

What Exactly Are Finance Charges

If you have a credit card, you probably know all about the various fees and charges that may be assessed to your account balance throughout the course of the year, including annual fees, the APR, late payment fees, and so on. Most of these fees are just a part of using your card and unfortunately, many cardholders find themselves paying late payment fees more often than not. All of the other fees are unavoidable. At this time, the focus will be upon another fee that comes with using a credit card: the finance charge.

So what exactly is a finance charge? Simply put, a finance charge is the actual dollar amount that you, as the cardholder, will be required to pay to a credit card company in order to access your card's credit line. It is a fee that will vary depending upon other factors of your account such as the APR and the amount of your outstanding balance.

With the outstanding balance, most card companies have different ways of establishing calculating what the consequent finance charges will be for that card. This factor by itself has more to do with what you will end up paying than even the APR, although it is a part of the finance charge calculations. The next question, obviously, is how this outstanding balance is calculated.

Essentially, your card's outstanding balance is either calculated in one billing cycle but often within two. There are different types of balances by which this can be accomplished.

- the adjusted balance
- the average daily balance
- the previous balance

What these three balances have in common is the fact that you will also need to determine whether you will be including or excluding any of the new or recent purchases in the balance. With all of this information established, you will have calculated your credit card's basic finance charge.

There are other things to consider as well, including the variability of your finance charges. For instance, your finance charges will be lower during that particular cycle based on the amount of your carry-over balance as well as the time period in which both purchases and payments were made to the account.

There is yet another point to mention about finance charges. There are many credit card companies that offer cards with a minimum finance charge. This is like having a flat rate on your finance charge that will not vary with the different types of balance or whether the amount of the balance. The minimum finance charge is activated when the payment of the finance charge is necessary. This happens when the card has a carry-over balance that overlaps the next billing cycle.

The finance charge is another unavoidable cost associated with credit cards but by knowing more about it you can keep you from being charged a wrong amount or paying for charges that are not applicable. Take the time to read about your card's terms and uses and see what it says about the calculation of finance charges. You will be able to determine what impact these charges have to your balance—and your wallet—over time.