

§6-1

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Credit Cards



Credit Limit

- Maximum amount the lender will lend to the cardholder



Truth in Lending Act

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- Requires the credit card companies to disclose all terms and conditions of the credit card.
- APR, Finance charges, late payment penalties, grace period, membership fees.





THE PLUM CARD®

FROM AMERICAN EXPRESS OPEN™

Start
Booming.



APPLY NOW ▶



[See other American Express OPEN Charge Cards](#)

TRADE TERMS VIRTUALLY EVERYWHERE AND START BOOMING

YOU CAN CHOOSE EACH MONTH

1.5% EARLY
PAY DISCOUNT

OR

**TAKE UP TO
2 MONTHS**
TO PAY THE
FULL BALANCE

PAY EARLY AND SAVE 1.5%

Earn a 1.5% discount by paying your full balance within 10 days of your statement closing date

OR

TAKE UP TO 2 MONTHS TO PAY THE FULL BALANCE

Take up to 2 months from your statement closing date to pay your new balance in full, without penalties or interest. Just make an initial payment of at least 10% of your balance.

- No pre-set spending limit*
- Select when your monthly billing cycle ends

Exclusive Benefits for Small Businesses:

- OPEN Savings® program: Automatic business discounts of 3% to 20% on partners, including FedEx, Hertz® and more
- Tools to manage and monitor your spending
- Business protection, personalized service and support.

No annual fee for the first year – a \$185 savings

Apply by phone: 1-800-519-OPEN (6736)

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*Pre-set spending limit does not mean unlimited spending. Purchasing power adjusts with your use of the Card, your payment history, credit card record and financial resources available to us, and other factors.

Late Payment Penalties

- Extra charges for payments that are late



Single Purpose Credit Cards

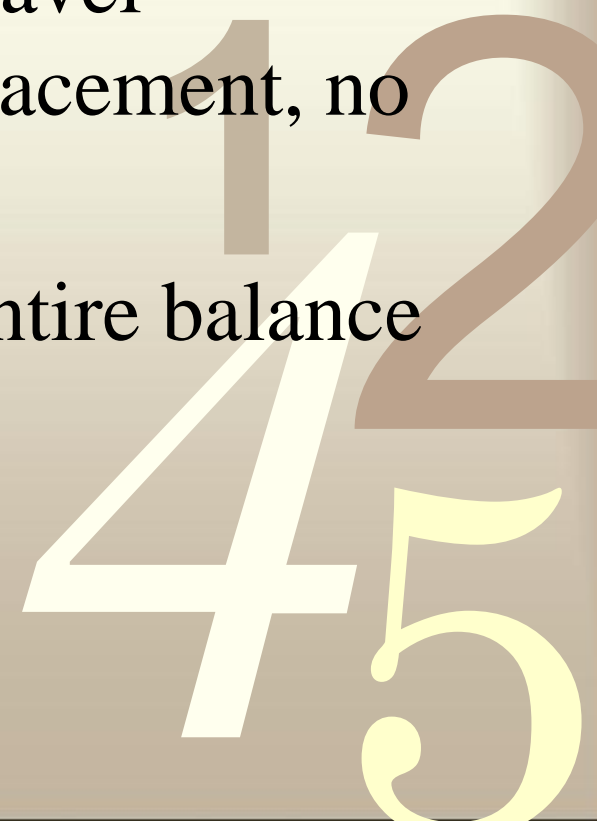
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- Best Buy, Mobile, BP, Sears, Old Navy
- Can only be used at the specific company



Multipurpose travel and entertainment cards

- American Express, Diners Club
- Annual membership fee, free travel insurance, emergency card replacement, no credit limits
- Might be expected to pay the entire balance each month





Diners Club
INTERNATIONAL

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- Benefits:
 - Concierge service
 - Cash access
 - Rental car collision insurance



All purpose bank cards

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- Discover, Visa, Mastercard



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I'M ALL OUT OF SMALL CHANGE...
DO YOU THINK IT WILL ACCEPT VISA CARD?



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Debit Cards

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- Electronic checks
- Purchases are deducted directly from your checking/savings account





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Grace Period

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- The time between when a bill is received and when it is due.



Skill 1

0011

- Wilma wants to buy a new dress for Snowcoming that costs \$200. Fred charges the purchase on his VISA. He makes monthly payments of \$25.
- What new balance will be shown on his first three monthly statements if his bank applies a 1.3% monthly finance charge? (this is the only purchase he has made)

Skill 1

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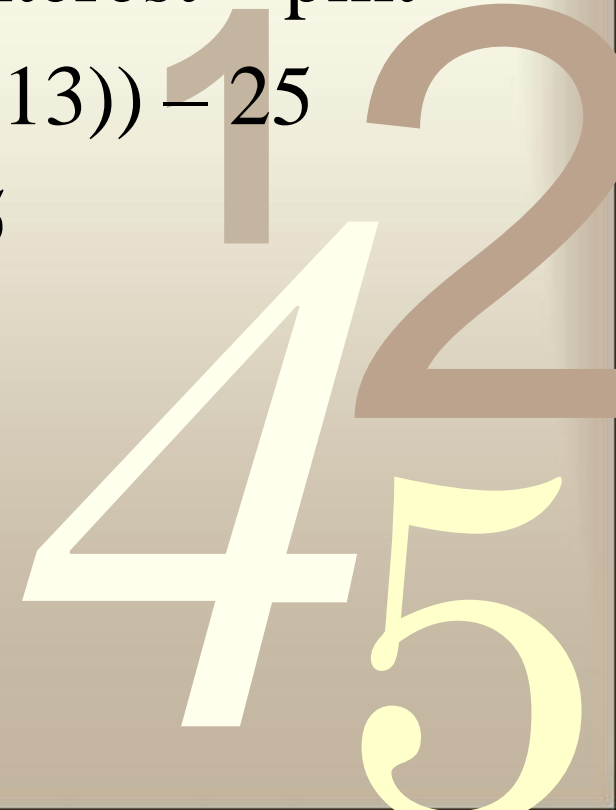
- The first month will have a previous balance of \$0. and a purchase of \$200. No interest is charged in the first month.
 - The new balance for month one is \$200.



