

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

Bank Credit Card Financial Management Senior

Teri is 18 and graduated from high school this year. Terri needs a suit for a summer law clerk job and doesn't wish to draw from savings. Teri has received several bank credit card applications in the mail and wishes to charge the suit to establish a credit rating.

Teri will be carrying over a balance for several months because the suit will be paid out of the summer work checks. Although Teri has a work study job for the fall, Teri wants the cash advance option as a credit card choice as a back up when expenses are high this fall.

Interest rates have been quite stable this last year and will most probably remain so next year because of the election. Teri is sometime willing to take some risks in the long run if it will help in the short run.

Which bank credit card would be the best choice for Teri under these circumstances?

Standards/Criteria:

- 1. low interest because Teri will be carrying a balance**
- 2. interest calculated in the least expensive way**
- 3. interest rate on cash advance**
- 4. risk tolerance of the person if there are variable rates**
- 5. fees for cash advances and other services**
- 6. long grace period for last payment**
- 7. late fee charge**

The information given in this document is for educational purposes only. Reference to commercial products or trade names is made with the understanding that no discrimination is intended and no endorsement by the University of Minnesota Extension Service is implied.

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

#1
Bank 1 Credit Card

Annual Percentage Rate for Purchases	17.8%
Method of Computing the Balance for Purchases	3 cycle average daily balance (including new purchases)
Annual Fee	\$40 per year
Grace Period for Repayment of Balances for Purchases	A 25 day grace period is granted on new purchases when the entire purchase balance and cash minimum payment is paid in full by the payment due date. This amount is indicated on the monthly statement.
Minimum Finance Charge	\$50 for purchases if a finance charge is imposed
Transaction Fee for Cash Advances and Fees for Paying Late or Exceeding the Credit Limit	Transaction fee for cash advances: 2% of the amount of the advance (\$10 maximum, \$1 minimum). Late payment fee - \$10 if the amount due is \$2 or more. Over the credit limit fee - \$10

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

#2
Bank 2 Credit Card

Annual Percentage Rate for Purchases	19.8%
Method of Computing the balance for Purchases	Average daily balance (including new purchases)
Annual Fee	\$20
Grace Period for Purchases	20-25 days
Minimum Finance Charge	50 cents
Late Fee on Purchases and Cash Advances	\$10
Cash Advance Transaction Fee	At a financial institution, 2% of amount of advance but not less than \$2 or more than \$10. At an automated teller machine - \$1.75.

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

#3
Bank 3 Credit Card

Annual Percentage Rate for Purchases	17.5%
Variable Rate Information	None
Method of Computing the Balance for Purchases	Average daily balance (including new purchases)
Annual Fee	\$50*
Grace Period for Repayment of the Balance for Purchases	30 days on average
Minimum Finance Charge	50 cents
Transaction Fee for Purchases	None

* The annual membership fee is \$50 except for the first year your account is open when this fee is \$25. Billing of this fee is done automatically on your statement.

The Annual Percentage Rate for Cash Advances is 19.8%

Bank Credit Card
 Financial Management
 Senior
 Date: late 1980's or early 1990's

#4
Bank 4 Credit Card

Annual Percentage Rate (APR)	14.9% for average outstanding balances over \$4,000; 16.9% for lower balances as of 8/1/89.
Variable Rate Index and Spread	The APR may increase and will be determined by adding 8% to the 90 day Treasury Bill rate for balances up to \$4,000, and 6% to the 90-day Treasury Bill rate for balances of \$4,000 or more, rounded up to the next 9%.
Balance Calculation method	Average daily balance (including new purchases)
Annual Fee	\$0 the first 6 months, then \$25 per year
Grace Period for Purchases	Finance charges will not accrue on new purchases if you pay your entire balance by the payment due date shown on monthly statement.
Minimum Finance Charge	None
Late Fee	\$15
Cash Advance Fee	None
Transaction Fee	None
Over the Limit Fee	\$15

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

Bank Credit Card -- Financial Management Senior Official Placing

Placing: 4-2-3-1

Cuts: 4-2-3

I place this class of Bank Credit Cards 4-2-3-1.

In the top pair, Bank 4 credit card is placed over Band 2 credit card because it has the lowest interest rate of 16.9%. Although it is a variable rate, interest rates have been stable so the rate will most likely not increase greatly and Teri is willing to take that risk based on her risk tolerance. There is no annual fee for the first 6 months. Bank 2 credit card has a lower annual fee but the interest rate is higher and there are fees for the cash advance whereas Bank 4 credit card has no fees for the cash advance.

In the middle pair Bank 2 credit card is placed higher than Bank 3 credit card. Although bank 2 credit card has an overall higher interest rate, the annual fee is lower. Bank 3 credit card starts at \$25 for the first year but jumps to \$50 thereafter. The overall interest rate on Bank 3 credit card is lower but increases to the same rate as Bank 2 credit card for cash advances. The late fee is also greater on Bank 3 credit card.

In the bottom pair, Bank 3 credit card is placed over Bank 1 credit card. The overall interest rate is less for bank 3 credit card and the annual fee is less in the first year. The grace period is also slightly longer for Bank 3 credit card.

I criticize Bank 1 credit card and leave it at the bottom of the class because it is least attractive card because it calculates the interest by the 3 cycle average daily balance which results in a doubling of the interest charges. The annual fee is high and the APR is quite high as well. The minimum charge on the cash advance is also the highest of all the bank credit cards.

For these reasons I place this class of bank credit cards 4-2-3-1.

1234 - 23
1243 - 29
1324 - 21
1342 - 25
1423 - 33
<u>1432 - 31</u>
2134 - 28
2143 - 34
2314 - 31
2341 - 40
2413 - 43
<u>2431 - 46</u>
3124 - 24
3142 - 28
3214 - 29
3241 - 38
3412 - 37
<u>3421 - 42</u>
4123 - 42
4132 - 40
4213 - 47
4231 - 50
4312 - 43
4321 - 48

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

**Bank Credit Card -- Financial Management
Senior
Questions**

1. Which bank credit card had the highest annual fee? _____
2. Which bank credit card had the lowest interest rate? _____
3. Which bank credit card had the highest interest rate? _____
4. Which bank credit card's method of calculating the interest is the most costly? _____
5. Which bank credit card had the least extra charges for services? _____

**Bank Credit Card -- Financial Management
Senior
Questions**

1. Which bank credit card had the highest annual fee? _____
2. Which bank credit card had the lowest interest rate? _____
3. Which bank credit card had the highest interest rate? _____
4. Which bank credit card's method of calculating the interest is the most costly? _____
5. Which bank credit card had the least extra charges for services? _____

Bank Credit Card
Financial Management
Senior
Date: late 1980's or early 1990's

**Bank Credit Card
Financial Management
Senior
Questions**

1. Which bank credit card had the highest annual fee? #1
2. Which bank credit card had the lowest interest rate? #4
3. Which bank credit card had the highest interest rate? #2
4. Which bank credit card's method of calculating the interest is the most costly? #1
5. Which bank credit card had the least extra charges for services? #1