

How do Credit Card Companies calculate your Finance Charge?

Credit Cards and Charge Accounts:

- \$ In 1968, total more than \$1.5 Billion
- \$ In 2008, total more than \$969 Billion
- \$ Increase of 8% over last year.
- \$ **Average Daily Balance + New Purchases** is the most commonly used method for calculating

Terms:

Billing Cycle - The number of days in the billing period; usually 30 days.

Average Daily Balance (ADB) - Sum of Daily Balance / # of Days in billing cycle.

Finance Charge- Average Daily Balance * Periodic Rate (APR /12)

New Balance-Unpaid Balance + Finance Charge (FC) = Subtotal; Then, Subtotal + New Purchases

Sample Problem:

Previous Balance (PB) =\$6000

Periodic Rate (PR) = Annual Percentage Rate (APR) = 2.0%

Minimum Payment = 2.0 % of Previous Balance

Billing Cycle = 30 Days

A. Minimum Payment of 2.0% $\$6000 * .02 = \120

B. $ADB = \frac{(29 \text{ days} * \$6000) + (1 * (\$6000 - \$120))}{30 \text{ Days (Billing Cycle)}} = \frac{\$174,000}{30} = \frac{\$179,880}{30} = \5996.00

C. Finance Charge = $\$5996.00 * .02 = \119.92 .

D. Previous Balance = $(\$6000 - \$120) + \$119.92$ Finance Charge for this month.

E. \$6000 Balance was reduced by \$ 0.08.

HOW LONG WILL IT TAKE FOR YOU TO PAY OFF YOUR CREDIT CARD BALANCE?