

## Unit 6 SAS8: Making Sense of Credit

Below is an example of a credit card statement. Some of the areas have been blanked out with ??? because in the following questions you will be figuring out what those charges are.

TEXAS CREDIT		OPENING/CLOSING DATE:	7/19/08 - 08/18/08
		PAYMENT DUE DATE:	9/12/08
		MINIMUM PAYMENT DUE:	\$93.30
CARD SUMMARY		ACCOUNT NUMBER 5555 5555 5555 5555	
PREVIOUS BALANCE	\$2,342.51	TOTAL CREDIT LINE	\$3,000
PAYMENT, CREDITS	-\$150.21	AVAILABLE CREDIT	\$376
PURCHASES, CASH, DEBITS	\$410.89	CASH ACCESS LINE	\$500
FINANCE CHARGES	???	AVAILABLE FOR CASH	\$376
NEW BALANCE	???		
TRANSACTIONS			
DATE	DESCRIPTION	CREDIT	DEBIT
7/23	GAS		\$70.61
7/24	PAYMENT - THANK YOU	\$100	
7/24	HARDWARE STORE		\$139
7/28	FLOWERS		\$24.95
8/03	GROCERIES		\$176.33
8/18	HARDWARE STORE RETURN	\$50.21	
FINANCE CHARGES			
	DAILY PERIODIC RATE		FINANCE CHARGE
	31 DAYS IN CYCLE	APR	DUE TO
TYPE			PERIODIC RATE
PURCHASES	???	28.99%	???
CASH	???	28.99%	\$0

1. What are the dates that this credit card statement is for?
2. Did this person already owe money on the credit card BEFORE this month? How much did they already owe?
3. What did they spend money on this month? (on a credit card statement this shows as debits)
4. Did they make any credits to their account? What were they?
5. Credit cards give out the interest rate as APR (annual periodic rate). What is the APR on this credit card?

6. Even though interest is given as an APR credit card interest is compounded monthly. What is the monthly periodic rate?
7. Before interest is added on to the account we need to find what the balance of the credit card was before the finance charge. (the previous balance + and expenses – any credits)
8. What is the finance charge (or interest charge) for this month? Use the monthly interest rate and the answer you just found from number 7
9. So what is the new balance at the end of the month? (Add the finance charge to the balance on the credit card)

Minimum payments come in 2 forms. 1) The credit card company may make a SET minimum payment. For example the minimum payment is \$25 regardless of how much you currently owe. 2) The credit card company may say your minimum payment is a *set percentage* of your current balance before interest.

10. For this particular credit card, the company uses option 2, meaning the minimum monthly payment is always a set percentage of the current credit card balance. Look at the statement. What is the minimum payment for this month?
11. What percentage is the minimum payment to the new balance before interest?

#### **EXTENSION**

12. Marley has a credit card with an APR of 22.75% and a current balance of \$14,677.90. Assume her credit card using the “set percentage” method of minimum payments. If her minimum payment is the same percentage of the question before, what is her minimum payment on this credit card?
13. Use the TVM solver on the calculator to determine how long it will take Marley to pay off her credit card if she only makes the minimum payment.
  - N:**
  - I %:**
  - PV:**
  - PMT:**
  - FV:**
  - P/Y:**
  - C/Y:**

**MAKING A BUDGET:**

14. As you can see, Marley is in debt. Marley makes \$2,500 gross monthly income. Assume all of her state and federal taxes come to 28.8%. What is her monthly after tax income?

15. Below are Marley's required monthly expenses. (fill in the minimum credit card payment from above)

<b>Rent</b>	<b>\$450</b>
<b>Renters Insurance</b>	<b>\$30</b>
<b>Car</b>	<b>\$250</b>
<b>Car Insurance</b>	<b>\$80</b>
<b>Utilities (water, electricity, trash, natural gas)</b>	<b>\$125</b>
<b>Medical Insurance</b>	<b>\$125</b>
<b>Gas</b>	<b>\$100</b>
<b>CREDIT CARD PAYMENT</b>	

16. After she pays all of her expenses how much money does she have left?

17. Remember that this budget did not include Food, internet, phone or any other expenses. Does she have enough to pay for those things with the money she has left over for the month?

18. What recommendations would you give to Marley to alter her budget so that she could have a reasonable budget?