Activity 1

PART 2: FIGURING FINANCE CHARGES

The **finance charge** is an interest payment that is compounded daily, based on your **average daily balance (ADB)**. This is calculated by adding together the ending balance for each day in the billing period (even the days that your balance didn't change), and then dividing by the total number of days.

Average Daily Balance = Sum of the Ending Daily Balances ÷ Number of Days in the Billing Period (assume 30 days)

Use the data in the sample statement in Part 1 to calculate the average daily balance for June.

Sum of ending
daily balances: $ 390.00 ÷ 30 = $ 13.00 Average Daily Balance

Once you know the average daily balance, you can calculate the finance charge.

1. Find the annual percentage rate: _____%
2. Divide by 365 to get a daily percentage rate: 0.0000000 %
3. Finance Charge = Daily Percentage Rate x Days in Billing Period x Average Daily Balance

0.00 = _____ x _____ x _____

Date	Daily Balance
1-Jun	$390.00
2-Jun	$
3-Jun	$
4-Jun	$
5-Jun	$
6-Jun	$
7-Jun	$
8-Jun	$
9-Jun	$
10-Jun	$
11-Jun	$
12-Jun	$
13-Jun	$
14-Jun	$
15-Jun	$
16-Jun	$
17-Jun	$
18-Jun	$
19-Jun	$
20-Jun	$
21-Jun	$
22-Jun	$
23-Jun	$
24-Jun	$
25-Jun	$
26-Jun	$
27-Jun	$
28-Jun	$
29-Jun	$
30-Jun	$
Total	$ 390.00
	÷ 30
ADB	$ 13.00

Minimums Matter

The minimum payment is an important detail because the amount you pay each month determines how long it will take to pay off your credit card debt. The minimum payment amount is typically calculated as a percentage of the outstanding balance. Use the data in our sample statement to calculate the minimum payment percentage for this account.

(Minimum Payment ÷ Outstanding Balance) x 100 = _____% Minimum Payment Percentage

You can use an online credit card payoff calculator to determine how long it will take you to pay off a card based on how much you pay each month (see **www.creditcards.com/calculators/minimum-payment**).

It is important to remember that the longer it takes you to pay off your debt, the more you will pay in finance charges and fees.