# The Real Cost of Borrowing

Compare credit card, installment loan, and mortgage terms, then calculate what $1,000 actually costs to borrow three different ways.

Name: _____ Date: _____

**OBJECTIVE**

Compare credit terminology across a credit card, an installment loan, a mortgage, and a line of credit, then calculate how the same borrowed amount costs very different amounts of interest depending on the type of credit and its terms.

## 1. Four kinds of credit, in plain words

| Type | What it is |
|---|---|
| Credit card | Revolving credit: a spending limit you can borrow against and repay repeatedly. Interest is charged only on what isn't paid off each month. |
| Installment loan | A fixed amount borrowed once, repaid in equal payments over a set period. |
| Mortgage | A large installment loan used to buy real estate, usually repaid over 15 to 30 years and secured by the property itself. |
| Line of credit | A flexible borrowing limit, similar to a credit card, often tied to something the borrower owns (a home equity line of credit, for example). |

## 2. The same $1,000, three different ways

*Devon needs to borrow $1,000 for a laptop. Below are three real ways to borrow it. Same amount borrowed, three very different costs.*

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| Option | Terms | What happens |
|---|---|---|
| A. Credit card | 24% APR, pay only the $25 minimum each month | About 81 months (roughly 6.75 years) to pay off. Total interest is about $1,030. |
| B. Installment loan | 9% APR, fixed monthly payments over 12 months | Monthly payment is $87.43. |
| C. Store financing | 0% APR if paid in full within 6 months; 27% APR applies retroactively if not. | If $50 is still owed after 6 months, back interest of about $135 is added immediately. |

*Option A assumes a fixed $25 minimum payment throughout. A real card usually sets the minimum as a shrinking percent of the balance, which stretches the real payoff time out even longer.*

## 3. Do the math

a) Option A: total paid over the payoff period = $1,000 + $1,030 interest = _____

b) Option B: total paid = $87.43 × 12 = _____. Total interest paid = total paid minus $1,000 = _____

c) Option C, paid off within 6 months: total interest paid = _____. Option C, if $50 is still owed at the 6-month mark: back interest added = about _____

d) Rank the three options from least to most expensive interest paid, assuming Option C is paid off in full before the 6-month deadline.

## 4. Discuss

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**DISCUSS**

Option A has the smallest required monthly payment of the three, just $25. Why might that make it feel like the easiest choice, even though the math says it's by far the most expensive?

**STANDARD NOTE**

SS8E3 asks students to describe the uses of debt and associated risks. This worksheet builds on that with New Jersey's 9.1.8.CDM.2 (credit terminology across cards, installment loans, mortgages, and lines of credit, with interest-rate comparisons and calculations).