

✚ *homework check:* FCM 11 p. 472 # 2 – 16 (evens)

✚ *note:* Managing Credit Cards

Because of credit card convenience, it is important to know that credit card interest is often extremely high, usually around 18% compounded daily. If the balance is paid in full before the end of the grace period, no interest is charged. The number of days it takes to process the payment must be taken into account when the client wants to repay in full before interest is charged. For example,

Mina receives the following information with her credit card bill issued on the 28th of each month:

Other fees		BMO Gold AIR MILES MasterCard	\$15.00
Fees, Charges and Pricing		All others	FREE
Annual interest rate	19.5%		
Low Interest Rate option (\$35 annual fee)	11.9%	Cash advance fees	
Payment grace days	21 days *	Automated banking machine (ABM) network	
Replacement copy for statement or sales slip	\$2.00	BMO Bank of Montreal ABM	\$1.50
Over limit fee	\$25.00	INTERAC [®] network in Canada	\$2.75
Charge for dishonoured payment from or to your account	\$25.00	Cirrus [®] network in U.S.	\$3.50
(Amount of dishonoured payment will be subject to the applicable interest rate from the date such payment is reversed)		Cirrus network outside Canada and U.S.	\$4.50
Charge for book of personalized BMO MasterCard cheques	\$10.00	Over-the-counter	
Foreign currency mark-up on transactions, including refunds	2.5%	BMO Bank of Montreal branch	\$3.00
		MasterCard Financial Institution in Canada	\$4.00
		MasterCard Financial Institution in U.S.	\$5.00
		MasterCard Financial Institution outside Canada and U.S.	\$6.00
		Cash-like transactions	\$2.75

Additional card annual fee (per card)

Wire transfers, money orders, traveller's cheques Foreign currency, bets and purchases of lottery tickets or Casino gaming chips

- a) If Mina owes \$1275.00 for her Christmas purchases on her bill December bill, what is the due date for the December 28th bill?

January 17

- b) If it takes 4 days to process the payment, what is the due date for the bill?

January 13

c) If 3.9% of the balance is due, what is her minimum payment?

$$3.9\% = 0.039$$

$$1275(0.039) =$$

$$= \$49.73$$

d) If Mina's credit card charges a yearly fee of \$69.00 on the first on January, what is her balance on the January 28th bill?

$$1275 - 49.73 =$$

$$= \$1225.27$$

$$1225.27 + 69.00 =$$

$$= \$1294.27$$

e) If Mina is unable to pay the bill in full, what is the new minimum balance?

$$1294.27(0.039) =$$


$$= \$50.48$$

✚ *homework assignment:* **FCM 11 p. 479 # 2, 4, 6, 8, 9**

Apply

B

To answer questions 5 to 8, refer to Mia's credit card statement.

 Crownbank	Credit Card STATEMENT															
	Mia Bailey 17 Seaside Road Hometown, ON M3R 4C2	<table border="1"> <tr> <td>Credit Limit:</td> <td>\$8000</td> </tr> <tr> <td>Annual Interest Rate:</td> <td>12.9%</td> </tr> <tr> <td>Daily ABM Cash Advance Limit:</td> <td>\$500</td> </tr> <tr> <td>Annual Interest Rate on Cash Advances:</td> <td>18.9%</td> </tr> </table> <table border="1"> <tr> <td>Annual Fee:</td> <td>\$12</td> </tr> <tr> <td>Grace Period:</td> <td>21 days</td> </tr> <tr> <td>Minimum Payment:</td> <td>greater of \$10 or 3% of balance</td> </tr> </table> <p style="text-align: center;">Interest is compounded daily</p>		Credit Limit:	\$8000	Annual Interest Rate:	12.9%	Daily ABM Cash Advance Limit:	\$500	Annual Interest Rate on Cash Advances:	18.9%	Annual Fee:	\$12	Grace Period:	21 days	Minimum Payment:
Credit Limit:	\$8000															
Annual Interest Rate:	12.9%															
Daily ABM Cash Advance Limit:	\$500															
Annual Interest Rate on Cash Advances:	18.9%															
Annual Fee:	\$12															
Grace Period:	21 days															
Minimum Payment:	greater of \$10 or 3% of balance															


5. A statement is issued to Mia on the 18th of each month.
 - a) What is the due date for the January 18 statement?
 - b) What is the due date for the February 18 statement?
6. Determine the minimum monthly payment for each.
 - a) Mia's December statement has a balance of \$289.40.
 - b) After using her credit card for all her holiday shopping, Mia's January statement has a balance of \$1220.74.

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7. Explain one advantage and one disadvantage of Mia using her credit card to make all her holiday purchases.
8. Determine each daily interest rate charged on Mia's credit card. Express each answer as a percent and as a decimal rounded to six decimal places.
 - a) on cash advances
 - b) on credit card purchases

Chapter Problem

9. Rhys decides to apply for a credit card. His parents have to co-sign his application—that is, they agree to pay the outstanding balance if Rhys cannot or will not pay. On the application, they indicate that they want a spending limit of \$250. A portion of Rhys's first credit card statement is shown.

 Crownbank	Credit Card STATEMENT		
	STATEMENT FROM June 25 to July 26		
7/2	The Jeans Factory	48.00	
7/7	T-shirt Haus	22.75	
7/22	Soccer Unlimited	28.49	
Previous Balance:	0.00	New Balance:	
Payments:	0.00	Minimum Due:	
Overdue Balance:	0.00	Statement Date:	July 26
Interest Charged:	0.00	Annual Interest Rate:	16.9%
New Purchases:		Available Credit:	

- a) Calculate the amount of the new purchases made this month, and Rhys's new balance.
- b) If the minimum payment is \$10 or 3% of the balance, whichever is greater, determine Rhys's minimum payment.
- c) Determine the due date if payment is due 21 days after the statement date.
- d) What are the likely reasons that Rhys's parents asked for a \$250 credit limit?
- e) Calculate the daily interest rate. Express the answer as a percent and as a decimal rounded to five decimal places.
- f) Four days after he received the statement, Rhys went on-line and paid the balance. How much interest was he charged?

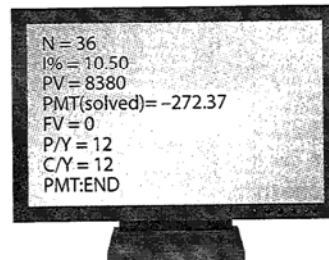
Extend

C

10. Terrell has four credit cards: two issued by banks, one from a gasoline retailer, and one from a furniture store. The table shows his current credit situation.

Credit Card	Balance as of July 1	Annual Interest Rate	Minimum Payment Due
Bank 1	\$2527	13.9%	3% of balance
Bank 2	\$4318	14.9%	3% of balance
Gasoline Retailer	\$227	18.9%	\$20
Furniture Retailer	\$1308	28.8%	\$100

- a) Calculate Terrell's current debt.
- b) Calculate the total of the minimum payments that he must make this month.
- c) Assuming no other purchases are made, calculate the total interest charged on each account for 30 days. All the credit cards compound interest daily.
- d) Which credit card should Terrell pay in full first? Why?
- e) A credit counsellor advises Terrell to get a personal loan from his bank, pay off all of the credit cards, and then destroy the cards. Using his TVM Solver, he shows the results of his analysis to Terrell.



Use the words *monthly payment*, *debt*, and *interest* to explain the meaning of the numbers on the screen in terms of Terrell's monthly payment and how long it will take him to get out of debt.