

Credit cards are a large part of consumer credit. Many businesses offer or accept credit cards. All credit cards, however, are not the same. They have different features and conditions. You need to shop around to find the best credit card for your needs. When considering getting and using a credit card, you need to consider the impact your purchases will have on your personal financial planning. It is important that you understand the terms and conditions of the card you choose.

# Credit Card Terms and Conditions

Interest Rates and Interest Charges	Select Rewards
<b>Annual Percentage Rate (APR) for Purchases</b>	<b>0%</b> Introductory APR for the first 12 billing cycles After that, your APR will be <b>14.99%</b> . This APR will vary with the market based on the Prime Rate.
<b>APR for Balance Transfers</b>	<b>14.99%</b> This APR will vary with the market based on the Prime Rate.
<b>APR for Cash Advances</b>	<b>23.99%</b> This APR will vary with the market based on the Prime Rate.
<b>How to Avoid Paying Interest on Purchases</b>	Your due date is 24-30 days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month.
<b>Minimum Interest Charge</b>	If you are charged interest, the charge will be no less than \$2.00.
<b>For Credit Card Tips from the Federal Reserve Board</b>	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at <a href="http://federalreserve.gov/creditcard">http://federalreserve.gov/creditcard</a>
Fees	
<b>Annual Fee</b>	<b>None</b>
<b>Transaction Fees</b>	
• Balance Transfer	Either <b>\$5</b> or <b>3%</b> of the amount of each transfer, whichever is greater
• Convenience Check Cash Advance <sup>1</sup>	Either <b>\$5</b> or <b>3%</b> of the amount of each advance, whichever is greater
• Cash Advance	Either <b>\$10</b> or <b>4%</b> of the amount of each advance, whichever is greater
• Cash Equivalent Advance	Either <b>\$20</b> or <b>4%</b> of the amount of each advance, whichever is greater
• Overdraft Protection <sup>2</sup>	<b>\$10</b> per occurrence
• Foreign Transaction	<b>2%</b> of each foreign purchase transaction or foreign ATM advance transaction in U.S. Dollars <b>3%</b> for foreign purchase transaction or foreign ATM advance transaction in a Foreign Currency.
<b>Penalty Fees</b>	
• Late Payment	<b>\$19</b> if Balance is less than or equal to \$100 <b>\$29</b> if Balance is between \$100 and \$250 <b>\$39</b> if Balance is equal to or more than \$250
• Returned Payment	<b>\$39</b>
• Overlimit	<b>\$39</b>
<small>This information is accurate as of 3/1/2010 and may have changed after that date. To find out what may have changed, call us at 1.877.881.4208 or write us at P.O. Box 6354 Fargo, ND 58125-6354.</small>	
<small><b>How we will calculate your Balance:</b> We use a method called "average daily balance (including new purchases)".</small>	
<small><sup>1</sup>Not all products receive Convenience Checks</small>	
<small><sup>2</sup>Not all products offer Overdraft Protection</small>	

Let's take a look at an example of an account disclosure statement for a credit card offer similar to one you might get in the mail and review the different terms. It's very important that you understand what these are before you apply for a credit card so that you know what the terms of your card are. The card issuer may change later, but you'll have the option of opting out of those changes.

Rollover any of the terms for a more detailed description of what it means.

Annual Percentage Rate (APR) – This is the biggest cost of using credit! Interest rates for credit cards are quoted as a yearly rate. This is what the bank charges you each year to keep a balance on the card. The bank charges you a portion of the APR every day you carry an outstanding balance. Pay special attention to whether the interest rate is fixed or variable. A fixed rate means that the interest rate stays the same every month. A variable rate means that the interest rate changes based on the prime rate, which is usually about 3 percent higher than the federal funds rate which is set by the Fed. If the federal funds rate goes up, then the interest rate on the card is likely to go up the same amount. When the prime rate increases, so will your interest rate. In general, it's best to find a fixed rate card with the lowest rate so that you can predict what the costs of using the card will be. If you do apply for a variable rate card, pay close attention to the interest rate on your monthly statement to see if it changes. You never know, it might actually go down if the prime rate goes down. Store credit cards tend to have higher rates than major credit cards like Visa® or MasterCard®, even when the store issues a MasterCard® or Visa® card.

This card offer has a 0% APR for purchases for the first year, after which they charge 14.99%, which varies based on the prime rate. The card issuer is probably hoping that you'll charge more than you can pay for since there's no interest for the first year, after which they can start making money off your balance.

