

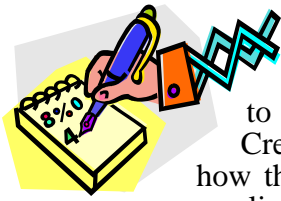


Consumer Issues

Spring 2004

Vol. 15, No. 2

Credit Card Interest Calculation Methods Can Save You Money



When choosing a credit card, you must consider the method each company uses to calculate finance charges. Credit card issuers must explain how the balance will be determined on applications, pre-approved solicitations, and billing statements. These companies calculate your finance charge (the amount you pay to use credit) by multiplying the outstanding balance by the periodic rate (the interest rate they charge you each billing period, depending on type of transaction) of your credit card plan.

◆ **Finance charge = Outstanding balance x Periodic rate**

The method credit card issuers use to determine your outstanding balance can make a big difference in the amount of your finance charge. Even though another card has the same annual percentage rate (APR), purchase patterns, and payment schedule, a different calculation process could cost or save you money. Most credit card companies use one of four methods to determine outstanding balances.

◆ **Average daily balance: With and Without New Purchases**

This is the most common method of finance charge calculation credit card issuers use. To compute your outstanding balance, they total the beginning balance for each day in the billing period and deduct any payments credited to your account that day. Credit card issuers may include or exclude new purchases in this calculation. However, cash advances are usually added on the day they occur. The resulting charges are totaled for the billing cycle and divided by the number of days in this period to provide the “average daily balance.”

◆ **Adjusted balance:**

This method is usually the most advantageous to credit card customers. Issuers compute the

balance by subtracting payments made and any credits you received during the current billing cycle from the balance owed at the end of the previous cycle. This amount does not include new purchases made during the current billing period. You have until the end of this cycle to pay part of your balance and avoid the interest charges on that portion. Some creditors exclude prior, unpaid finance charges from the previous balance.

◆ **Previous balance:**

This balance is the amount owed at the end of the previous billing cycle. Payments, credits, or new purchases made during the current billing period are not included. Some creditors exclude unpaid finance charges when computing this balance.

Consult the examples below to compare how different calculation methods influence the finance charges you might pay.

Sources:

The Federal Reserve Board. Oct. 22, 2003. *Shop—The Credit Card You Pick Can Save You Money.* <http://www.federalreserve.gov/pubs/shop>.

FTC Fast Facts: Choosing and Using Credit Cards. February 1993.

http://www.pueblo.gsa.gov/cic_text/money/credit-card/credcard.htm.

Inside this issue...

- ◆ *Credit Card Interest Calculation Methods Can Save You Money*
- ◆ *Plan to Give More in 2004? What You Should Know before Itemizing Charitable Contributions*
- ◆ *How Do You Prefer to Pay?*
- ◆ *Consolidating Discount Card Information*
- ◆ *Fair and Accurate Credit Transactions Act of 2003 Protects Consumers*

How Different Outstanding Balance Calculation Methods Can Cost or Save You Money

	Average Daily Balance (Including new purchases)	Average Daily Balance (Excluding new purchases)	Adjusted Balance	Previous Balance
Monthly Rate	1 ½%	1 ½%	1 ½%	1 ½%
APR	18%	18%	18%	18%
Previous Balance	\$400	\$400	\$400	\$400
Payments	\$300 (day 15)	\$300 (day 15)	\$300 (day 15)	\$300 (day 15)
New Purchases	\$50 (day 18)	\$50 (day 18)	\$50 (day 18)	\$50 (day 18)
Average Daily Balance	\$270*	\$250**	N/A	N/A
Finance Charge	\$4.05 (1 ½% x \$270)	\$3.75 (1 ½% x \$250)	\$1.50 (1 ½% x \$100)	\$6.00 (1 ½% x \$400)

*To figure average daily balance (including new purchases):

$$\frac{(\$400 \times 15 \text{ days}) + (\$100 \times 3 \text{ days}) + (\$150 \times 12 \text{ days})}{30 \text{ days}} = \$270$$

**To figure average daily balance (excluding new purchases):

$$\frac{(\$400 \times 15 \text{ days}) + (\$100 \times 15 \text{ days})}{30 \text{ days}} = \$250$$



Plan to Give More in 2004? What You Should Know before Itemizing Charitable Contributions

After filing your 2003 tax return, get a head start on 2004 by keeping a list of your charitable contributions. Before itemizing these contributions on your tax return, the Internal Revenue Service (IRS) urges taxpayers to keep the following points in mind:

- You can only deduct a charitable contribution if it is itemized on Schedule A of your 1040 tax return.
- Make sure the organization you donated to can receive tax-deductible contributions by calling the IRS Exempt Organizations toll-free hotline, 1-877-829-5500, or checking their Web site, www.irs.gov.
- Keep evidence of your monetary donations. Cancelled checks or credit card receipts are

- best. However, personal notes of small cash contributions are usually sufficient.
- If you donated property to a qualified organization, you can usually deduct its fair-market value at the time of contribution. For your records, obtain an itemized receipt of this donation.
- When a charitable organization receives a contribution that is also for goods and services rendered and more than \$75, they must give the donor a written statement. This statement must say that only the amount donated is deductible and include a good faith estimate of the value of the goods or services.
- For single contributions of \$250 or more, the donor must obtain a written statement acknowledging the contribution amount and a description of any goods or services provided in exchange. You must have this statement when you file your return.
- Your charitable contributions deductions are usually limited to 50 percent of your adjusted gross income, but in some cases 20 percent and 30 percent limits may apply.

