

7-2 Finance Charge: UnpaidBalance Method

Objective: Find the finance charge by using the unpaid-balance method.



There are different methods that credit card companies use to calculate the finance charge on accounts. The one we are going to learn today is called the **Unpaid-Balance Method.**

This method only computes the finance charge on the portion of the previous balance that has not yet been paid.

To figure the NEW BALANCE will take 3 steps.

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IMPORTANT FORMULAS

Unpaid Balance = Previous Balance - (Payments + Credits)

Finance Charge = Unpaid Balance X Periodic Rate(%)

New Balance = Unpaid Balance + Finance Charge + New Purchases



It is important to note that these 3 steps **MUST** be done in this order!

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Example 1: Your credit card company calculates the finance charge based on the unpaid balance on your account. When your monthly statement arrives, it shows you still owe \$140.00 on a digital camera that you bought 3 months ago. The periodic rate is 9.5%. You have made no new purchases. What is the finance charge? What is your new balance?

$$\begin{aligned} & \$140.00 \text{ unpaid bal.} \\ & \$140.00 \times 9.5\% = \boxed{\$13.30} \text{ - Finance Charge} \\ & \$140.00 + 13.30 = \boxed{\$153.30} \text{ - New Bal.} \end{aligned}$$

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Find the unpaid balance, the finance charge, and the balance. The periodic rate is 1.5%

Example 2:

| (Previous Balance - Payments & Credits = Unpaid Balance) | Finance Charge | + New Purchases | = New Balance |
|--|---------------------------------|-----------------|----------------|
| \$450 - \$150 = \$300 a. | $300 \times 1.5\%$ b. \$4.50 | \$85 | \$389.50 c. |
| \$188 - \$50 = \$138 a. | $138 \times 1.5\%$ b. \$2.07 | \$23 | \$163.07 c. |

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Example 3: Urban Keith had a previous balance of \$494.50. His payments and credits totaled \$125.27, The periodic rate on his unpaid balance is 9.5%. Urban had new purchases of \$87.48 and \$75.34. Find the new balance on his account.

Hint:

$$\begin{aligned} \$494.50 - 125.27 &= \$369.23 \text{ unpaid balance} \\ \$369.23 \times 9.5\% &= \$35.08 \text{ Fin. Charge} \\ \$369.23 + 35.08 + 87.48 + 75.34 &= \boxed{\$567.13} \end{aligned}$$

New Balance