Title:
How To Choose and Use Credit Cards

Word Count:
1177

Summary:
Chances are you've gotten your share of "pre-approved" credit card offers in the mail, some with low introductory rates and other perks. Many of these solicitations urge you to accept "before the offer expires." Before you accept, shop around to get the best deal.

Keywords:
card, period, balance, charge, credit, issuer, account, billing, rate, finance, charges, method, billing period, purchases, apr

Article Body:
Credit Card Terms

A credit card is a form of borrowing that often involves charges. Credit terms and conditions affect your overall cost. So it's wise to compare terms and fees before you agree to open a credit or charge card account.

The following are some important terms to consider that generally must be disclosed in credit card applications or in solicitations that require no application. You also may want to ask about these terms when you're shopping for a card.

Annual Percentage Rate. The APR is a measure of the cost of credit, expressed as a yearly rate. It also must be disclosed before you become obligated on the account and on your account statements.

The card issuer also must disclose the "periodic rate" - the rate applied to your outstanding balance to figure the finance charge for each billing period.

Some credit card plans allow the issuer to change your APR when interest rates or other economic indicators - called indexes - change. Because the rate change is linked to the index's performance, these plans are called "variable rate" programs. Rate changes raise or lower the finance charge on your account. If you're considering a variable rate card, the issuer must also provide various information that discloses to you:

• that the rate may change; and
• how the rate is determined - which index is used and what additional amount, the "margin," is added to determine your new rate.

At the latest, you also must receive information, before you become obligated on the account, about any limitations on how much and how often your rate may change.

Free Period. Also called a "grace period," a free period lets you avoid finance charges by paying your balance in full before the due date. Knowing whether a card gives you a free period is especially important if you plan to pay your account in full each month. Without a free period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account. If your card includes a free period, the issuer must mail your bill at least 14 days before the due date so you'll have enough time to pay.

Annual Fees. Most issuers charge annual membership or participation fees. They often range from $25 to $50, sometimes up to $100; "gold" or "platinum" cards often charge up to $75 and sometimes up to several hundred dollars.

Transaction Fees and Other Charges. A card may include other costs. Some issuers charge a fee if you use the card to get a cash advance, make a late payment, or exceed your credit limit. Some charge a monthly fee whether or not you use the card.

Balance Computation Method for the Finance Charge. If you don't have a free period, or if you expect to pay for purchases over time, it's important to know what method the issuer uses to calculate your finance charge. This can make a big difference in how much of a finance charge you'll pay - even if the APR and your buying patterns remain relatively constant.

Examples of balance computation methods include the following.

Average Daily Balance. This is the most common calculation method. It credits your account from the day payment is received by the issuer. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, depending on your plan, cash advances typically are included. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the "average daily balance."

Adjusted Balance. This is usually the most advantageous method for card holders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period aren't included.

This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.
Previous Balance. This is the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Two-cycle Balances. Issuers sometimes use various methods to calculate your balance that make use of your last two month's account activity. Read your agreement carefully to find out if your issuer uses this approach and, if so, what specific two-cycle method is used.

If you don't understand how your balance is calculated, ask your card issuer. An explanation must also appear on your billing statements.

Other Costs and Features

Credit terms vary among issuers. When shopping for a card, think about how you plan to use it. If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, if there is a grace period for purchases. However, if you use the cash advance feature, many cards do not permit a grace period for the amounts due - even if they have a grace period for purchases. So, it may still be wise to consider the APR and balance computation method. Also, if you plan to pay for purchases over time, the APR and the balance computation method are definitely major considerations.

You'll probably also want to consider if the credit limit is high enough, how widely the card is accepted, and the plan's services and features. For example, you may be interested in "affinity cards" - all-purpose credit cards sponsored by professional organizations, college alumni associations and some members of the travel industry. An affinity card issuer often donates a portion of the annual fees or charges to the sponsoring organization, or qualifies you for free travel or other bonuses.

Special Delinquency Rates. Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. These rates sometimes exceed 20 percent. Information about delinquency rates should be disclosed to you in credit card applications or in solicitations that do not require an application.

Shopping Tips

Keep these tips in mind when looking for a credit or charge card.
- Shop around for the plan that best fits your needs.
- Make sure you understand a plan's terms before you accept the card.
- Hold on to receipts to reconcile charges when your bill arrives.
- Protect your cards and account numbers to prevent unauthorized use. Draw a line through blank spaces on charge slips so the amount can't be changed. Tear up carbons.
- Keep a record - in a safe place separate from your cards - of your account numbers, expiration dates and the phone numbers of each issuer to report a loss quickly.
- Carry only the cards you think you'll use.