How Credit Cards Work

Interest (Finance Charges)

Interest is the cost for the convenience of paying for purchases over time. The Annual Percentage Rate (APR) on your account determines how much interest you pay. The higher your APR, the more you pay in finance charges.

When you make a payment, your dollars go to pay interest first, then you balance. If you're making just the minimum payment, you're paying mostly interest. You'll reduce your balance more quickly if you pay even just a little more each month.

Paying On Time

Paying on time is a reflection of your conscientiousness about your obligations. You can avoid paying interest charges on purchases by paying your bill in full each month. Credit card issuers could charge extra fees and increase your APR if your payments are late. Please be sure to read and understand the statement of terms and conditions that arrived with your card. One way to help manage your payment may be to set up an automatic bank draft.

What is a Grace Period?

Some credit cards give you an interest-free grace period. That means when you pay your full balance, you incur no finance charges that month.

On the other hand, when you carry a balance to the next billing period, you'll pay interest based on your daily balance from the original purchase date. Unlike purchases, when you get cash from an ATM or teller, interest is charged from the date you take the case to the date it is repaid in full.

A grace period IS NOT a few days past your due date when your payment will be considered on time. ***If your payment is received even one day past the due date, it is late.*** That means late fees and a blemish on your credit rating.

Building a Good Credit History

There are three types of credit – good credit, bad credit and no credit. A good credit history is important for your financial future. To build good credit, always pay at least the minimum due and mail your payment so it will be <u>received</u> before the due date. Be sure to keep your billing address current to avoid lost statements that cause you to pay late. [Bad credit is a result of multiple late and/or non-payments. No credit means you have no positive or negative history to determine what credit risk you might be.]

Knowing Your Limit

Never exceeding your credit line will help build your credit history and avoid over-the-limit fees. Your credit line is the amount of credit available for you to use for purchases. It is a revolving line, which means as you make payments, that money becomes available for you to use again. If possible, do not exceed even 50% of your available credit.

Credit Doesn't Have to Mean Debt

Using your card to pay for things that you know you can afford is the smart way to use credit. But using credit to extend your income – to pay for things you cannot afford – will only increase your debt.