

What is Credit Card Interest?

Worksheet

Credit card interest is the annual percentage rate (APR) charged on your balance. Higher APR means higher costs — typically 15–25% for most cardholders.

Questions

1. \$2,000 balance at 18% APR. Monthly interest?
A) \$30
B) \$360
C) \$18
D) \$180
2. Which fee is charged for missing the payment deadline?
A) Annual fee
B) Late-payment fee
C) Overdraft fee
D) Foreign transaction fee
3. Higher credit score = lower APR. True or false?
A) False
B) True
C) Only for secured cards
D) Only for annual-fee cards
4. What's the best strategy to avoid credit card interest?
A) Pay minimum each month
B) Pay balance in full each month
C) Let interest compound
D) Skip payments
5. \$1,000 balance at 18% APR. How much interest accrues in one month?
6. \$5,000 balance, 22% APR, no payment. Interest after 3 months?
7. Annual fee 95 + 20% APR on 2,000. Total year-one cost if unpaid?
8. Define: What does APR stand for?
9. Define: What's a typical credit card APR?
10. Define: Does an annual fee apply to all credit cards?

Answer Key

1. A) \$30 — Monthly rate = $18\% \div 12 = 1.5\%$. Interest = $2,000 \times 0.015 = 30$.
2. B) Late-payment fee — Late-payment fees typically range 25–40 when you miss the due date.
3. B) True — Lenders offer better rates to borrowers with higher credit scores.
4. B) Pay balance in full each month — Paying the full balance monthly avoids all interest charges.
5. Monthly rate = $18\% \div 12 = 1.5\%$ Interest = $1,000 \times 0.015 = 15$ New balance = $1,000 + 15 = \$1,015$
6. Month 1: $5,000 \times (22\% \div 12) = 91.67 \rightarrow$ balance 5,091.67 Month 2: $5,091.67 \times 0.0183 = 93.18 \rightarrow 5,184.85$ Month 3: $5,184.85 \times 0.0183 = 94.88 \rightarrow \$5,279.73$
7. APR cost = $2,000 \times 0.20 = 400$ Total cost = $95 + 400 = \$495$
8. Annual Percentage Rate — the yearly cost of borrowing on credit cards.
9. 15–25% for most cardholders; varies by credit score and card type.
10. No — many cards are free; premium cards charge 95–450/year for benefits.

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