



# Understanding Credit Cards

## Advanced Level

Credit cards are a form of open-end credit. A **credit card** is a plastic card that you can use to access a line of credit that has been established in advance. When you pay for a purchase with a credit card, you are borrowing money. A credit card allows you to continue borrowing with each consecutive purchase as long as the **credit limit** (the maximum dollar amount that can be borrowed) is not exceeded; the exact credit limit varies among cards.

You pay interest each month on the balance of the credit card that is not paid in full. The longer you take to pay off the total balance, the more you will pay in interest. The rate at which interest is charged on a credit card account is expressed in terms of the **annual percentage rate (APR)**, which is the cost of credit expressed as a yearly interest rate.

Credit card companies require at least a minimum payment (usually monthly) on the amount owed. However, the minimum payment is usually only a small percentage (2.5 – 5%) of the total balance, enough to cover the interest charge for that month but not much more. Consequently, if you only pay the minimum payment each due date you will make very slow progress toward paying off the total card balance.

Take Miranda for example. To prepare for her first semester of college, Miranda purchased a new computer for \$1,000 and textbooks for \$500, spending a total of \$1,500 on her credit card charging 15% APR. It would take her 11 years to pay off the balance if she made only the required minimum payment of \$30 (and make no additional charges to the credit card). Counting the \$1,413 in interest paid, she would end up paying \$2,913 for the computer and textbooks. A larger payment of \$135 per month would allow her to pay off the entire balance in just 1 year, with only \$125 paid in interest.

	<b>Payment Made</b>	<b>~ Time to pay off card</b>	<b>~ Total amount of interest paid</b>	<b>~Total amount paid</b>
<b>Full Payment</b>	\$1,500	1 month	\$0	\$1,500
<b>Partial Payment</b>	\$135	1 year	\$125	\$1,625
<b>Minimum Payment</b>	\$30	11 years	\$1,413	\$2,913

**Credit Card vs. Debit Card:** A debit card is a plastic card (which looks like a credit card) that is electronically connected to the cardholder's depository institution account. Charges to a credit card are paid back at a later time.

Charges to a debit card are paid for immediately.

## Credit Cards as Financial Tools

Credit cards are helpful financial tools if managed responsibly. Credit cards have the following benefits:

- **Convenient payment tool**: Credit cards reduce the need to carry large amounts of cash, are useful in emergencies, and are often required to hold a reservation (most commonly at a hotel). However, the convenience may make it tempting to overspend. Be conscious of all credit card purchases to ensure you can pay that money back.
- **Protected from unauthorized charges**: A cardholder's maximum liability for unauthorized use of a credit card is \$50. If loss of a credit card is reported before the credit card is fraudulently used, the cardholder has no personal liability for unauthorized charges. If the credit card number is used fraudulently, but the credit card itself is not used, the cardholder has no personal liability.
- **Develop positive credit history**: When a credit card is used responsibly it can help you develop a positive credit history. Follow these tips for positive credit card management:
  - Pay credit card balances in full every month
  - Pay credit card bills on time
  - Be conscious of how credit cards affect your credit history
  - Check the monthly credit card statement for errors
  - Neglecting any of these practices could develop a negative credit history
- **Online shopping is safer with a credit card than a debit card**: Online shopping with a credit card is safer than using a debit card. Credit cards have more protection against fraud than debit cards. Personal liability for unauthorized use of a debit card depends on how quickly the loss is reported as well as the policies of each depository institution. Personal liability can be \$0, \$50, \$500, or unlimited. In addition, since debit cards are connected to a depository institution account, money may not be replaced right away because depository institutions have ten business days to investigate fraud.
- **Credit card bonuses**: Some credit card companies offer additional benefits beyond the use of the credit card. Bonuses vary greatly but may include cash rebates, airline miles, warranties for items purchased with the card and travel accident insurance. However, some credit cards that offer extra benefits may also charge higher/ additional fees or charge higher interest rates. It is important to evaluate if the benefits outweigh the costs.

### Debit or Credit?

*Ever wonder when using a debit card in a store why you may be asked if it should be run as a debit or credit purchase? When a purchase is made with a debit or credit card, a point-of-sale (POS) terminal is used to process the transaction. Some POS terminals automatically distinguish between credit and debit cards, but others ask the cardholder to do so if it is not a credit card to determine how the transaction is processed.*

*If you select “credit”, a receipt must be signed to complete the transaction, although this may be optional if the purchase amount is under \$25.*

*Potential benefit: extra liability protection from fraudulent charges*

*If you choose “debit,” then you must enter the card’s personal identification number (PIN).*

*Potential benefit: You may be able to withdraw cash from your depository institution account at the end of the transaction for no fee*



**Would you be willing to pay either higher/ additional fees or higher interest rates to obtain credit card benefits? Explain.**

## Credit Card Offer

Credit card issuers are required to disclose the terms and fees of each credit card in an easy to read box format (known as the **Schumer Box**) on all credit card applications and solicitations. The Schumer Box displays the credit card terms including the main costs of the card. When shopping for a credit card, evaluate the Schumer Box to find the credit card that best fits your needs. A sample Schumer Box is displayed below with explanations of each section.