The APR for balance transfer is a variable 14.99%. When you transfer an existing balance from one credit card to another, this is called a cash balance transfer. Banks often use these to entice you to transfer your debt from one card holder to them. They may give you one rate for a few months which then changes to a higher rate. These balances show up separately on your monthly statement.

Notice that the APR for cash advances is much higher, 23.99% and it's variable. Credit card companies often give you the option of having a card you can use to withdraw money from ATM machines, or they send out checks that you can use for any purpose. When you do this, the cost of the credit is often much higher than using the card in a store to buy items. These balances show up separately on your monthly statement.

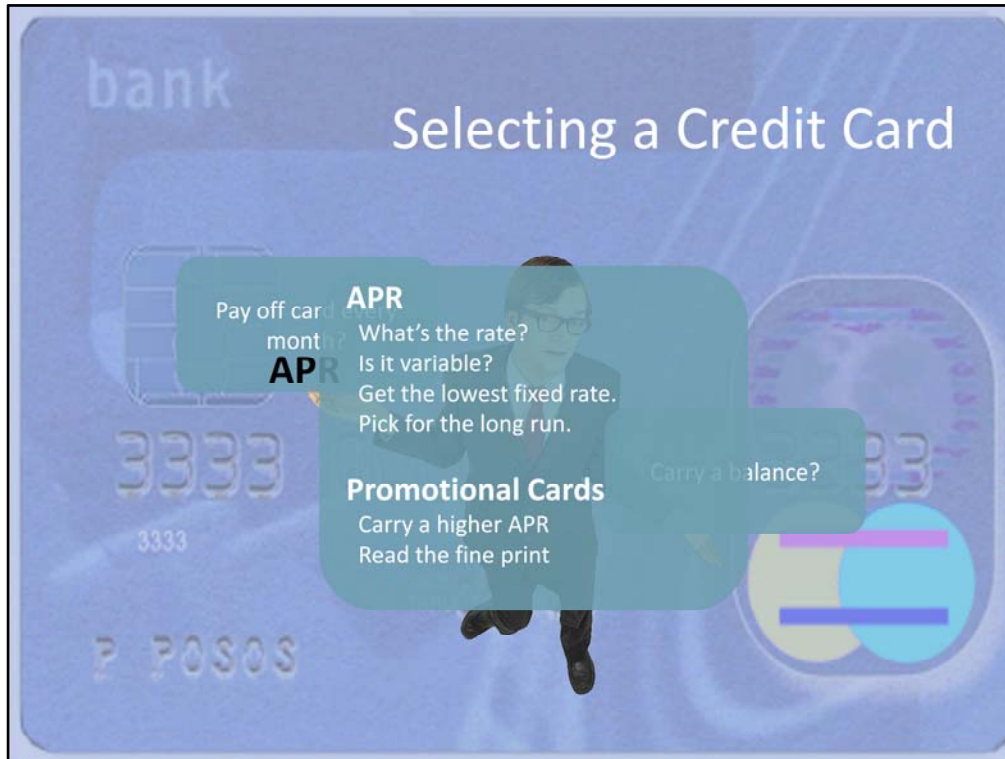
Do you remember compound interest? Credit card companies charge compound interest on all of the outstanding balances. If you carry a balance on a card, you are charged a portion of the APR as interest which is added to the balance you owe and becomes part of your debt. The next month, you are still paying on the unpaid balance which includes the interest that was added to your account the previous month. Basically, this means you are paying interest on your interest. That's what compound interest means – the interest compounds or continues to add up until you pay off the balance. Every time the creditor calculates the interest for the new billing cycle, they include the interest charged from the last billing cycle – interest on your interest! To avoid this, it is best to pay off your balance every month. The card issuer will not charge you interest if you pay back the entire balance before it's due. This is the same for all major credit cards.

The minimum interest charge is the smallest dollar amount you will have to pay on your balance. Say you owe the bank one dollar, then this bank will charge you two dollars for that outstanding balance. This varies by bank. What's usually more important for many card holders is what the minimum payment for the card is every month, or the smallest amount that you can pay the card issuer when the bill is due. This number is based on the balance that you owe, usually two percent of the current balance. Be careful of the minimum payment trap! When you pay only the minimum payment, it will take you a very, very long time to pay off the debt because most of the payment goes toward paying the interest to the credit card company for the debt and not toward the debt itself!

Annual fees are a yearly charge just for the privilege of carrying that credit card, even if you don't use it. There are lots of credit cards that don't have annual fees, so try and find one that doesn't charge a fee. Why pay extra just to have a certain card in your wallet? Notice in this offer, there is no annual fee.

