



## Shopping For Credit courtesy of AICCCA member American Financial Solutions

It's your money so when choosing a credit card it is important to pay attention to and compare the following features:

**Annual Percentage Rate (APR):** When evaluating credit card offers it's important to understand the difference between the interest rate and the APR. The interest rate is the percentage of the loan amount that the bank is charging you to borrow money. The APR includes other costs of the loan (the upfront fees, annual fees, etc.) and calculates them as a yearly percentage of the loan amount. Because of this, APR is a more accurate representation of the true cost of a loan. The lower the APR the less you will be charged for using the credit card. Compare APR's carefully and choose a card with a low rate. Be aware that credit card companies do not need a reason to raise interest rates and will check your credit periodically to determine your continued credit worthiness.

**Annual Fees:** Typically, you will want to avoid cards with annual fees. The annual fee is simply charged for the privilege of having a credit card. There are many credit cards available that do not charge annual fees, yet offer good APR's and other benefits.

**Late Fees:** Almost all credit card companies will charge a fee if you are late (even by one day) or miss a payment. Late fees are as high as \$39 and can even cause you to be over-the-limit if you are near your credit limit. This will result in more fees. Avoid these charges by paying your bills electronically or mailing payments at least 10 days before your due date. A lender will usually raise your APR if you are late making your payments.

**Over the Limit Fees:** It is important to pay attention to your credit limit and avoid exceeding it. Most lenders will allow you to charge slightly more than the limit, but it will cost you. Over-the-limit fees may be as much as \$39. In addition, lenders may increase your APR if you exceed your limit. It is better for your credit and your pocket book if you keep your credit card balances within 1/3 of the available credit limit.

**Transaction Fees:** Many creditors charge transaction fees for certain things - the most common is for cash advances. There are two ways cash advances cost you more: the first is the fee charged at the time the cash advance is taken. The fee may be 3% to 5% of the withdrawal or a flat fee. The second cost of the cash advance is the APR; it is usually higher than it is for regular purchases. The higher APR will often remain in effect until the entire balance is paid off.

**Grace Period:** The grace period is the period in which no interest is charged if the entire balance is paid off before the due date, usually 21-25 days. This only applies if the amount is paid in full each month. If you run a balance on your card, the grace period does not apply.

**Balance Computing Technique:** This is the method by which the creditor calculates the finance charge. The most commonly used method is the average daily balance. To calculate this, each daily balance is added up and divided by the number of days in the billing cycle. Some creditors will compute your average daily balance over two billing cycles.

It is important to study the terms and conditions of credit cards and loans. Monitor any changes carefully and try to pay your balance in full each month to avoid paying interest or finance charges. Never make late payments, charge over your credit limit or miss payments. If an emergency occurs and you are unable to make your monthly payment, contact your creditor immediately and try to make an arrangement with them.

Use the [Credit Card Comparison Chart](#) to understand the different costs associated with credit offers.