

ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Credit Card Series I: Article 2 of 6

TIMES BUSINESS ASSOCIATE COMMUNICATION

Credit Cards Figure It Out

Raveendra has just received his credit card statement. The statement shows the total amount due as well as the minimum amount due. Which is the one to pay? What are the implications? Credit card is a convenience, but also a high-cost loan. Knowing how interest is calculated can help Raveendra plan his payments better. Let's figure out the calculation of interest on credit card dues.

Billing Cycle

Raveendra will periodically (once a month) receive a listing of his transactions. See image 1. April 15 is the statement date, capturing card transactions for the period March 15 to April 14, 2008. Raveendra gets about 15-20 days to make the payment. In image 1, the payment is due on May 4, 2008.

Free Credit Period

If Raveendra pays the total amount (total amount due as it appears on the statement) of Rs.6,500 on or before

IMAGE 1

YB YOUR Bank Credit Card		15-Apr-08
Statement date		15-Apr-08
Payment due date		4-May-08
Total amount due		6500
Minimum amount due		325
15-Mar-08	Opening balance	0
22-Mar-08	Good Lifestyle Store	4500
29-Mar-08	Quality Restaurant	2000

The rupee figures have been rounded off for ease of reading.

May 4, no interest will be charged to him. He enjoys a free credit period for his transactions, the maximum possible being 50 days, since purchases made on March 15 fall due for payment only on May 4. The minimum will be 19 days, since purchases made on April 14 also will need to be paid by May 4.

Minimum Amount Due

Paying the minimum amount due indicates that Raveendra is willing to pay interest on his dues. The minimum amount is usually 5% of the total amount due on a card, or Rs.100 whichever is higher. In image 1 the minimum amount due is Rs.325; and in image 2 it is Rs.475.

Rate of Interest

The rate of interest on a credit card is quoted as a monthly rate. But it is applied on a per-day basis. For example, if the quoted rate is 3.15%

per month, the rate applied is 3.15% x 12/365 per day. This is 0.104% per day, or 38% per annum. However, this rate is reduced for good customers, on the basis of their repayment behaviour on the card. Regular and timely repayments can help Raveendra revolve his credit card dues, if he does want to, at a much lower rate.

Interest Concepts

If Raveendra does not pay in full on or before the due date, interest calculation is triggered. On May 15 when the next bill is raised, interest is computed for every transaction

IMAGE 2

YB YOUR Bank Credit Card		15-May-08
Statement date		15-May-08
Payment due date		4-Jun-08
Total amount due		9506
Minimum amount due		475
15-Apr-08	Opening balance	6500
22-Apr-08	Novelty Gifts	2500
15-May-08	Interest on outstanding dues	410
15-May-08	Late payment fee	98

The rupee figures have been rounded off for ease of reading.

from the date of the transaction to the date of the bill. This will apply for all transactions, including those for the period April 15 to May 15. By not paying in full, Raveendra no longer enjoys a free credit period.

Interest Calculation

The number of days from each transaction to the statement date of May 15 is calculated. Each transaction amount is multiplied by the number of days and the per day interest. The purchase for Rs.4,500, for example, was made 54 days before May 15. Therefore, $4500 \times 54 \times 0.104\% = \text{Rs.}253$. This is the interest due on this outstanding amount. See image 3. The total of all such dues appears on the billing statement on May 15. See image 2.

Late Fees

If the minimum amount is also not paid, 30% of this amount is charged as late payment fee, and added to the next billing statement. See image 2.

Raveendra can choose to make his payments according to his convenience.

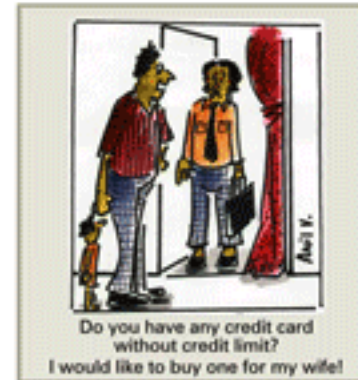
But interest is payable on the credit he uses, for the number of days he uses it. Lack of this understanding can lead Raveendra towards a debt trap, as we shall see next week.

Center for Investment Education and Learning

IMAGE 3

YB YOUR Bank Credit Card			Number of days to 15th May	Interest per day	Interest payable
22-Mar-08	Good Lifestyle Store	4500	54	0.104%	253
29-Mar-08	Quality Restaurant	2000	47	0.104%	98
22-Apr-08	Novelty Gifts	2500	23	0.104%	60
					410

The rupee figures have been rounded off for ease of reading.



DID YOU KNOW?

The credit limit in a card applies to the total amount due and not to the value of the transactions. Rolling over the dues in a card adds an interest component to the dues and can effectively reduce the limit available to spend.

FAQs

I made part payment of the amount due, before the due date. How will interest be calculated?

If the minimum amount due is paid or if part payment is made, the calculation of interest is split into two. Up to the date of part payment, interest will apply on the entire amount due. From the date of part payment till the date of the next billing statement, interest will apply on the reduced amount.

I had an emergency and used my credit card to draw money. Will interest be charged on this?

Yes, interest will be charged on all cash withdrawals from the very same day. Cash withdrawals do not enjoy a free credit period, because they do not represent any purchase transaction with a merchant. Interest is payable from the date of withdrawal to the next billing date, at the interest rate applicable to the credit card.

I made out a cheque for the minimum amount on the due date, but was still charged late fee. Is this not wrong?

Well, this depends on your bank. Some banks consider the cheque-deposit date as the credit date while most banks consider cheque-realization date as the credit date. In the latter case, you should arrange payment such that your card account is credited on the due date. If you make out a cheque on that due date, the credit to your card account with the bank will happen only a few days later when the cheque is realized. Taking the option of an auto-debit is recommended, since it ensures funds transfer precisely on the due date.

GET SET KNOW

CONTEST

Question
The minimum amount due on a credit card is usually _____.

Answer
A. 50% of the total dues
B. 5% of the total dues
C. 10% of the total dues

To answer SMS DISHA A, B, or C to 53030 and win a 2N 3D Holiday*.
* Terms and conditions apply. Visit www.dishac.com for details and winners.

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send as an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

TIPS TO KNOW YOUR CREDIT CARD BETTER



TIMELY PAYMENT

Make your payments before the due date. Subscribe to auto-debit and e-statements to avoid missing deadlines.

ICICI Bank

www.icicibank.com