True Costs of Credit

The total or "true cost" of a loan includes not only the original loan amount but also all the interest, spread out over the term or length of the loan.

*For example, let's say you have a car loan of $20,000, and your loan interest rate is **8%.** The term of the loan is 5 years. Your monthly payment would be $405.53, and after making all 60 payments (12 payments per year x 5 years = 60 payments), you've paid a total of **$24,331.67** for your car.*

*Using a different scenario, your car loan of $20,000 has the same 5-year term, but instead you're paying **14%** interest. Your monthly payment isn't that much higher ($465.37), but after 5 years, that same car has cost you **$27,921.90.** That's a difference of nearly **$3,600 in interest!** Just think: you could have saved that amount in your bank, and the money would be earning interest for you, instead of you paying interest to the creditor. What could you have done with the money that was saved?*

The following chart shows examples of the true costs of credit. In these examples, the term for the sample loan is 5 years (60 months), and the term for the mortgage is 30 years (360 months).

	Total Amount Financed	***Annual Percentage Rate (APR)***	***Length of Loan (Months)***	***Monthly Payment****	***Total Finance Charge***	***Total Cost***
Sample Loan	$10,000	10%	60	$212.47	$2,748.23	$12,748.23
	$10,000	25%	60	$293.51	$7,610.79	$17,610.70
Sample Mortgage	$100,000	7%	360	$665.30	$139,508.90	$239,508.90
	$100,000	12%	360	$1,028.61	$270,300.53	$370,300.53

* *The monthly payment for the mortgage examples includes principal and interest only. A typical mortgage payment includes principal, interest, taxes and homeowner's insurance (PITI). See Section 5 to learn more about mortgages and what is included in the finance charge.*