

"Cost of Credit"
Answer Key

(Answers are based on the credit card agreement found on page 498 of the JC Penny Fall/Winter 2004 catalog)

1. What is the APR?
21%
2. What does APR stand for?
Annual Percentage Rate
3. What does that mean?
The finance charge per year will average 21%
4. What would the monthly interest rate be? (APR divided by 12)
21% divided by 12 = 1.75% a month
5. What will happen if you are late making your credit card purchase for one month when your balance is under \$50.00?
You will be charged a late payment fee of \$10.00
6. What will happen if you are late making your credit card purchase twice in a six month period?
Your interest rate will increase to 24.99%
7. What method of computing the balance for purchases does the credit card company use?
Average Daily Balance (including new purchases)
8. What is the minimum finance charge?
\$1.00