



# Guide to Credit Cards

Credit cards are a valuable and convenient payment tool. They allow you to make purchases 24/7, around town, around the world, or from the comfort of your home. They are also very useful for unexpected expenses or emergencies. However, it is important to use credit cards wisely. This Guide will help you understand how credit cards work and the terms and conditions that typically apply to them.

## Annual Percentage Rates

### *What is the APR?*

For credit cards, the Annual Percentage Rate or APR is basically the interest rate. The APR is applied to your balance to calculate the interest you owe. The dollar amount of interest you owe is shown as a **finance charge** on your billing statement for any month you are charged interest.

### *Can different APRs apply to the same card?*

Yes. Different APRs may apply to different types of balances. While you may think about having a single balance, depending on how you use the card, you might actually have several types of balances. The following are examples of some common types of balances. Each balance usually includes interest charges and fees related to the transactions as well.

**Purchases balances.** Purchase balances reflect transactions you made in order to purchase something in a store or online. Some also have special purchase balances for promotional purchases. Account fees, such as late fees, are usually added to the main purchase balance.

**Cash advance balances.** Many credit cards let you get cash advances from ATMs, convenience checks, or at a bank. This can be useful when you need cash in an emergency. Be aware, however, that you usually pay interest from the date you take the cash advance. In addition, you usually pay a higher APR on cash advances and a transaction fee.

**Balance transfer balances.** Many credit cards allow you to transfer balances from other creditors. You may get a promotional offer with a low APR on transferred balances for a limited amount of time. This can save you money, but only if you manage your account wisely. Be aware of the balance transfer offer fully before accepting it. You should make sure you understand:

- How long the initial APR lasts and the APR that applies afterwards.
- The events that may cause you to lose the low APR. For example, if you are late on a payment or go over your limit, the APR may change.
- If, in order to continue qualifying for the introductory rate, you are required to make a minimum number of purchases each month.
- If a transaction fee applies to the balance transfer. If it does, see how much the fee will reduce your savings from a lower APR.

## ***What should I know about an introductory APR?***

Some credit cards offer low introductory APRs. The low APR usually ends after a number of months. Then a higher APR applies. Before you accept a low APR offer, make sure you understand:

- How long the introductory balance lasts
- The APR that applies afterwards
- Any conditions
- The events that may cause you to lose the low APR. For example, your APR may change if you make a late payment, go over your limit, or you fail to make a minimum number of purchases each month. In such a case, pay close attention to the impact of payment allocation, as discussed below.

## ***How and when can the APR change?***

Over time, your APRs may change for a variety of reasons. Some changes depend on your behavior. Some changes depend on market conditions.

**Automatic APR changes triggered by your behavior.** Some credit cards will automatically increase your APR based on your behavior. For example, your APR may go up if you pay late, go over your credit limit, or have your payment returned because you do not have enough money in your bank account. The specific events that can trigger an APR increase will appear in or near the special summary box on the application. If the APR goes up, the higher APR will appear on your billing statement.

**Changes in APRs with advance notice.** Most credit card terms can be changed with advance written notice. The notice will often come in your billing statement the month before the change goes into effect. You will usually have the chance to reject the change and pay the outstanding balance over time at the old APR, but you may have to close the account to do so. The APRs and terms may change for a number of reasons. These include changes in your credit history and market conditions.

**Changes to variable rate cards.** Variable APRs change based on general market interest rate conditions. They are usually tied to an interest rate index, such as prime, and change when the index changes. The rate is determined by adding the index to a margin established in advance (for example, prime plus 10 percentage points). The changes are made periodically, depending on the individual card issuer. Changes to APR will appear on your billing statement.

# **Grace Periods on Purchases**

## ***What is the grace period on purchases?***

Most credit cards give you the chance to avoid interest on purchases (in effect, an interest-free loan) if you pay your credit card bill in full by the due date. This is called the grace period on purchases. The grace period is the period between the date of the purchase and the due date. To get it, you usually must pay your bill in full every month. When the grace period does not apply to purchases, you will pay interest on the purchases from the date of the transaction. Most credit cards do not give you a grace period on cash advances and balance transfers. You usually pay interest from the date of each cash advance or balance transfer.

### **TIP**

If you do not pay in full, pay as soon as you can. Do not wait for the due date. The sooner you pay, the less interest you will owe.