For more information about what you can and cannot deduct, please review the IRS Contributions Publication Web site, www.irs.gov/publications/p17/ch26.html.

How Do You Prefer to Pay?

Consumers are using cash and checks less often to pay for in-store purchases. The American Bankers Association and Dove Consulting report that electronic options such as credit and debit cards are quickly surpassing paper methods of payment. The chart below shows how these trends have changed over the last 12 to 13 years. Similarly, these preferences are creeping their way into recurring bill payments. Some consumers are choosing to pay their bills electronically, either with automated withdrawal or online bill payment. Although checks are still the most preferred payment method for recurring bills, their popularity is declining. In 2001, 72 percent of bill payments were made using checks. By 2003, this percentage had fallen to 60 percent.



Consumer Payment Preferences for In-Store Purchases			
<i>Payment Method</i>	<i>2003-2004</i>	<i>2001</i>	<i>1991</i>
Cash/checks	47%	51%	57%
Debit cards	31%	26%	21%
Cash only	32%	33%	39%
Checks only	15%	-	-
Credit cards	21%	21%	21%
Other (i.e.-prepaid cards)	21%	2%	2%
Source: American Bankers Association 2003			

Consolidating Discount Card Information

Have you checked the growth rate of your purse or wallet lately? Is it bulging at the seams? To keep us as customers, many merchants offer discount or preferred customer cards, which have quickly taken over our wallets and purses. To manage this abundance, consolidate information. Place all the

discount cards that you have on a table. Alphabetize the companies and record card numbers on a single sheet of paper or card or use a computer. The next time you need to use a discount or preferred customer card, instead of shuffling through a deck to find the right one, take out this sheet. While these cards are often scanned, a clerk can usually manually enter their numbers.

Company Name	Member number	Toll-free number
Book store	1276648895	800-222-3333
Drug store		
Grocery store 1		
Grocery store 2		
Hotel 1		
Hotel 2		
Frequent Flyer		

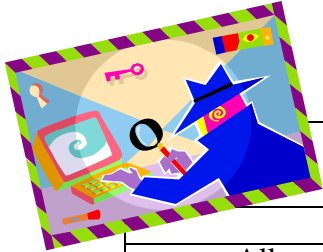
Upcoming Consumer Education Event

April 2004
Youth Literacy Month

Fair and Accurate Credit Transactions Act of 2003 Protects Consumers

On December 4, 2003, the Fair and Accurate Credit Transactions Act (FACTA) of 2003 was signed into law. It makes some amendments to the Fair Credit Reporting Act (FCRA) of 1996 permanent and creates several new amendments to help protect consumers against identity theft. However, rules and procedures must be established before the provisions become effective. The Federal Reserve

and Federal Trade Commission (FTC) expect these consumer protection provisions to begin on December 1, 2004. Until they take effect, consumers can still receive a copy of their credit report by contacting one of the three credit reporting agencies and paying less than \$10. The chart below provides the most important and recent information about FACTA 2003.



Fair and Accurate Credit Transactions Act of 2003 What consumers need to know!

<ul style="list-style-type: none"> • Allows consumers to obtain one free copy of their credit report annually. • Lets consumers see their credit score for a fee. • Gives consumers the ability to opt out of information-sharing between affiliated companies for marketing purposes. • Forces merchants to notify consumers if they report negative information about them to the credit bureau. • Allows consumers to place “fraud” or “active duty” alerts in their credit bureau file to help prevent identity theft. • Allows consumers to identify and block credit information resulting from identity theft from a credit bureau. • Prevents debt caused by identity theft from being turned over to a collection agency. • Restricts access to sensitive health information. • Provides consumers with “one-call-for-all” protection. Credit bureaus must share consumer calls on identity theft, including requests for fraud alert blocking. • Requires creditors to take certain precautions before extending credit to consumers who have placed “fraud alerts” in their files. • Requires lenders to provide a written notice to consumers if the terms of their credit are higher than prevailing market interest rates. • Stops merchants from printing more than the last five digits of a payment card on an electronic receipt.

Written by:

Cathy F. Bowen

Cathy F. Bowen, Ph.D.
State Extension Specialist Consumer Issues
Department of Agricultural and Extension Education
(814) 863-7870 E-mail: cbowen@psu.edu

This file may be accessed electronically at:
<http://consumerissues.cas.psu.edu/newsletter.html>

Assistance with the design and writing of this issue has been provided by Heather Jones and Betty Blair. Ms. Jones is a graduate student in the Department of Agricultural and Extension Education. Ms. Blair provides staff support in the same department.

© The Pennsylvania State University 2004

This publication is available in alternative media on request.

The Pennsylvania State University is committed to the policy that all persons shall have equal access to programs, facilities, admission, and employment without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. It is the policy of the University to maintain an academic and work environment free of discrimination, including harassment. The Pennsylvania State University prohibits discrimination and harassment against any person because of age, ancestry, color, disability or handicap, national origin, race, religious creed, sex, sexual orientation, or veteran status. Discrimination or harassment against faculty, staff, or students will not be tolerated at the Pennsylvania State University. Direct all inquiries regarding the non-discrimination policy to the Affirmative Action Director, The Pennsylvania State University, 323 Boucke Building, University Park, PA 16802-2801, Telephone 814-865-4700/V, 814-863-1150/TTY.