

Credit 202

Interest on Credit Cards



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Interest Rates

- Interest rates are present on virtually all credit cards and are usually double digit rates. Credit cards charge interest on any remaining statement balance amount you don't pay each month.
- If you have a credit card, you may see a Daily Period Rate (DPR) and an Annual Percentage Rate (APR) listed. You aren't charged two different interest rates but rather will calculate the DPR based off your APR.
- For example, if your APR is 15.99%, your DPR is 15.99% divided by 365 (for the days in the year) which equals .0438%.


Payments made after interest begins accruing will go towards those charges first which causes the build up of debt.

Interest Rates

- If your statement balance is \$1000 and you only pay \$975 by the due date, \$25 will be charged .0438% interest daily until you have paid that amount from the previous statement balance.
- However, if you pay your statement balance in full each month, **you will never have to worry about paying interest...ever.**

Statement Balance vs. Account Balance

- Remember, your statement balance is a snapshot of all the purchases made within your 30-day billing period and your account balance is the amount that you owe in real-time.
- Your account or total balance is what shows when you log in and view what you currently owe. This is **not** what needs to be paid in full in order to not pay interest on your credit card.

	\$5,990.75		
	Current balance	\$1,979.84	Feb 28, 2021
	Details ✓	Remaining statement balance	Payment due
	\$1,459.24	\$35.00	
	Available credit	Minimum payment due	

- In this example above, you would only need to pay \$1,979.84 on 02/28/2021 in order to not pay interest; **not the \$5,990.75**. Once the \$1,979.84 payment is made, your new statement balance would be \$4,010.91 (plus any new purchases made) and would be due on 03/28/2021.
- Any amount paid less than \$1,979.84 would then be subject to all interest starting on 02/29/2021.

- Paying interest on a credit card is never ideal and will keep you trapped in debt until you are able to use credit cards to their full potential without being charged interest. If the billing period of your card is from the 4th of the month to the 3rd of the next month with a due date of the 28th each month, you have almost 25 days before you have to make a payment with cash on purchases you have already made. In the previous example, the amount due on 02/28/21 was from purchases made in between 01/04/21-02/03/21.
- Most people would have at least one paycheck in between then. Without having to worry about interest, credit cards are tools that extend your cash flow instead of another way to keep you in debt.
- If you currently only pay the minimum payment and do not pay your statement balance in full each month, you want to **focus on clearing the debt first before putting this method into practice.**

Next Steps

- 1) Review your credit card statements and understand your billing period.
- 2) Pay off any remaining statement balance amount you may be carrying over or set a payment plan to clear the remaining statement balance amount in a reasonable amount of time.
- 3) After your purchases are no longer being charged interest, implement this strategy for all your credit cards.



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