

Credit Card Statements and Billing Cycles

We're often surprised when we look at our "current" credit card statements. Not just because of how much we're charging, but the balance always seems to be a number that we wouldn't have guessed. Depending upon where we are in the billing cycle, the "real" current balance is often quite different than what we see due to timing and the billing cycle. E-bills, e-statements and online accounts have complicated the issue, and we're often surprised by transactions that appear or don't appear on the statement at different times. Let's take a look.

When a statement is received in the mail, or we receive an email alert that it's now ready, the bank or company has taken a snap-shot of the account. These amounts are frozen in time on the date that the snap shot was taken, but our accounts are not... we're actively using them. This is important because the timing of purchases hitting the account (and payments and credits for that matter) change the balance almost continually. The statement is one of those pieces of information that is obsolete the moment we get it, but it's a point of reference and not a terrible system when we stay aware of how it works. We have all had a purchase show up on our statement sooner than we expected, or experienced a delay in billing. If we're budgeting and managing our finances, this can often throw things off for several months.

Here's a simple example:

I receive my statement on December 1st, and my credit card balance is \$1,000.00. This is a snap-shot in time of the account. It shows the balance on that date (Dec. 1st), any transactions during the month up until that date (including the payment I sent last month), any interest charged, and a minimum payment due. The statement shows how the account looked on December 1, 2012 from the accounts perspective. If I made a purchase two weeks before that from a company that doesn't bill until they ship the merchandise, and they ship it December 2nd, then it would not appear on the statement or affect the account balance on the statement.

On my statement, the Payment Due Date is December 15, 2012. This is when my payment on the account needs to be received, but it's important to note that from December 1st (the day of the snap-shot) until December 15th, any charges that I make are affecting the account balance, and I wouldn't see these transactions unless I looked at the account online. Let's say that the day I decide to mail the payment (yes, I still mail some of them) is December 09, 2012.

I mail a payment on December 9th so that it's received by the 15th (the Payment Due Date), and I decide to pay half the balance and send \$500.00 (on my statement the balance was \$1,000.00). Over a week has gone by since the account snap-shot (December 1st), and I've charged gas for the car, a dinner with family, and some clothing, all of which total about \$225.00. What does the account look like now? It depends...

It was \$1,000.00 on my statement, I'm mailing a \$500.00 payment (but they haven't received it yet), and I've made some purchases (\$225.00). The account balance will be \$1,225.00 if all of the charges have hit the account.

So, the \$500.00 payment that I'm sending (thinking I'm paying half the balance) will be applied to the new \$1,225.00 balance when they receive it. But wait, my billing cycle ends on the last day of the month. The snap-shot was taken on the 1st and the next one won't be taken until the first day in January. It's only December 9th. There will be more changes to the account before the next snap-shot.

Time goes by and it's now December 20th and again I need gas for the car, and some toner for my home printer. I charge another \$198.00, and the month (my billing cycle) isn't over yet. It ends on January 1st. In the next ten days (before January 1st) I end up charging another \$80.00, which brings my total charges for the month (the billing cycle) to \$503.00. How do things look now?

In January, I get a new statement (snap-shot in time) dated January 01, 2013.

