Module 6 Video: The Cost of Credit – Video Transcript

[Intro music]

Rasmus recently moved to New Brunswick, Canada from his home country.

He really misses his family.

He decides to buy a new laptop so he can keep in touch with his family back home.

(Also, to play some video games occasionally.)

The laptop that Rasmus wants is $650 including tax.

He knows it will take him time to save that amount, so he wants to explore the option to use credit first.

The store suggests different ways that Rasmus could pay.

Credit card

Buy now, pay later

Will I end up paying the same price if I choose these credit options?

Let's look into the credit options together with Rasmus.

Credit card: Pay amount in full, Pay only minimum payment each month

Full payment

If Rasmus pays the bill in full before the due date:

- No balance carried forward
- $0 interest
- Final cost: $650

Minimum payment

If Rasmus only pays the minimum monthly payment of $20:

- Annual interest rate of 19.99%
- 4 years to pay off the full balance
- $ 293.75 in interest!
- Final cost: $ 943.75

*The interest was calculated using the Credit Card Payment Calculator from the Financial Consumer Agency of Canada (FCAC). The calculations assume that the laptop is the only purchase in this time - if he continues to make other purchases on credit card, his minimum payment may go up.

Rasmus remembers that cash advances are also available on his credit card.

With a cash advance, he can borrow money and get cash right away.

Credit card - cash advance

If Rasmus withdraws $650 from his credit card and pays the balance 6 months later:

- Upfront fee of $6.50
- 22.99% annual interest rate (kicks in immediately with no grace period)
- $44.27 in interest
- Final cost: $700.77

*The interest was calculated using the Personal Loan Calculator from The Calculator Site.

Next, Rasmus looks into the “buy now, pay later” plan that the store offers.

Buy now, pay later

Plan details:

- 4-month financing plan
- $49.99 administrative fee, paid upfront
- No interest if paid in full on time
- Annual interest rate of 31.99% on any balance not paid by the end of the term

Rasmus doesn’t think he will have $650 in 4 months

Cost for paying off the balance in 6 months:

- Upfront administrative fee of $49.99
- $61.98 in interest
- Final cost: $761.97

*The interest was calculated using the Personal Loan Calculator from The Calculator Site.

Rasmus compares the credit options.

Credit card – Paid in full on time: Need full balance ready within the interest-free grace period!

Credit card – Only minimum payment: Extra cost and extra time to pay off the balance!

Credit card – Cash advance (pay in 6 months): High amount of interest accumulates from the day Rasmus withdraws the cash!

Buy now, pay later – Pay in 6 months: High interest rate if he cannot pay the full balance on time!

I don’t have enough saved to pay off the credit card in one month.

I’m worried that if I don’t pay the full amount in time, I might not be able to afford the high interest fees.

Rasmus decides these options may not be right for him.

I will save and buy the laptop at a later date.

Rasmus sees a payday loan service on his way home from the store.

Could a payday loan be an option?

Payday loan

If Rasmus takes out a payday loan for $650:

- Interest of $97.50 ($15 per $100 borrowed), based on a 14-day term
- That’s like having an interest rate of 391.07%!
- If Rasmus pays back in 6 months…the total interest will be $1,271.85!
- Final cost: $1,921.85

*The interest was calculated using the Personal Loan Calculator from The Calculator Site.

That is a scary amount of money!

Let’s review all the credit options together.

Payday loan – Pay in 6 months: A payday loan may easily turn into a debt that Rasmus can no longer manage!

After comparing different credit options… Rasmus decides that saving the full amount of $650 to buy the laptop is the most comfortable choice for him!

He deposits money monthly into his saving account to save for the laptop.

In the meantime, he starts asking around and finds out his friend has a tablet he can borrow.

This will be a good solution for now.

It was a hard choice but it gave him a lot to think about.

Rasmus will save his credit card to use when it’s a smaller purchase he can pay off more easily!

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