Methods of Calculating Credit Card Interest

Assume: APR 18 percent annually or .04931 percent daily (.0004931)

Statement received on April 1 with the following information:
- Previous balance as of March 1: $600
- Payment (on March 15): $400
- Purchase (on March 15): $100
- Days in the billing cycle: 30

1. Previous Balance Method:
The creditor would charge .0004931 times the previous balance of $600 times the number of days in the billing cycle (30). This would total $8.88. Your $400 payment on March 15 is ignored in calculating interest owed.

Previous balance method interest calculation = $600 x 30 x .0004931 = $8.88

2. Adjusted Balance Method:
You would be charged $2.96. That is: .0004931 times the adjusted balance ($200), which is the previous balance ($600) minus payments made ($400). This is multiplied by 30, the number of days in the billing cycle. This is the best deal for consumers, but it is rarely used by creditors.

Adjusted balance method interest calculation = $200 x 30 x .0004931 = $2.96
3. Average Daily Balance (ADB) Method

**Average Daily Balance Method (Including Newly-Billed Purchases):** The creditor would charge you $6.66. That is: .0004931 times the average daily balance, which was $600 for the first half of the month and $300 for the second half. Note that the average balance was $450 for the month. Using this method effectively eliminates the grace period on new purchases. The only way to have a no-interest grace period is by paying the outstanding balance in full each month.

$600 \times 15 \times 0.0004931 = \$4.44$

$300 \times 15 \times 0.0004931 = \$2.22$

**Interest charge for this method:** \$6.66