

TIPS TO LOWER COSTS

Switch To A Lower Rate Card. Maintaining a \$1,000 average balance on your 18% credit card will cost you more than \$180 in interest over one year. If you switch that money to a 14% rate card you will save about \$40 (Some banks reduce the interest rate on balances transferred from another issuer).

Take Advantage Of Your Grace Period. With a grace period, you won't be charged interest until the start of the next period, so try to pay off the entire balance each month.

Ask Your Bank If You Can Get A Lower Interest Rate. Many banks have lower-rate cards. If you can't get a better rate from your bank, shop around for another card.

Always Pay More Than The Minimum Balance. Paying the minimum prolongs the time it will take you to pay off your balance and costs you a lot more in interest.

If You Are Paying Interest, Mail Your Check As Soon As You Receive Your Statement. The earlier your money is received, the lower your average daily balance will be, reducing the amount you pay in interest.

Use Savings To Pay Credit Card Bills. If you have \$100 in a savings account at 3% interest, you will earn a little over \$3 in one year. That \$100, used to pay off \$100 on an 18% card will save you \$18, six times the interest you would have earned in the account.

Have A Consumer Complaint?

Need Consumer Information?

Need A Speaker?



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CREDIT CARD COSTS



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UNDERSTANDING TERMS

The key to reading your credit card statement is to understand the terms on it. Here are explanations of common terms:

Amount Due. Some cards use this term to describe the minimum monthly payment. This is not the total you owe on the card.

Annual Percentage Rate (APR). This is the finance charge, expressed as an annual figure, such as 16%.

Cash Advance. A loan in the form of cash (as opposed to purchases of goods or services) made through a credit card.

Due Date. The date by which your payment must be received by the company for you to remain in good standing.

Finance Charge. The interest charge on your outstanding credit card balance.

Grace Period. A period in which you can make new purchases without paying interest (Not all cards have a grace period).

Late Fee. A charge assessed if your payment is posted (recorded) after the due date.

Minimum Monthly Payment. The smallest amount you can pay to avoid being delinquent. Paying the minimum is the most expensive way to handle your credit card bills.

Monthly Periodic Rate. A fraction of the APR (1/12), the rate at which interest is assessed during the billing period.

New Balance. The total owed after new charges and credits have been added up.

Over Credit Limit Fee. A charge assessed if you put charges on your credit card that exceed your approved credit limit.

Previous (Or Outstanding) Balance. The amount owed last month, after that month's payments and charges were added up.

Transaction Fee. A charge for making a purchase or receiving a cash advance.

MINIMUM MONTHLY PAYMENT

The "minimum monthly payment" is the smallest amount you can pay and still be a cardholder in good standing. Banks often encourage you to make the minimum payment, such as 2% of your outstanding balance or \$20, whichever is less. Some statements refer to the minimum as the "Cardholder Amount Due" (That is not the total amount you owe).

If you only pay the minimum, it can take years to pay off the debt, and you will pay a lot more in interest. Suppose you owe \$2,000 on a card with 19% interest and a 2% minimum payment. Paying just the minimum every month, it will take you 265 months, over 22 years, to pay off the debt, and it will cost you nearly \$4,800 in interest payments.

Doubling the amount paid each month to 4% of the balance owed would allow you to shorten the payment time to 88 months from 265 months, 7 years as opposed to 22 years, and save you about \$3,680.

If you don't pay anything, or pay less than the minimum, you will be charged a late fee and will be subject to loss of your credit card. In addition, there may be a negative report to credit bureaus. That report could affect your ability to obtain credit in the future.

Some cards allow you to skip a payment without a penalty. While this sounds like the bank is giving you a break, you will be charged interest during this period and will owe more in interest than you did before.

THE BOTTOM LINE: Making just the minimum payment is the most expensive way to pay off your balance. The more you pay each month, the less time it will take you to pay off the debt and the less interest it will cost you.

COSTLY FEES

Many people look for a card that doesn't have an annual fee, but did you know that there are other fees that can cost you more in the long run?

Late Fees. Most cards charge a fee when payments arrive later than, after the due date. Some banks wait a few days before assessing this fee, but many impose it the day after the payment was due.

Some companies have a set fee, such as \$10 or \$15, while others charge a percentage of the minimum payment due, such as 5%. Just paying late fees twice in one year can cost you more than an annual fee.

To avoid late fees, mail your payment in plenty of time to arrive before the due date. If you pay your bill at the bank's branch or ATM, find out how long it will take to process your payment. Sometimes payments made at a branch or ATM are not credited for a few days.

Over Credit Limit Fees. Most cards assess a fee if you charge more than your credit limit. These fees are charged each time you exceed your limit, so you could be hit with several of them during one billing period.

Most banks have a set fee, such as \$10 or \$15, while others charge a percentage of the amount you are over your limit, such as 5%.

If you charge \$400 over your limit, with a 5% penalty, you will pay a fee of \$20. This is in addition to interest charges.

Lost Card Replacement Fees. A few companies charge people whose cards have been lost or stolen more than once or twice. These fees are usually \$5 or \$10.

THE BOTTOM LINE: Special fees can cost a lot, so keep track of when you mail your payments and how much credit you have left.