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.

Previous balance		**$600**
Payment	**-**	**$400**
Adjusted balance		**$200**

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 x 15 x .0004931 = $4.44
$300 x 15 x .0004931 = $ 2.22
Interest charge for this method: $6.66