

Credit Cards: Applications and Choosing the Best Card

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Deciding which credit card is best for you may be as simple as carefully reading the application and deciding how you'll use it.

The Disclosure Box

All credit card applications must include the following information in a disclosure box printed somewhere on the application:

APR (or annual percentage rate) gives the interest rate being charged when figured on an annual basis. Both fixed and variable interest rates are being charged on credit cards today. If variable, know what the rate is indexed to and how often the rate may change. Credit card rates often vary even if from the same issuer because of the applicant's financial information and history.

Introductory APR rates often are offered as an incentive to get a credit card. Typically such "teaser" rates last for six months. After the introductory rate time period ends, the regular APR is applied to the account. Be careful to avoid paying late when under an introductory interest rate. If even one payment is received late, the introductory rate usually ends and you are immediately charged the regular rate.

Method of computing tells how the amount of interest is calculated on the unpaid balance. Credit card companies often use the average daily balance over one billing cycle method but may use the average daily balance over two billing cycles, the previous balance, or an adjusted balance to figure the amount of interest owed for a billing period.

The *previous balance* and *two cycle average daily balance* are the most expensive for the consumer. The *average daily balance* is the most equitable for both consumer and creditor and is the most widely used. Average daily balance may be figured either including or excluding new purchases. Excluding new purchases is less expensive for the consumer. The *adjusted balance method* is the least expensive for the consumer because the finance charge is calculated on the balance after you make your payment.

Grace period is the time period when a balance can be carried on the account without additional interest being charged, typically 20 to 25 days. Usually, no grace period is allowed for cash advances or for any new purchases if you did not pay your bill in full the previous billing cycle. Interest begins as soon as you get a new cash advance or buy something if you did not pay your entire bill the last time it came.

The **minimum finance charge** is the amount of interest charged if there is a balance, even if the finance charge calculated from the account balance is less than the minimum. Minimum finance charges generally are 50 cents.

Some cards charge an **annual fee**. This fee appears on the monthly bill when due. When charged, annual fees typically range from \$20 to \$100 annually.

If you use a credit card to get cash, some cards charge a one-time **cash advance transaction fee** (typically 2 percent to 4 percent of the amount advanced with a \$3 minimum). **Cash advance interest** usually is a higher APR than what is charged when buying something with the credit card.

Late (default) fees of up to \$35 or more are charged if a payment is received even one day late because the account is considered "in default." Credit card companies often have a schedule of penalty fees depending on how many payments have been missed. Any "rewards" with the card are forfeited with a late payment. Sometimes a late fee can be negotiated with the credit card company by making a phone call.

Over-the-limit fees commonly are set at about \$30, and apply if you exceed your card's limit. Contrary to popular belief, most creditors will not deny your charge if you go over the limit. They just add the fee every month until the account balance falls below the limit.

When a balance is transferred from one card to another, a **balance transfer fee** (\$5 to \$30 or more) is charged. The **balance transfer APR** also is higher and interest begins the day the balance is transferred. That higher interest rate often continues until the cash advance balance is paid in full.

A **bounced check fee** is charged if your check is returned to the creditor by your financial institution.

Some issuers who are trying to encourage people to use their online site for checking accounts and paying bills charge a fee for printing the monthly statement. Issuers also may charge higher interest for using the Internet to apply for the credit card.

Always Read the Fine Print

Credit card applications include fine print which is hard to read but very important. Some of what you'll find in the fine print is information saying:

- The card is not valid for business or commercial purposes.
- The card is not valid if you already have two or more cards from that same issuer.
- You give permission for the creditor to check the validity of information on your application.
- You give permission for the creditor to exchange information with other creditors and check references.

In addition, the fine print includes details about:

- limits on any marketing offers such as reward points, calling minutes or airline tickets
- all fees, the introductory APR rate and when the account will be considered in default

Which Credit Card is Best?

That depends on how you plan to pay.

If you plan to *pay off the balance completely every month*, the annual fee is what is important to you. Look for a card with a low annual fee or no annual fee at all. The interest rate is not as important if you pay off the balance every time you get a bill.

On the other hand, if you *typically carry over a balance every month*, look for the card with the lowest APR because paying interest on your account will be the most expensive part of having the credit card for you.

Keys to Using Credit Cards Wisely

- Live within your means. Don't use credit cards to buy what you can't afford.
- Know the APR of every credit card you have.
- Investigate low "teaser" interest rates before signing the contract. Know when the introductory rate expires and what happens when it does end.
- Find a credit card with a low APR to use.
- Limit the number of cards you have. Financial experts often suggest having no more than two or three credit cards (Garman and Fogue, 2006).

Resources Used

Federal Trade Commission (2005, December). Knee deep in debt. Washington, D.C.: FTC.

Garman, E. T. & Fogue, R. E. (2006). Personal finance (8th ed.). Boston, MA: Houghton Mifflin Co.

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