

## Clarifying the Cost of Credit (Key)

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1. What costs do creditors have to pay in order to offer credit to consumers?  
Creditors have to pay by either borrowing money themselves and paying interest, or they must use money on hand which could otherwise have been invested to earn money.
2. Under the Truth in Lending Act, what information must creditors provide to consumers?  
Under the Truth in Lending Act, creditors are required to inform consumers in writing of the finance charges and the annual percentage rates on all credit purchases.
3. What is APR?  
The annual percentage rate (APR) is the cost of credit expressed as a yearly rate.
4. What three factors that impact the total finance charges paid when a consumer uses credit?  
The three factors which impact the total finance charges paid by a consumer are:
  - amount financed
  - the annual percentage rate
  - the length of repayment period
5. How can knowing the factors impact finance charges help you impact the total finance charge?  
Because each of the preceding factors helps determine the total cost of credit, you can impact the total finance charge by varying one or more factors.
6. Why is it important to understand the costs of credit before using credit?  
Knowing the costs up front will help determine whether a credit buy is affordable, or whether it might be better to postpone the purchase or save up to pay cash.