Skill 1

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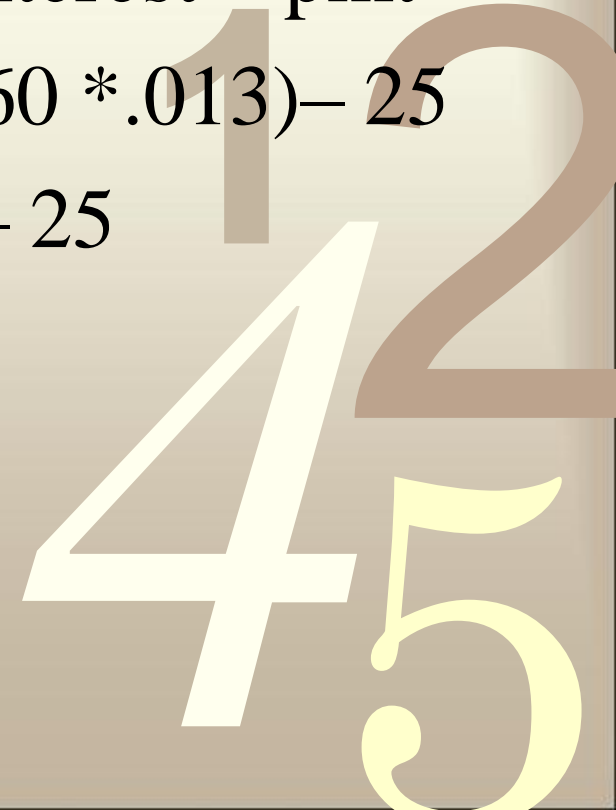
- The second month will show a new balance:
- New balance = old balance + interest – pmt
- $= 200 + (200 * (.013)) - 25$
- $= 200 + 2.60 - 25$
- $= 177.60$

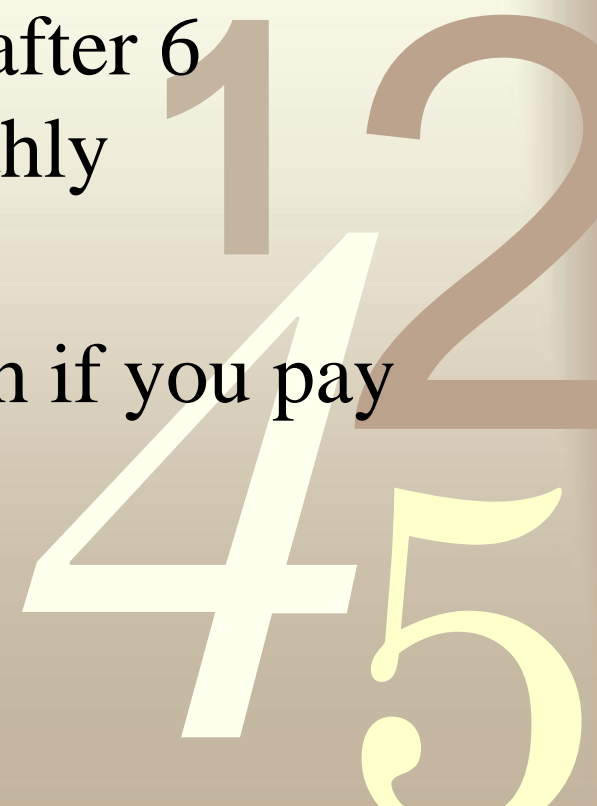


Skill 1

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- The third month will show a new balance:
- New balance = old balance + interest – pmt
- $= 177.60 + (177.60 * .013) - 25$
- $= 177.60 + 2.31 - 25$
- $= 154.91$



- 0011
- Suppose you have \$6000 in a savings account earning 5% compounded semiannually.
 - Your VISA bill is \$1300 and accrues finance charges at a rate of 1.5% monthly.
 - Determine your total net worth after 6 months if you make \$300 monthly installments.
 - What happens to your net worth if you pay the bill immediately?
- 

APR

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- Annual Percentage Rate



- **Monthly interest rate-**

- percent used to calculate interest for one month, the annual percentage rate divided by 12

- **Effective interest rate-**

- interest rate when the result of compounding is included

- As interest rates fluctuate banks may change the interest rate they charge their customers.
- When interest rates are high they
 - advertise their monthly rates.
- When interest rates are low they
 - advertise yearly rates.



APR is given to you as simple interest.

Credit cards charge interest on a monthly basis and the interest is compounded.

We must determine the effective interest rate.

Effective Interest Rate

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- $i_{\text{eff}} = (1 + i/12)^{12} - 1$

$$i = \text{APR}$$



Skill 2

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- Jimmy Neutron has a credit card with an APR of 12%. He wonders if the effective interest rate is more or less than 12%.
- What is the effective interest rate?



- Do you think that during the first 12 months of the loan he will pay less than 12% if there is a 1 month grace period?
- What is the effective interest rate for the first year of the loan if there is a one month grace period?



Assignment

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- P. 251 EYS 4-6, 20-26 Even
- MR. 1-2, 6

