9.3 Manage Credit Cards

A Credit Card

- ✓ A credit card lets you borrow money from the bank to spend on your everyday purchases.
- ✓ At the end of each *monthly billing cycle*, you'll get a *credit card statement* (your *bill*) with *the amount you owe* (your *balance*).
- ✓ Each credit card has a *limit*—the maximum you can charge to the card.
- ✓ Your statement has your *minimum payment* amount and the *payment due date*.
- ✓ To maintain *good credit*, you need to *make the minimum payment* on your balance each month.
- ✓ If you *don't pay* off your full balance before the payment date, you'll be *charged interest* on the *unpaid balance*.

B Understanding your Card

Example 1. Identify all the following items on the card on the right.

- ✓ Security chip ①
- ✓ Credit card number ②
- ✓ Expiry date ③ ④
- ✓ Cardholder name
- ✓ Security code (CVV/CVC) ⑤
- ✓ Cardholder signature ⑥

MM/YY

C Understanding your Statement (Bill)

Example 2. Identify all the following items on the card on the right.

Statement balance is …… **$3,663.23**
- ✓ How much you owe at the end of your monthly billing cycle.
- ✓ If you don't pay it all by the due date, you'll be charged interest on the remaining amount.

Credit available is …… **$5,336.77**
- ✓ How much is available to spend on your credit card.

Minimum payment is …… **$36.63**
- ✓ Each month, you need to pay at least this amount towards your outstanding balance.
- ✓ If you can, pay more than the minimum to keep your interest charges under control—and keep your credit score healthy.

Credit limit is …… **$9,000**
- ✓ The maximum amount you can charge to your credit card.

Payment Due Date is …… **May 24, 2015**
- ✓ The date you must pay at least minimum amount.

Annual Interest Rate (in percent per year, compounded daily) is …… **19.99%**

FV = A = ? $\qquad$ P = PV = \$1500

Example 3. Determine the future value of an overdue credit card balance of \$1500 if interest is charged for 55 days at 21% interest rate per year compounded daily.

time

$r = 21\%$

$FV = \$1,548.21$

$I = \$48.21$

∴ The future value is \$1,548.21 and the interest paid is \$48.21

Balance, t

Example 4. Tom got his last credit card statement two weeks ago. His balance is \$3541.67, the minimum payment is \$50,25. He is planning to pay the minimum payment on time and the remaining balance 20 days after the due date. How much money is Tom going to be charged if the interest rate per year is 24% and is compounded daily?

Balance = \$3,541.67
Minimum Payment = \$50.25
Remaining Balance = \$3,541.67 − \$50.25

$PV = P = \$3,491.42$
$r = 24\%$ $\qquad$ daily
$t = 20$ days

$FV = ? = \$3,537.62$

∴ Tom has to pay back \$3,537.62
(\$46.20 is only the interest)

Reading Pages 476-479
Homework Pages 479-480 # 1,4, 10