Focusing on Credit...

HOW TO FIGURE THE DOLLAR COST OF CREDIT

DOLLAR COST

TRUE INTEREST

How Much Does It Cost to Use Credit?

You pay money to use credit. Before you buy "on time" or borrow money, find out how much it will cost you.

To figure the dollar cost of credit:

1. Multiply the amount of each payment by the number of payments you will make.
2. Add the down payment and amount given for trade-in to your answer.
3. Subtract the cash price, including the sales tax. The answer is what you pay for credit.

Use this example to learn how to figure the dollar cost of credit. You want to buy a refrigerator. It would cost $290 (price plus tax) if you paid cash for it. You plan to make a down payment of $30. You say you will make 18 payments of $16.50.

**Step 1**

Multiply the amount of each payment by the number of payments.

\[
\begin{align*}
\text{Answer} &= \frac{16.50 \times 18}{13200} \\
                 &= \frac{1650}{13200} \\
                 &= 0.12468 \\
                 &\approx 0.1247
\end{align*}
\]

**Step 2**

Add the down payment to your answer.

\[
\text{Total "on time" price} = 0.1247 \times 18 \times 13200 + 30 = 327.00
\]

**Step 3**

Subtract the cash price from the "on time" price.

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\text{How much it costs you to use credit} = 327.00 - 290.00 = 37.00
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Always know how much credit costs!

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