

Using a Credit Card



Objective

In this lesson, you will

Credit Cards, Charge Cards, and Debit Cards

Question: What's a credit card issuer?

Answer: A credit card is issued by a _____ that authorizes payment for _____. The bank charges you _____ on your _____ balance. It will send you a statement every month showing you what you've _____ and what you owe. You can choose to pay the entire balance or only part of it.





Question: What are charge cards and debit cards?

Answer: A _____ card is similar to a credit card, but you need to _____ the full _____ when you receive your monthly _____. You also don't have to pay _____ on a charge card, but you will most likely have to pay an annual fee for it.

A _____ card allows you to _____ your bank account without having to go to the bank. The amount of the charge is then _____ directly from your bank account. It means you're paying with your own _____ and not credit.

Credit Cards Versus Cash

Advantages of Credit Card	Disadvantages of Credit Card
<ul style="list-style-type: none"> • can _____ things without cash • can build _____ history • minimized _____ of financial loss • discounts and _____ rewards <div style="border: 1px solid blue; padding: 5px; display: inline-block;">  Key Term </div> <p>Credit: A privileged arrangement to buy or use now and pay later.</p>	<ul style="list-style-type: none"> • _____ spending. • interest fees • can lose track of spending <div style="border: 1px solid blue; padding: 5px; display: inline-block;">  Key Term </div> <p>Interest: Money paid to credit card issuer as the cost of borrowing the money.</p>
Advantages of Cash	Disadvantages of Cash
<ul style="list-style-type: none"> • can _____ exactly what you are spending • less likely to _____ buy • no interest 	<ul style="list-style-type: none"> • need enough cash to buy immediately • can easily be _____ or stolen • _____ to carry

You can establish _____ by using your credit card and making payments on _____.

If you have consistently _____ on time, your credit history will be good bad and your credit rating will be high low. Using a credit card to spend too much and accumulating too much debt can lead to _____ credit and a _____ credit rating.

Credit Card Terms and Conditions

Term	Explanation
<i>Annual Fee</i>	
<i>APR (Annual Percentage Rate)</i>	<i>the yearly rate of interest, expressed as an annual percentage</i>
	<i>fees are charged if your payment doesn't reach the card company by the due date</i>
	<i>the smallest amount of your balance that you can pay by the due date and still meet the terms of your card agreement</i>
	<i>your total account debt as of the statement date</i>
<i>Fixed Rate / Variable Rate</i>	<i>APR rates that stay the same / APR rates that move up and down</i>
	<i>the number of days you have before a credit card company starts charging interest on new purchases</i>
	<i>the charge for using a credit card</i>

Credit Card Statements

A bank that issues a card will send a credit card statement that looks something like this:

Credit Card Statement			
Name	Account Number	Statement Date	Payment Due Date
Rosa	XXXX XXXX XXXX XXXX	08/12/2009	09/10/2009
Credit Line	Available Credit	New Balance	Minimum Payment Due
\$1,000	\$638.57	\$381.43	\$15.00
Previous Balance	Purchases	Payments	Finance Charge
\$0.00	\$386.43	\$30.00	\$25.00

Transaction Number	Date	Description	Amount
1	07/10/2009	Books	\$120.50
2	07/12/2009	Supermarket	\$65.25
3	07/14/2009	Payment	\$30.00
4	08/01/2009	Clothing store	\$200.68

The date that the monthly debt payment is due.

The lowest amount of money you are required to pay on your monthly credit card balance.

The credit line minus the new balance.

The current balance on the credit card.

Term	Explanation
Credit Line	the _____ balance you can carry on your card
Daily Periodic Rate	the _____ divided by 365
Average Daily Balance	the _____ amount that exists on an account over a period of time
Days in Cycle	the number of days between _____ dates

Calculating Monthly Finance Charges



$$\text{Monthly Finance Charge} = \text{Average Daily Balance} \times \text{Daily Periodic Rate} \times \text{Days in Cycle}$$

Example: Your average daily balance is \$30.00 and the days in cycle are 25.

If your APR is 20%, your daily periodic rate will be $20\% \div 365$ days or 0.05%, which is 0.0005 as a decimal.

Substitute the values in the formula:

$$\$30.00 \times 0.0005 \times \underline{\hspace{2cm}} = \$0.3750 \text{ or } \underline{\hspace{2cm}} \text{ cents}$$

The monthly finance charges for an average daily balance of \$30.00 on your credit card is _____ cents.

Credit Card Payments

Rosa has a balance of \$500 on her credit card statement. Notice that her first \$15.00 payment is split between the _____ and principal in the repayment of her credit balance.

Event	Credit	Payment	Interest	Principal	Balance
	\$500.00		\$0.00	\$0.00	\$500.00
Payment 1		\$15	\$7.50	\$7.50	\$492.50
Payment 2		\$15	\$7.39	\$7.61	\$484.89
Payment 3		\$15	\$7.27	\$7.73	\$477.16
Payment 4		\$15	\$7.16	\$7.84	\$469.32

If you pay only the minimum payment each month, you will take an extraordinarily short long time to pay your bill. When making payments it is recommend that you pay more less than the minimum amount every month. If you pay the entire balance every month, you will owe no interest except on cash advances.

Summary

What are some situations where is it more practical to use a credit card than cash? Why?