<p>You’ve heard about credit cards. You see people swipe them at the register. But you’re not entirely sure what they are or what purpose they serve? If that’s you then read on.</p>

<h1>What Is a Credit Card?</h1>

<p>Simply put, a credit card is a short term loan given to you by a credit card issuer.</p>

<p>It is a plastic (or metal) card that you can use to make purchases. When you use a credit card, you are borrowing money.</p>

<p>A credit card is not inherently good nor bad. It is a financial tool whose value depends on how you decide to use it. Although there are a lot of benefits that can be had by using credit cards, it can be easy to misuse them and cause more harm than good to your finances. That is why we encourage everyone to learn <a href='https://www.getmoneystaybummy.com/post/3/how-to-responsibly-use-credit-cards'>how to responsibly use credit cards</a>.</p>

<h1>How Do They Work</h1>

<p>The main gist is as follows. Your credit card statement (how much you owe) will be calculated in monthly intervals. Once a month, your statement will end and it will include every transaction and payment that processed in the previous month. You will have a “grace period” of 25-30 days. You can pay it back within this grace period and you wont be charged interest. Alternatively, you have the option to pay only the minimum amount due and pay your full balance back over time, but with interest charges — We always recommend to pay your balance in full every single month and to never carry a balance past your due date.</p>

<h1>How Do Credit Card Companies Make Money?</h1>

<p>There are various ways credit card companies make money. For one, they charge merchants every time you use your credit card (merchant fees). They also collect other fees. Fees such as annual fees, late payment fees, cash advance fees, and foreign transaction fees. But their biggest profit comes in the form of interest payments. Credit cards carry some of the highest interest rates in the market. Interest rates of 14% - 26% are not unheard of. The fact that the average person will at some point in their life carry a balance and pay interest allows these companies to be profitable. So much so that they can afford to offer many incentives to encourage credit card usage. These incentives vary card to card but some common ones include cash back, points (redeemable for products/services), purchase protection, extended warranties, and car rental insurance.</p>

<p>Unfortunately, there are people that are not educated on how to responsibly use credit cards and end up forking money over to the credit card companies.</p>

<p>On the other hand, that means that for us that take the time to educate ourselves on how to responsibly use credit cards, we can use them and receive all the benefits while avoiding all of the pitfalls.</p>

<p><strong>RELATED: </strong><a href='https://www.getmoneystaybummy.com/post/2/why-you-should-use-credit-cards'>Why You Should Use Credit Cards</a></p>

<h2>We can use them [credit cards] and receive all the benefits while avoiding all of the pitfalls</h2>

<p>Here are some terms you should know:</p>

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<li><strong>APR: </strong>This stands for “annual percentage rate”. It is the price you pay for borrowing money stated as a yearly interest rate.</li>

<li><strong>Credit Limit: </strong>The amount of credit available to you by the issuer.</li>

<li><strong>Current Balance: </strong>The current amount that is owed.</li>

<li><strong>Minimum Payment Due: </strong>The minimum amount you must pay on your due date to stay in good standings.</li>

<li><strong>Payment Due Date: </strong>The date that you must pay at least the minimum amount due in order to stay in good standings.</li>

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