

The Cost of Credit

What does it cost to apply for credit?

If you are thinking of taking out a loan or applying for a credit card, your first step should be to figure out how much the loan will cost you and whether you can afford it. Then you should shop for the best credit terms. Two key factors will be the finance charge and the annual percentage rate (APR).

The finance charge is the total dollar amount you pay to use credit. In most cases, you will have to pay finance charges to a creditor on any unpaid balance. The finance charge is calculated using the annual percentage rate. The annual percentage rate (APR) is the cost of credit on a yearly basis, expressed as a percentage. Every organization that extends credit of any kind must state the true APR that it charges its customers. This makes it easy to compare the cost of credit at several businesses or among several different credit cards.

Below are some terms and phrases commonly found in credit agreements:

- A *default payment clause* explains a late payment charge or penalty.
- A *deficiency clause* is one which a creditor can repossess or take back, and resell goods. In addition, it can force you to pay any amount still owed on the contract if not recovered through the sale of the goods.
- A *disclaimer* is an agreement between the creditor and you that unwritten promises will not be recognized by the court in the case of a disagreement. This is another reason you should pay close attention to what is written or not written in the contract
- *Disclosure* provides full information about a financial institution's policies, such as electronic funds transfer policies, lending policies, interest crediting, and compliance with banking regulations. These statements are required by law.
- *Grace Period* is the time between the billing date and the payment due date when no interest is charged.
- *Security interest* is an agreement where the creditor keeps the ownership of goods until you complete all the payments. If you fail to make payments, the creditor can repossess the goods.
- *Late Payment Penalties*
 - *Late Fees*
 - *Finance Charges*
 - *Increased Interest Rate*
- *Wage assignment, or garnishment*, is a clause that allows a lender to collect a portion of your wages if you have defaulted on a loan. A court order is not necessary to garnish wages with this clause.

You should always read a credit agreement thoroughly and carefully before signing it. Ask questions about any fine print or legal language you do not understand. Ask to take the form home overnight, if necessary, to study the terms of the agreement. If you still have questions, ask your banker or another adult for his or her opinion.