Interest Rates and Interest Charges	What This Means for You
Annual Percentage Rate (APR) for Purchases	<p>This section discloses the interest paid for purchases on the card. Some credit cards have an <b>introductory rate</b> which is the APR charged during the credit card's introductory period after a credit card account is opened. If the card has an introductory rate, the introductory rate along with the rate that applies after the introductory rate ends will be shown here. Multiple interest rates may be listed here because the final interest rate may depend on the applicant's credit history. Some cards will have a <b>variable-rate APR</b> that is an APR that may change depending on other factors.</p>
APR for Balance Transfers	<p>This section discloses the interest paid for <b>balance transfers</b> (the act of transferring debt from one credit card account to another). Balance transfer fees (disclosed in the fee section of the Schumer box) may apply, even if the balance transfer APR is 0% .</p>
APR for Cash Advances	<p>This section discloses the interest paid for cash advances such as withdrawing cash from an ATM using a credit card. Cash advance fees may also apply.</p>
Penalty APR and When it Applies	<p><b>Penalty APR</b> is the interest rate charged on new transactions if the penalty terms in the credit card contract are triggered. The Penalty APR is almost always higher than the APR for purchases. This section discloses the penalty APR as well as the penalty terms that trigger the penalty APR.</p>
How to Avoid Paying Interest on Purchases	<p>This section explains how you can avoid interest charges on purchases by paying your bill in full by the due date.</p>
Minimum Interest Charge	<p>Credit card companies often have a minimum interest amount. These charges typically range from \$0.50 to \$2 per month and are disclosed in this section of the credit card offer.</p>
For Credit Card Tips from the CFPB	<p>This section directs consumers to the Consumer Financial Protection Bureau website to obtain more information about credit cards.</p>
Fees	What This Means for You
Set-up and Maintenance Fees	<p>This section discloses any set-up and maintenance fees for the card, which can include:</p> <ol style="list-style-type: none"> <li>1. Annual Fee- A yearly fee that may be charged for having a credit card.</li> <li>2. Account Set-up Fee- Usually a one-time fee for opening and setting up the account.</li> <li>3. Participation Fee- Usually a monthly fee charged for having a credit card.</li> <li>4. Additional Card Fee– Usually a one-time fee for having a second card on an account.</li> </ol>
Transaction Fees	<p>This section discloses any transaction fees for the card (balance transfer fees and cash advance fees).</p>
Penalty Fees	<p>This section discloses the penalty fees for the card, which can include late-payment, over-the-limit, and returned payment fees.</p> <ol style="list-style-type: none"> <li>1. A <b>late payment fee</b> is charged when a cardholder does not make the minimum monthly payment by the due date.</li> <li>2. An <b>over-the-limit fee</b> is charged if the account balance goes over the set credit limit. The cardholder will not be charged this fee unless he/she has authorized the credit card company to permit transactions that exceed the credit limit.</li> <li>3. A <b>returned payment fee</b> may be charged if the cardholder makes a payment but does not have enough money in that account to cover the payment.</li> </ol>
* How We Will Calculate Your Balance	<p>The four balance calculation methods are: adjusted balance, average daily balance including new purchases, average daily balance excluding new purchases and previous balance. Depending on the balance you carry over and the timing of your purchases and payments, you'll usually have a lower finance charge with the adjusted balance method, the average daily balance excluding new purchases method or the previous balance method.</p>
* Loss of Introductory APR	<p>If the card has an introductory rate, this area will list how the lower introductory rate can be lost.</p>

## How to Obtain a Credit Card

1. **Shop around:** Find the card that best fits your needs by comparing different credit card offers.
2. **Complete a credit application:** Credit card applications are available on the Internet, over the phone or in-person depending upon the specific lender. Credit card companies also send applications through the mail to potential applicants. You may receive pre-approved credit card applications in the mail, meaning you have been **pre-approved** for that particular card because you passed the initial credit history check.
3. **Determine if you are approved and the final credit terms offered:** You may or may not be approved for the credit card. If you are approved, make sure to review the final credit terms offered.

You must be 21 to obtain a credit card. If you are under 21, you can obtain a credit card with a co-signer or proof of sufficient income to make payments.

## Credit Card Statements

To use a credit card responsibly, you need to understand how to read and evaluate a credit card statement. Credit card statements outline important information about your credit card. The information included on a credit card statement is explained below. The numbers in the statement correspond to the credit card statement on page 5.

