

How credit cards work

Understanding the basics

Credit cards can be powerful financial tools. They're convenient for everyday purchases and valuable when unexpected expenses arise. No matter how much you plan, there are times you may need extra purchasing power.

The difference between credit and debit cards

Credit and debit cards both offer tracking options to help monitor transactions and balances, but there are differences:

- **Credit cards** offer you a line of credit that can be used to make purchases, transfer a balance and/or receive a cash advance that requires you to pay back the loan amount in the future. Interest is charged if you don't repay according to the terms of your credit card account.
- **Debit cards** withdraw funds for purchases directly from your checking account.

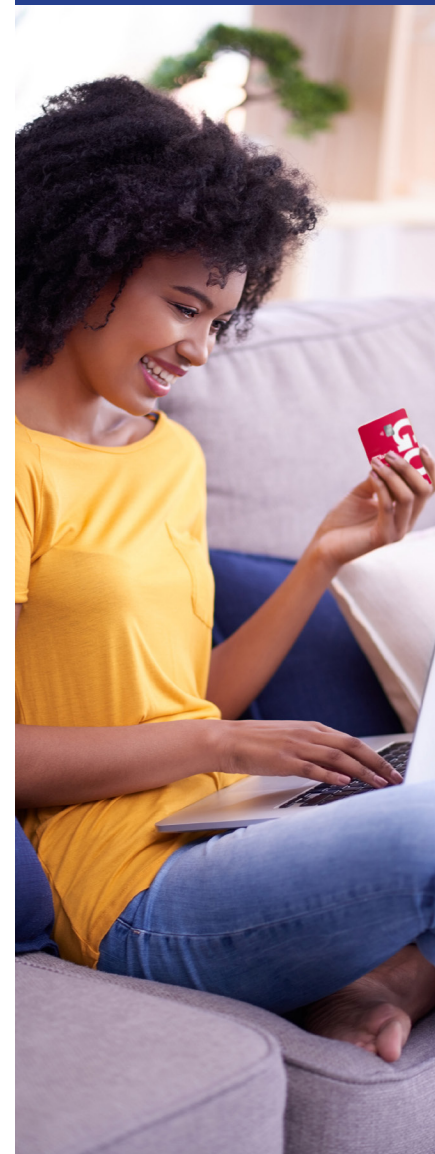
Credit card advantages

Credit cards are a useful way to buy what you need. They eliminate the need to carry large amounts of cash while helping to protect you from fraud. When used responsibly, credit cards offer a more secure way to pay, plus the advantage of reward benefits.

Types of credit cards

By understanding your needs, there is a card that can work best for you.

- **Rewards credit cards** offer spending-based rewards in terms of cash back, points or miles, but may come with an annual fee.
- **Low interest credit cards** can help people who carry a credit card balance month-to-month. Some low interest credit cards come with a 0% introductory rate while others have an ongoing low rate. Low interest cards can also be a good choice when making a large purchase to extend payments over time or to consolidate credit card balances.
- **Secured credit cards** can help people with no credit history or who are rebuilding their credit. The credit line is limited to a cash deposit that is pledged as security for the credit card account.



Credit card tip: If you don't pay your card balance in full each month, you'll start paying interest — an Annual Percentage Rate (APR) — on top of the amount you borrowed.

Credit card fees

It's important to know what costs you may incur on your credit card statement. First, you must pay for what you purchased. In addition, credit cards have several types of fees: annual fee, late fee, overlimit fee or balance transfer fee, some of which can be avoidable. The credit card agreement is the best place to find a list of fees charged on your card.

How to use credit cards

Learn how your card works. Being a smart card owner means you take time to become educated about the rewards and risks of your credit card, credit limit, any applicable fees and APR.

Don't purchase things you can't afford to pay back. Plus, keep track of your spending so you know what your balance is and when payments are due.

Avoid paying interest on purchases. Most card issuers will not charge you interest on purchases if you pay your entire balance by the due date.

Monitor for credit card fraud. Most credit cards offer zero liability, meaning you are not responsible for fraudulent charges when you report them promptly.

Positively influence your credit score.

- **Always pay monthly bills on time.**
Late payments on your credit report can slow down your ability to improve your score.
- **Pay more than the minimum.**
Making more than the minimum payment can show you plan to repay your loans.
- **Avoid opening multiple accounts at once.** Opening new accounts can negatively affect your score.
- **Monitor your credit regularly.**
Review your report for errors and fraud regularly.
- **Don't max out your cards.**
Avoid spending up to your credit limit. If your debt is too high, your credit score may begin to fall.
- **Use credit to build history.**
If you don't currently have any credit accounts, open one and use it wisely.

Credit card glossary

Annual Percentage Rate (APR): Most credit cards have variable APRs determined by the Prime Rate (which may vary) added to a margin (which does not change).

Cardmember agreement: Disclosure of credit card terms and conditions that are applicable to your credit card.

Finance charge: The total cost of borrowing, including interest and fees.

Grace period: You will not be charged interest on purchases if you pay your entire balance by the due date each month.

Introductory rate: An interest rate charged to you during the initial time period of having a credit card. The rate is not permanent, and after it expires a normal APR rate will apply.



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