEREST RATE	PAYMENT OPTIONS	PROS	CONS	COST OF FINANCING
Bank Loan	8% - 12%	Weekly Bi-Weekly Monthly, Open	-Lowest interest rates -Payment flexibility	-Secured assets in jeopardy if delinquent on payments -Can affect credit rating	$1000 \times 12\% = 120 / 12 = 10.00$ first month Second month $1000 + 10.00 \times 12\% = 121.20 / 12 = 10.10$
Line of Credit	Prime+ (1-5%)	Weekly Bi-Weekly Monthly, Open	-Quick access to Emergency Funds -Payment flexibility	-Easier to increase debt load without careful consideration -Can affect credit rating	$1,000 \times 12\% = \$120.00 / 365 \text{ days} = .3288 \times 31 \text{ days} = 10.19$ first month Second month balance would be $1000 + 10.19 \times 12\% = 121.22 / 365 = .3321 \times 31 \text{ days} = 10.29$ Third month Balance would be $1000 + 10.19 + 10.29 \times 12\% = 122.45 / 365 = .3355 \times 31 \text{ days} = 10.40$
Major Credit Cards	10% - 21%	Monthly minimum payments of 3% of balance required	-Convenient -Payment flexibility -Air miles and other reward programs	Can affect credit rating	$1000.00 \times 21\% = 210.00$ first month Second month $1000.00 + 210.00 \times 21\% = 254.10$
Store Credit Cards	28%	Minimum monthly payment required of 3% of balance	-Convenient -Reward programs -Payment flexibility	Can affect credit rating -Much higher interest rates than major credit cards	$1000.00 \times 28\% = 280.00$ first month Second month $1000.00 + 280.00 \times 28\% = 358.40$
Finance Company Or Deferred Purchases "Do Not Pay Until"	32% - 39% Same as finance companies	May require minimum payment amounts Could include administration fees, or prepayment penalties	-Less stringent qualifying criteria compared to banks & credit unions Balances may be paid in full before interest is charged	-High interest rates -Can affect credit rating -Secured assets in jeopardy if delinquent on payments -security pledged without your realizing sometimes	$1000.00 \times 32\% = 320.00$ first month Second month $1000 + 320.00 \times 32\% = 422.40$ \$0.00 if paid in full by due date. If not, cost is same as finance company
Overdraft & Overdraft Protection	21%	Open up to contractual amounts borrowed	-avoid bounced check charges from retailer -party you wrote cheque to doesn't know it bounced	-fees charged for each bounced item, fees vary, may also be interest costs, possible daily recurring fees. Can end up in recurring cycle "Catch 22"	Annual interest rate / 365 days x length of loan x amount of the loan
Pay Day Loans	390% to 780+% annualized	-usually 2 week term --due in full at the borrower's next pay day	-can secure small cash loans	-most expensive type of borrowing -security pledged without you realizing sometimes -can end up in "Catch 22" -creditor has access to your bank acct -may incur bounced check fees	-typically \$15-\$30 per \$100 borrowed = borrowing fee + interest + processing fee + deferral fees possible