

READY SET GO GUIDES

Understanding Credit Cards

Finding the credit card that is right for you depends a great deal on how you intend to use the card. Do you intend to pay the bill in full every month? Are you planning to carry a balance? Do you have other credit cards debt to consolidate onto one card? Do you plan to use your card for everyday purchases or is it only for emergencies? Here are some things you need to know to help you choose the card that is appropriate for you and your spending habits.

Credit Card Types:

Store Credit Card

Many retailers issue store credit cards that may only be used to purchase merchandise within that store or on that store's website. Having a store credit card may entitle the cardholder to special discounts, promotions, and rewards programs. Generally, store credit cards carry a much higher interest rate than traditional non-retail credit cards.

Secured Credit Card

Designed for consumers who are trying to establish credit or rebuild credit, this type of card is secured by a savings account at your financial institution. The limit of the card is based on both previous credit history and the amount deposited in the account.

Basic Credit Cards

Basic credit cards allow consumers to purchase goods or services on credit. Cardholders receive one monthly bill that consolidates all of their purchases and are required to make a pre-defined minimum payment by the due date specified on the bill.

Rewards Credit Cards

These cards have the same features and functionality as the basic credit card. Additionally, cardholders earn rewards such as merchandise, cash rebates, or air miles with each use of their card.

Premier Credit Cards

Premier cards offer high credit limits and often have additional features like product warranties, travel insurance, or emergency services. They may also offer rewards, such as cash back or frequent-flier miles.

Understanding Rates

Introductory Pricing: Many credit cards offer much lower interest rates for a period of time when the card is opened. These rates may be very attractive when making a large purchase as they allow for payments to be spread out over a longer period of time with a minimal interest rate. Consumers should always read and understand the terms of the introductory rate as the interest rate on the credit card may rise sharply when the introductory rate expires. Cardholders will realize the most benefit from an introductory rate if the full balance on the card is paid-off prior to expiration of the introductory rate.

Purchase Rate: A purchase rate is the interest rate charged on regular purchases put on a credit card. Typically, it is higher than the introductory rate and lower than the cash advance rate of the card. Consumers who intend to carry a balance on their credit cards should look for cards with lower purchase rates.

Balance Transfer Rate: This is the interest rate assigned to balances that are transferred from other credit cards. Many cards offer promotional balance transfer rates for a certain period of time. These allow cardholders to take advantage of lower rates and pay-off outstanding credit card debt sooner. As with introductory rates, consumers should understand the terms of the balance transfer rate as the interest rate on the credit card may rise sharply when the rate expires. Cardholders will realize the most benefit from a low balance transfer rate when the balance is paid-off prior to expiration of the promotional rate.

Cash Advance Rate: This is the interest rate assigned to balances that result when a consumer uses a credit card to draw money from an ATM, through a convenience check, or at a bank teller window. Generally, interest begins immediately and at a much higher rate than purchases. Cash advances should be used only when the consumer has exhausted other, less costly options.

Penalty Pricing Rate: Some credit card issuers charge a very high interest rate when the cardholder fails to comply with the terms and conditions of the credit card. Most frequently, this rate is triggered when the cardholder is late in making monthly payments. In most cases, the rate can be lowered once the cardholder makes six consecutive on-time payments.

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Consumer Loan Hotline: 317.555.5555

Understanding Fees

Annual Fee: While not as common as it once was, some credit card issuers charge a yearly fee for the use of their credit card. This is a separate fee from interest rate on purchases. These fees are most commonly found on secured cards or specialty rewards cards.

Balance Transfer Fee: A balance transfer fee is the cost to the cardholder to transfer balances from one account to another. This fee ranges from 1 percent to 5 percent of the balance amount being transferred and is in addition to the interest rate charged on the balance transfer. Always read the details of balance transfer offers as this fee will vary among credit card issuers.

Cash Advance Fee: A cash advance fee is the cost to the consumer for advancing funds from their credit card either through an ATM, convenience check or at a bank's teller window. The fee is a percentage of the amount withdrawn, usually with a minimum dollar amount charged for smaller transactions. Finance charges typically accrue from the date of the advance.

Late Payment Fee: A late payment fee is assessed to a cardholder who misses paying at least the minimum payment due by the payment due date. Late payments may affect your credit history negatively, even if your entire outstanding balance is later paid in full. Occasional late fees are capped at \$25 under federal regulations.

Using a Credit Card Wisely

- Read and understand the terms of your credit card agreement
- Know your spending habits and choose the card that is the right fit for you
- Make more than the specified minimum payment each month
- Pay-off card balances prior to the expiration of introductory or promotional interest rates
- Don't use your credit card to make purchases that you really can't afford
- Review your credit card statement in detail each month. Communicate with your credit card company immediately if you disagree with a transaction on your statement.



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