## ***What happens to the grace period if you paid in full one month and the following month you do not pay in full?***

If you do not pay in full one month, you will lose the grace period. Typically, you will owe interest from the first day of the billing period in which you did not pay in full. This means that if you paid in full in January, but only paid part of the bill in February, you will pay interest from the first day of the February based on the full average daily balance for the February billing period when your bill arrives in March.

## Effect of Paying the Minimum

### *What if I only pay the minimum amount due?*

If you consistently pay only the minimum on your credit card, it will take you a long time to pay off the balance. You may end up paying a lot of interest. The amount of interest will depend on your APR and the amount of your balance.

### TIP

Pay as much as you can, as soon as you can, and always pay by the due date.

## Late Payments

### *What if I do not pay on time?*

If you do not pay at least the minimum amount due, credit cards will charge a late fee. Paying late may also cause your APRs to increase.

### TIP

To avoid paying late:

- Schedule payments online.
- Set up automatic payments, online or by phone or mail.
- Pay by phone. However, you may be charged a fee.
- Mail payments at least one week before the due date.
- Request a due date that suits you.
- Call your credit card company if you are going to pay late. It may offer alternatives.

## Credit Limits

### *How do I know what my credit limit is?*

The credit card company will tell you your credit limit when you first get your card. Over time, based on your needs, usage, and qualifications, the limit may change. Your current credit limit appears on your billing statement each month.

### *What happens if I go over my credit limit?*

If you go over your credit limit, you may have to pay a fee. In addition, your APRs may increase. Be aware that you may go over your credit limit even if the transaction is authorized. So keep track of your transactions and how close you are to your limit.

### TIP

Keep track of your balance by checking your balance online or by phone. Take into account that interest accrued can put you over your credit limit.

Contact your credit card company issuer in advance if you need a higher limit.

## Payment Allocation

### *How are payments applied and why does it make a difference?*

Depending on how you use your card, you might have different types of balances with different APRs. For example, you may have one APR that applies to purchases and a different one that applies to cash advances or balance transfers. Usually, your payment will be applied first to the balance that has the lowest APR. This means that balances that have higher APRs will not be reduced until the balances with lower APRs have been paid off. In other words, you will be paying longer on the higher APR balances, which will cost you more.

### *What other fees might I pay?*

- Annual fees
- Late fees
- Returned payment fees
- Cash advance fees (using ATM or convenience check)
- Balance transfer fees
- Foreign transaction fees
- Expedited card replacement fees

## How do I Choose a Card?

Which card is right for you depends on how you use the card. The credit card industry is a highly competitive one, so there is a broad range of choices. Shop around for the one best suited to you.

**If you always pay in full each month.** If you use the card as a convenient payment mechanism and pay in full each and every month, look at the annual fee and grace period. In addition, you should look at the other features and benefits the card offers. For example, if you travel, you may be interested in frequent flier miles, lost baggage coverage, and car rental coverage. Or you may want cash back. Some people like the peace of mind offered by warranties for products bought with the card. You might prefer a card that contributes to your favorite charity.

### TIP

Be honest with yourself — select a card not based on how you hope to use the card but how you are most likely to use the card.

**If you sometimes do not pay in full.** If you think you will at some time not pay the balance in full at the end of the month and expect to pay interest or finance charges, you should focus on:

- The APRs for the different types of balances
- How the APRs can change

## Where do I find information about individual credit card terms?

**Applications.** The most important terms appear in or near a summary table or box that comes with every application. Read carefully. Under some circumstances the final terms may be different, so check the materials that come with the card. If you do not like the final terms, close the account and choose a different card.

**Materials that come with the card.** Important terms must be noticeable in the materials that come with the card. Terms such as the APRs must be highlighted. Review all materials to ensure you understand the terms most important to you. Contact your credit card company if you do not understand.

**Billing statements.** The billing statements highlight important information. This includes any interest or other finance charges incurred for that month, the due date, and the balance due. It also includes the APR for each type of balance, the credit limit, and information about specific transactions.

## If I apply for a credit card, will I receive a card with the terms offered in the application?

Usually, you will receive a card with the terms offered. But there are exceptions. Whether you get the terms stated in the application, or whether you get a card at all, may depend on verification of certain information. This information usually includes your income and credit history. For example, some offers list more than one APR. In that case, the APR you get will be determined once you have submitted the application and the credit card company has reviewed your credit report and confirmed other information, such as your income.



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