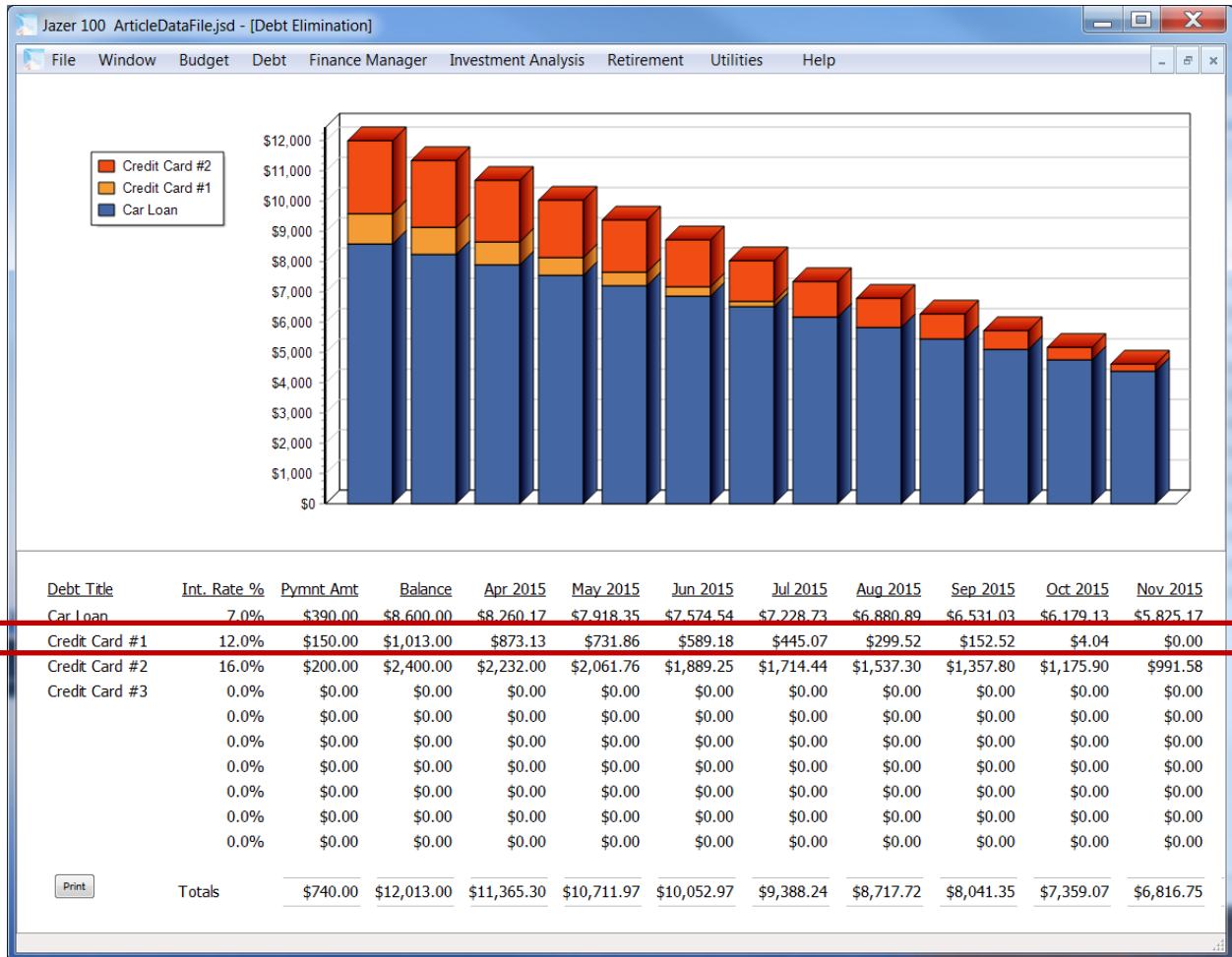
Starting Balance:	\$1,000.00	
Charges for the month:	\$503.00	
Payment Received:	\$500.00	
Interest Charged:	\$10.00	(12%)
New Balance:	\$1,013.00	

Wow, I thought that I paid half the balance. This isn't working out. I keep forgetting that the snap-shot balance is always in the past, and that I'm adding to it as I charge. My payment in this case doesn't really put a dent in the balance (at least not the dent that I thought it would). In fact I'm losing ground.

When I receive my statement, I'm making a payment based on the balance shown. Budgeting specific amounts based on what I really charge on the card would be much better. This way the billing cycle will have less of an impact on the account, and it's a good financial management

practice. I need to establish an amount that I typically charge each month, and then establish and budget a payment that reduces the total balance.

Using the scenario above, if I budget a \$650.00 payment each month for this credit card, and I can hold my charging to a budgeted amount of \$500.00 each month, then I can make some progress eliminating the balance and have more control over my finances.



To see the results, I set the payment amount using the budgeted \$650.00 payment minus the budgeted \$500.00 that I will be charging each month. The difference of \$150.00 is the progress I'll make on the balance. The 12% percent interest rate is used in the calculation. As shown above, if I hold to this plan, I will eliminate the balance in seven months. There are two things that will make this plan work. First, the maximum that I charge for the month must be the budgeted amount (in this case \$500.00). Second, I have to maintain the \$650.00 payment each month. Then regardless of the billing cycle, my payment will keep pace with my monthly charging. At the end of 7 months

when the balance is eliminated, I can lower the monthly payment to \$500.00 which is the budgeted charging amount. This will free up \$150.00 to apply to another area of my finances.

We can eliminate some financial surprises by understanding the cycles of banking and credit cards. There will always be exceptions to the rule and months when things don't quite add up, but we'll know what's going on and how to get things back in line with our financial plans.

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