

Let's Talk Finances

Credit Card Facts and Tips



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Credit cards have become an everyday tool for people to make purchases and manage their personal finances. Access to credit enables families to deal with emergencies, obtain goods and services, and build a credit history for larger purchases such as a car or home. Today, roughly 73 percent of all families have at least one credit card. About 60 percent of cardholders are “convenience users” – they avoid interest charges by paying balances in full each month.

Below are answers to some Frequently Asked Questions, as well as a list of credit card tips you should keep in mind.

What is an Annual Percentage Rate (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.

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 time 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.

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 February based on the full average daily balance for the February billing period when your bill arrives in March.

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

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.

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.

What types of 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

Consumer Tips:

Shop around for the best card for your needs.

- You will find a range of interest rates, rewards programs and terms.
- The interest rate, penalty fees, annual fee and grace period all play a factor in your total cost.

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

- If you do not pay your balance in full, pay the remainder off as soon as you can; do not wait for the due date.
- Keep track of your balance by checking it online or by phone.
- Take into account that interest accrued can put you over your credit limit.

To avoid paying your bill late:

- Schedule automatic payments online, mail payments at least one week before the due date or pay by phone (you may be charged a fee for paying by phone if it involves expedited service).
- Call your credit card company if you are going to pay late; they may offer alternatives.

If you realize you have a credit problem, don't panic, but do act quickly:

- Make a budget and be realistic.
- Let creditors know you want to pay. They may help arrange a new schedule.
- Local Consumer Credit Counseling Services can help. Contact them at 800-388-2227 or www.nfcc.org.