CUSAVE How Loans Work

Review/Help Sheet

Five Important Facts About The Cost Of Credit

1) The higher the rate of interest, the more the loan will cost you.
2) Interest is added to your loan balance every single day.
3) The longer your loan term the more you pay.
    - Important tip! The longer your loan term, the lower your payment. Don't make the mistake of only thinking about a low payment when borrowing money. The more days you have your loan, the more you will pay.
4) The higher the risk to the lender, the higher the rate.
    - Lenders generally charge less interest for secured loans than unsecured loans.
    - The better your credit history, the better your rate.
5) The more you borrow the more you pay.

Sample Loans

Note how the amount borrowed, annual percentage rate and term affect the monthly payment amount and the total interest paid.

Amount Borrowed	Annual Percentage Rate	Term	Monthly Payment	Total Interest Paid
$1000	15.00%	12 months	$90	$83
$1000	15.00%	36 months	$35	$248
$1000	5.00%	36 months	$30	$79
$10,000	15.00%	12 months	$903	$831
$10,000	15.00%	36 months	$347	$2,480
$10,000	5.00%	36 months	$230	$1,054
$10,000	5.00%	60 months	$189	$1,322
$100,000	15.00%	60 months	$2,379	$42,740
$100,000	15.00%	180 months	$1,400	$151,926
$100,000	15.00%	360 months	$1264	$355,196
$100,000	6.00%	360 months	$600	$115,838
$100,000	5.00%	360 months	$537	$93,255

CUSAVE How Loans Work

Review/Help Sheet

Loan Example

- Michael wants to borrow $1000 to put towards a new computer.
- The credit union will give him a $1000 loan at 5.00% APR
- The credit union says he can make 12 monthly payments of $85.61
- Michael makes his first payment 25 days after he gets the loan.

Step 1:

Turn the Annual Percentage Rate into a decimal.

5.00% APR is 0.05

Step 2:

Divide the Annual Percentage Rate (.05) by 365.

365 Days ÷ 0.05 = .000137 Rate of Interest per day (also known as the Daily Periodic Rate)

Step 3:

Multiply the Rate of Interest per Day by the loan balance.

Example: Your loan balance is $1000, so you multiply the daily rate of .000137 by 1000. $1000 x 0.000137 = $0.137 interest per day

Step 4:

Add $0.137 to your balance each day that your balance is $1000—or multiply the number of days your balance is at $1000 times $0.137 cents (in this case, it's 25 days).

25 x $0.137 = $3.43

Once you make a payment, the cycle starts all over again—in this case, interest will be calculated on your new principal balance of $917.82 instead of $1000.