

Facts about Credit

Credit limit: A credit card company sets limits on how much you can charge on your card. This limit is based on your ability to handle debt.

Paying only the minimum monthly payment: Is a bad idea. After you subtract the minimum payment from your balance, finance charges will be added to your remaining balance. These charges add up month after month. The minimum payment is the LEAST amount you can pay to keep the card active. If you pay less, your card will be deactivated (turned off).

Grace period: If you pay your bill in full during the grace period, you won't have to pay a finance charge on purchases for that bill. A grace period is usually about 25 days.

Late fees: If you don't pay your bill by the due date (the date your grace period expires), you will be charged a late fee. These can be as high as \$35! Because paying late can be costly, get yourself organized to pay on time. Write yourself reminders or sign up for automatic payments to avoid these fees.

Interest rates: Remember that when you use your credit card, you are borrowing money, so you will be charged interest whenever you do not pay your bill in full. With a credit card, you are paying for convenience. Credit card interest rates can be as high as 18% or 24% depending on your credit history. The best way to avoid interest rates is to pay your credit card bill in full and on-time.

“Secured” credit cards: Some banks and credit card companies offer secured credit cards to people with a poor credit history or no credit history at all. Secured cards can be the best option for your first credit card. The card is “secured” with a cash balance, such as a savings account. Your savings account acts like collateral for a loan -- if you charge over your limit, the bank will take the balance. Other secured credit cards require you to pay a cash balance, usually equal to your line of credit. The financial institution will take this money if you do not pay your bill. You can get these funds back when you close your account in good standing or when you upgrade to a regular credit card. Secured cards may charge higher interest rates but they offer the convenience of using a credit card while you build a good credit history.⁷⁸

⁷⁸ “Best Secured Credit Cards of February 2022.” *NerdWallet*. Feb 18, 2022. <https://www.nerdwallet.com/best/credit-cards/secured>