1. **Summary of Account Activity-** This section includes an overview of all the basic information for the card.
2. **Payment Information-** The total new balance, the minimum payment amount, and the date payment is due is included in the payment information.
3. **Late Payment Warning-** The late payment warning states any additional fees and the higher interest rate that may be charged if a payment is late.
4. **Minimum Payment Warning-** A minimum payment warning includes an estimate of how long it can take to pay off a credit card balance if only the minimum payment is made each month, and an estimate of the total amount paid, including interest, if the bill is paid in three years (assuming no additional charges are made).
5. **Notice of changes to your interest rates-** This section notifies the cardholder if the rates for the card will be increasing (usually because the Penalty APR was triggered).
6. **Other changes to your account terms-** This section notifies the cardholder of any increase in fees or any other significant changes to the account.
7. **Transactions-** All transactions that have occurred since the last statement are listed here.
8. **Fees and Interest Charges-** The fees and interest charges are listed separately.
9. **Year-to-date Totals-** The total amount paid in fees and interest charges are displayed for the current year.
10. **Interest Charge Calculation-** This section provides a summary of the interest rates on the different types of transactions, account balances, the amount of each, and the interest charged for each type of transaction.



Credit cards are a form of open-end credit. You can continue to borrow as long as the credit limit is not exceeded. Credit cards have many benefits and are a helpful financial tool if you manage them responsibly. You do not pay interest if you pay the balance in full every month. However, if you only pay the minimum payment you make slow progress towards paying off the total card balance, and will pay significantly more interest.

## Credit Card Statement

Summary of Account Activity		Payment Information										
Previous Balance	535.07	New Balance	2 \$1786.00									
Payments	-450.00	Minimum Payment Due	\$53.00									
Purchases	+517.12	Payment Due Date	4/20/19									
Balance Transfers	+785.00	<b>Late Payment Warning:</b> If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APR's may be increased up to the Penalty rate of 28.99%										
Cash Advances	+318.00	<b>Minimum Payment Warning:</b> If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:										
Past Due Amount	+0.00	<table border="1"> <tr> <td>If you make no additional charges using this card and each month you pay...</td> <td>You will pay off the balance shown on this statement in about...</td> <td>And you will end up paying an estimated total of...</td> </tr> <tr> <td>Only the minimum payment</td> <td>8 years</td> <td>\$2,785</td> </tr> <tr> <td>\$62</td> <td>3 years</td> <td>\$2,232 (savings = \$553)</td> </tr> </table>		If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...	Only the minimum payment	8 years	\$2,785	\$62	3 years	\$2,232 (savings = \$553)
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...										
Only the minimum payment	8 years	\$2,785										
\$62	3 years	\$2,232 (savings = \$553)										
Fees Charged	+69.45											
Interest Charged	+11.36											
New Balance	\$1,786.00											
Credit Limit	\$2,000.00											
Available credit	\$214.00											
Statement closing date	3/22/2019											
Days in billing cycle	30											
<b>Notice of Changes to Your Interest Rates</b>		<b>Important Changes to Your Account Terms</b>										
<p>You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:</p> <p><u>Transactions made on or after 4/9/19:</u> As of 5/10/19, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.</p> <p><u>Transactions made before 4/9/19:</u> Current rates will continue to apply to these transactions. However, if you become more than 60 days late on your account, the Penalty APR will apply to those transactions as well.</p>		<p>The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.</p> <p><u>These changes will impact your account as follows:</u></p> <p><u>Transactions made on or after 4/9/19:</u> As of 5/10/19, any changes to APR's described below will apply to these transactions.</p> <p><u>Transactions made before 4/9/19:</u> Current APRs will continue to apply to these transactions.</p> <p><u>If you are already being charged a higher Penalty for purchases:</u> In this case, any changes to APR's described below will not go into affect at this time. These changes will go into effect when the Penalty APR no longer applies to your account.</p>										
		<b>Revised Terms, as of 5/10/19</b>										
		APR for purchases	16.99%									
<b>Transactions</b>												
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount								
XXXX1	2/22	2/23	Store #1	7 \$517.12								
XXXX2	2/25	2/25	Payment	\$450.00 -								
XXXX3	2/26	2/26	Cash Advance	\$318.00								
XXXX4	2/27	3/1	Balance Transfer	\$785.00								
<b>Fees</b>												
XXXX5	2/23	2/23	Late Fee	8 \$35.00								
XXXX6	2/27	2/27	Balance Transfer Fee	\$23.55								
XXXX7	2/28	2/28	Cash Advance Fee	\$10.90								
<b>Total Fees for this Period</b>				\$69.45								
<b>Interest Charged</b>												
Interest Charge on Purchases				\$6.57								
Interest Charge on Cash Advances				\$4.79								
<b>Total Interest for this Period</b>				\$11.36								
<b>2019 Totals Year-to-Date</b>												
Total fees charged in 2019				9 \$90.14								
Total interest charged in 2019				\$18.74								
<b>Interest Charge Calculation</b>												
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge									
Purchases	14.99%	\$533.32	\$6.57									
Cash Advances	21.99%	\$265.00	\$4.79									
Balance Transfers	0.00%	\$575.67	\$0.00									