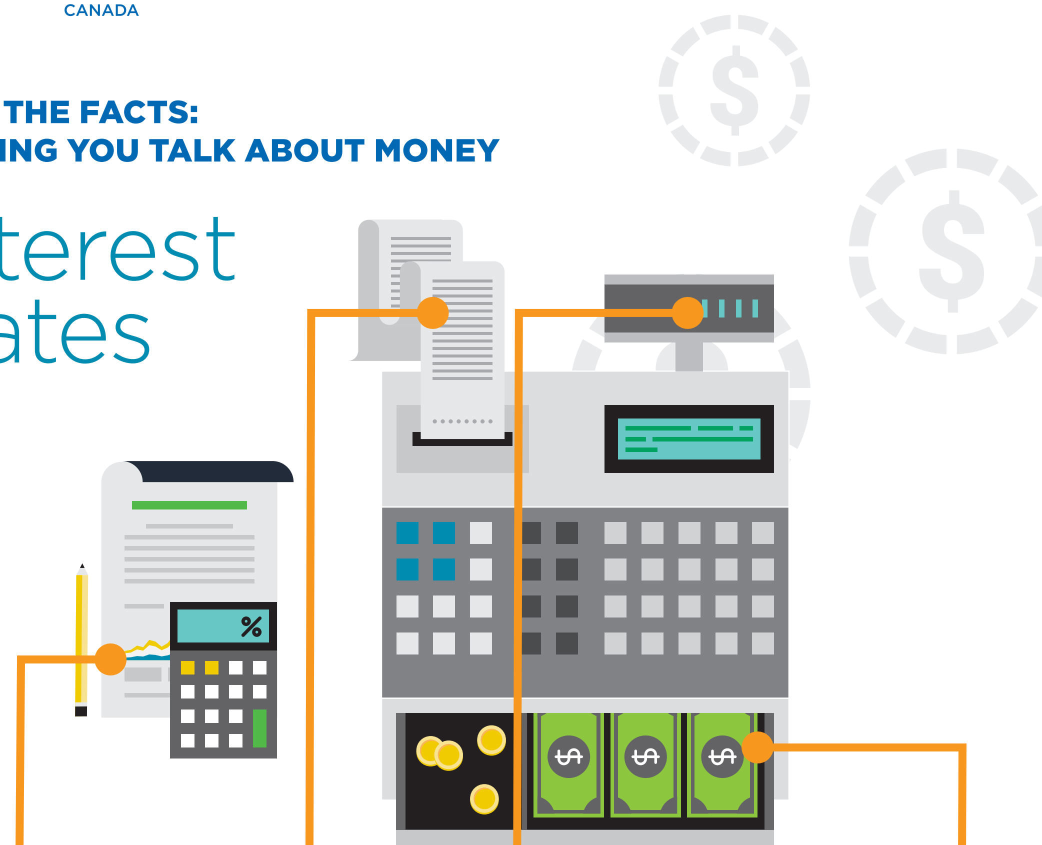
CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

JUST THE FACTS:
HELPING YOU TALK ABOUT MONEY

Interest Rates



Interest rates are the cost of borrowing money.

- The longer you have the borrowed money, the more interest you will pay.
- In essence, you are "renting" cash from a lending institution, and interest is the charge for this service.
- When you make a deposit, the financial institution is "borrowing" from you and pays you interest. They profit from lending to others at a higher interest rate.

Interest rates are a set percentage of the amount borrowed.

- The initial amount borrowed is known as the "principal."
- Rates are a percentage of the principal, calculated per year – even if you are paying it back monthly.
- Interest rates apply to the entire balance remaining to be paid back, including previous interest charges on top of the principal.

It is always advisable to compare and negotiate interest rates.

- Most financial institutions have posted rates (often referred to as "sheet rates" or "standard rates").
  — You do not have to accept these rates as offered. Shopping around can save you significant costs.
- Financial institutions are competing for your business. They are not "doing you a favour" by lending you money – they profit from these transactions.

"0%" financing does not mean you are not paying interest.

- Interest charges are included in the purchase price; if you were paying cash (rather than financing) you could negotiate a cheaper price.
- The company offering you the financing is legally obligated to show you the Actual Percentage Rate (APR), a commission to the company from the lending institutions.

LEARN MORE AT cpacanada.ca/justthefacts

Looking to better understand money basics and how they apply to you?
*You may also be interested in taking our **Financial Wellness Guide questionnaire**.*

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