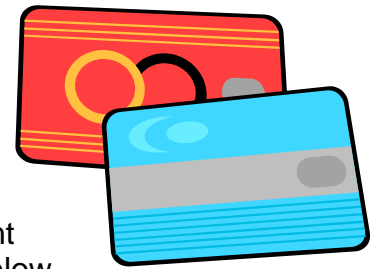


Assignment 5: CREDIT CARD DILEMMA



In his spare time, John loves to buy old cars and fix them up. John currently has 2 credit cards. One is a Canadian Tire Advantage MasterCard. The other is a ACME Bank Low Interest VISA. The amount owing and the way each credit card works are contained in the table below.

Credit Card	Amount Owing	Credit Limit	Interest Rate	Minimum Payment Percentage	Annual Fee	Other features
Canadian Tire Advantage MasterCard	\$532	\$5 000	25.99% per year on outstanding balance*	3% of outstanding balance per month	None	Gas discount of \$0.02 to \$0.10 per litre at Canadian Tire gas bar and special offers on auto parts
Acme Bank Low Interest VISA	\$58	\$5 000	11.99% per year on outstanding balance*	5% of outstanding balance per month	\$29 (added to first bill)	None

* No interest will be paid on new purchases if payment in full is made within 21 days of receipt of statement (grace period), BUT interest is paid on cash advances from the date of the advance

1. Why do you think that John has the Canadian Tire card?

2. What is the benefit of the ACME Visa?

Up until recently, John was fairly responsible in the way that he used his credit cards because he always paid them off in full at the end of each month.

Then John saw a used Ford Mustang that he wanted to buy and fix up. The cost of the car was \$3 500. John didn't have the money saved up for the car but decided to get a cash advance on his Canadian Tire card for \$3 500. He also spent \$1 022 for parts to fix the car and to make a large insurance payment. Now, John is thinking that he might be in over his head but thinks that as long as he can make the minimum monthly payments he isn't too concerned.

John meets with his Acme banker to get her advice. Assume that John is going to have to make minimum payments only at first. After buying the car and related purchases, John now owes **\$4 522** on his Canadian Tire card and **\$229** on his VISA.

3. What would John's minimum payment be for each credit card this month?

4. What will John's total minimum payments be this month?

John's banker shows him the following table. He is shocked to learn how long it will take him to pay off each of these credit cards if he pays only the minimum payment.

Credit Card	Amount Owning	Number of Years to Pay Back at Minimum Payment	Total Interest Cost
Canadian Tire Advantage Mastercard	\$4 522	31 years	\$11 139.46
Acme Bank Low Interest VISA	\$229	2.7 years	\$85.56
Total	\$4 751		\$11 225.02

John's banker suggests he take advantage of his VISA's credit limit to transfer his outstanding balance from his Canadian Tire card to his VISA. She says he should do so and then cancel the Canadian Tire card and just keep the VISA card. Here is John's new credit situation if he takes the banker's advice.

Credit Card	Amount Owning	Number of Years to Pay Back at Minimum Payment	Total Interest Cost
Canadian Tire Advantage Mastercard	\$0	N/A (cancelling card)	\$0
Acme Bank Low Interest VISA	\$4 751	8.4	\$1 160.79
Total	\$4 751		\$1 160.79

5. How much will John save in interest by moving his Canadian Tire balance to his VISA?

6. How much sooner will John has his credit card paid off?

7. What are the two reasons that John is able to pay his credit card off sooner and save interest?

8. Why is the banker suggesting John only have one credit card (his VISA)?

9. What other advice can the banker give John?

10. What can happen to your ability to get a credit card or borrow money if you don't pay money back on time?
