

Average Daily Balance: When should you pay your bills?

§6.5



- Retailer's costs for selling on credit
- Average daily balance
- Timing of monthly payment affects interest charge

GOALS

- Additional costs on selling on credit
 - Clerical work
 - Record sales
 - Collect payments
 - Losses from failed payments
 - Increase of returns

The cost to retailers of issuing their own cards

- If stores do not investigate customer's ability to pay they lose big from unpaid debts
- If they advertise "good" credit deals they may have to raise their prices to off set losses
- Some stores accept VISA MASTERCARD instead of or in addition to extending their own credit

The cost to retailers of issuing their own cards

- Banks get a % of every sale made on their cards.
- Customers bare some of the cost in the form of
 - Interest
 - Max interest is set by state law (usury limit)
 - Some banks have even moved their locations to a different state to charge more interest (SD)
 - Both parties can agree on a different interest rate

The cost to retailers of issuing their own cards

- The interest charged is based on the average daily balance.
 - Sum of daily balances divided by the number of days in the billing cycle

The cost to retailers of issuing their own cards

- **Average Daily Balance Formula**

$$b = \frac{s}{d}$$

b = average daily balance

s = sum of daily balances

d = total days in billing cycle

Skill 1

- Pauly VISA account has a monthly interest rate of 1.4%. He had the following daily balances and payments for the month of January:
 - From 1/1 to 1/23 his daily balance was \$331
 - On 1/24 he made a payment of \$60
 - From 1/25-1/31 his balance remained \$271
- What is the average daily balance, the monthly finance charge, and the ending balance during the month of January?

Skill 1

Dates	Payment	Balance at End of Day	Number of Days	Sum of Daily balances
1/1-1/23	0.00	\$331.00	23	\$7613.00
1/24	\$60.00	\$271.00	1	271.00
1/25-1/31	0.00	\$271.00	7	1897.00
			TOTAL: 31	\$9781.00

Average daily balance

$$b = s/d$$

$$b = 9781/31 = 315.52$$

- Finance charge
 - = $0.014 * (315.52) = \$4.42$
- Ending Balance for January:
 - = $271.00 + 4.42 = \$275.42$

- January, March, May, July, August, October, December = 31 days
- April, June, September, and November = 30 days
- February = 28 days
- Tricks?
- Knuckle trick

- Try Your Skills

- P285-286

- #1-3