LifeBound

Dollars & Sense: The Real Costs of Borrowing Money

You need money and you need it fast. Using what you know from the loan option descriptions below, figure out what each loan option will cost and circle the least expensive option.

Loan Options and Definitions:

- **Payday Loan:** Small, short-term, high-interest loan intended to cover the borrower's expenses until the next payday. The payback period is typically two weeks and the annual percentage rate is usually 390 percent. The monthly interest rates are generally 15 percent. There are 26 two-week periods in a year, that's 15 percent x 26 or 390 percent APR.
- **Pawnshop Loan:** Small, short-term, high-interest loan requiring collateral that the pawnbroker holds. The pay back period is typically 30 days and the annual percentage rate is usually 195 percent. Monthly interest rates range between 10 and 20 percent. For this exercise, the interest rate for a 30 day payback period is 15 percent.
- **Credit Card.** The billing cycle for a credit card is typically 30 days. APRs vary from card to card. For this exercise, the APR is 19 percent.

1. Your car breaks down and not getting it fixed is not an option. The mechanic says it's going to cost $300. You don't have the cash to foot the bill so you have to choose a loan option. You figure you can pay the balance off in two months. Calculate the cost for each type of loan. Which loan option do you choose?

2. It's been a cold winter and the energy bill proves it. You owe $400 or they're going to shut it off, but you won't have the money until the end of the month. Calculate the cost for each type of loan. Which loan option do you choose?

3. It's your first semester of college and you didn't realize how expensive college texts were going to be! You have $650 worth of books for this semester. You'll have enough money to pay it off in six months. Calculate the cost for each type of loan. Which loan option do you choose?