

Name _____

Calculating the Cost of Credit Card Purchases

Credit card companies charge you interest if you do not pay the balance in full. They list their interest rate as an annual percentage rate (APR). This rate tells you what you would be charged yearly. To find your rate per month, divide the APR by 12.

Example: Marley paid \$300 on her \$520 credit card bill. Her APR is 18.9%. Find the new balance.

$$\text{Unpaid Balance: } \$520 - \$300 = \$220$$

$$\text{Monthly Interest Rate: } 18.9\% \div 12 = 1.575\%$$

$$\text{Finance Charge: } \$220 \times 0.01575 = \$3.465$$

$$\text{New Balance: } \$220 + \$3.47 = \$223.47$$

Bill (\$)	Amount Paid (\$)	APR (%)	Unpaid Balance (\$)	Monthly Interest Rate (%)	Finance Charge (\$)	New Balance (\$)
896	150	21.5				
195	45	16.75				
534	450	17.9				
672	600	22.9				
980	500	17.1				
155	35	18.5				

Use the credit card payment calculator at <https://www.bankrate.com/calculators/credit-cards/credit-card-payoff-calculator.aspx> to find how long it will take to pay off the credit card debt.

Example: Ben has \$3,000 in credit card debt. His APR is 17.9%. He pays the minimum payment of \$100 each month. Assuming he does not buy anything else with this credit card, how long will it take him to pay it off? How much interest will he pay?

Number of months to payoff: 41
Total interest paid: \$1,007

1. Amelia has \$800 in credit card debt. Her APR is 21.5%. She pays the minimum payment of \$35 each month. Assuming she does not buy anything else with this credit card, how long will it take her to pay it off? How much interest will she pay?

Number of months to payoff: _____

Total interest paid: _____

2. Horatio has \$2,457 in credit card debt. His APR is 19.5%. He pays the minimum payment of \$45 each month. Assuming he does not buy anything else with this credit card, how long will it take him to pay it off? How much interest will he pay?

Number of months to payoff: _____

Total interest paid: _____

3. Carmella has \$10,162 in credit card debt. Her APR is 22%.
 - a. She pays the minimum payment of \$190 each month. Assuming she does not buy anything else with this credit card, how long will it take her to pay it off? How much interest will she pay?

Number of months to payoff: _____

Total interest paid: _____

- b. What would happen if she tried to pay only \$150 each month?

- c. Carmella decides to pay \$10 more a month so that her payment is \$200. How much interest does she pay now? How many months will it take her to pay it off?

Total interest paid: _____

Number of months to payoff: _____

- d. Carmella wants to pay down this debt quicker. She wants to have it paid off in 3 years. What will her monthly payment have to be? How much interest will she pay?

Monthly payment: _____

Total interest paid: _____

4. How does increasing the monthly payment affect:
 - a. The time needed to pay back the loan?
 - b. The amount of interest paid?

5. Why might credit card debt negatively impact your credit score?

6. Which type of debt is better as far as a credit report is concerned – credit card debt or student loan debt? Why do you think that is?

7. Do you think opening a new credit card account helps or hurts your credit score?

8. Some people never get out of credit card debt. Why do you think that is?

9. Landon is struggling with credit card debt. He is debating whether he should continue to use his credit card or stop using the card (only use cash or debit) while trying to pay off the debt. What do you think he should do? Why?

10. Renee has a \$5,000 car loan and \$5,000 in credit card debt. She wants to put extra money (more than the minimum payment) toward one of these to pay it off sooner. A financial expert recommends that she pay extra toward the credit card debt. Why should she pay extra toward the credit card debt instead of extra toward the car loan?