You may be charged certain fees for particular types of transactions in addition to the interest charged on your balance. On this example offer, you may have to pay an additional two to four percent for balance transfers, cash advances, and any purchase in a foreign currency. Although it might not seem like much, this can quickly add up, especially if you carry a balance because the card issuer will then charge interest on those fees.

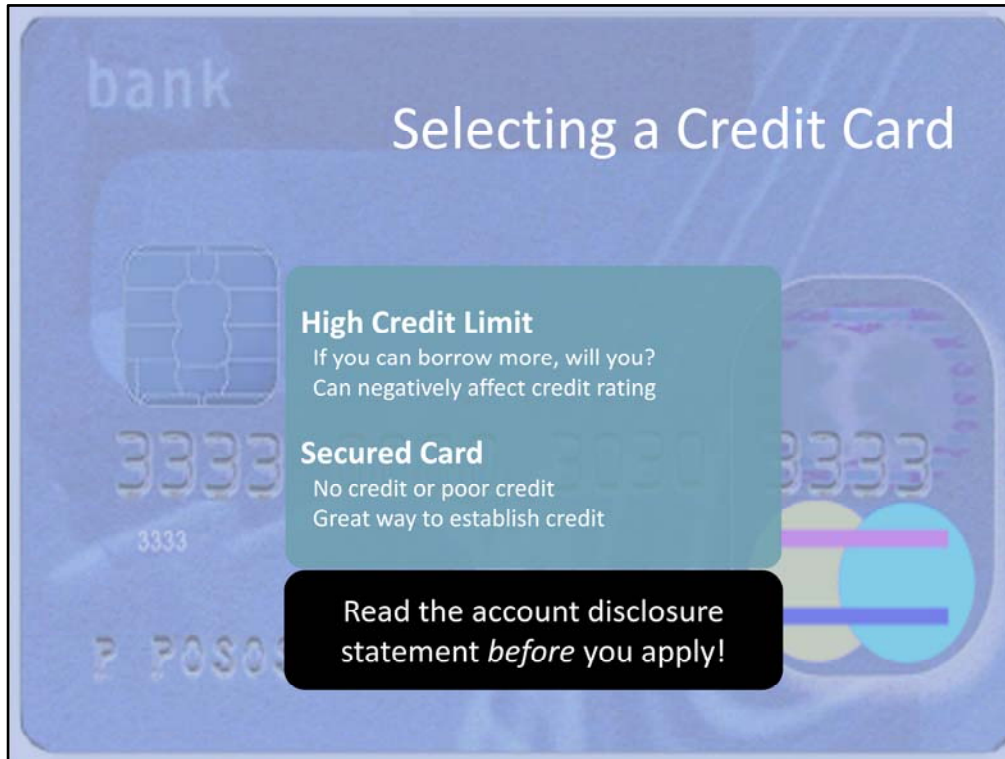
Most credit cards also have penalty charges. These are fees for things like a late payment, a returned payment, or going over your credit limit. These charges can be \$30 or more. Be sure to find out what the fees are before deciding on a credit card. Choose a card that has lower fees, or better yet, don't make a late payment or go over your credit line!



When it comes to picking which card to carry and use, there are a number of factors to consider. Probably the biggest factor is one that has nothing to do with which card you choose — are you going to pay off your card every month, or are you going to carry a balance? Since most of the cost of using a credit card is related to borrowing, people who will carry a balance should be most concerned with APR, while people who don't can concern themselves with other factors. Even the most responsible borrower may have to carry a balance from time to time, so don't fool yourself that you're always going to pay off your balance.

As we just saw, the APR might be the number one factor in your decision to select a card. What's the rate? Is it variable? In general you want to get the lowest fixed rate APR you can get, unless the variable rates are that much lower and the prime rate seems pretty stable. Remember too that a company might offer a rate for a limited time, and then the APR changes. Make sure you pick the right APR for the long run.

Credit card companies offer all kinds of promotions or rewards in order to get you to apply for their card, and then use it as often as you can. For instance, you may get cash back or airline miles when you charge items on your card. Why do companies do this? Because they make money when you use their card and when you carry a balance. Unless you pay back your entire balance every month, it's not a good idea to pick a card based on these promotions because these cards often carry a higher APR, which means that if you carry a balance, you probably could have purchased the item for less without any of the restrictions that credit card companies place on your rewards. In any case, be sure to read the fine print on any offer to find out what the limits are when it comes to redeeming your rewards.



Perhaps you want a card with as high a credit limit as you can get. Your credit limit is the highest balance you can carry on your credit card. Having a high credit limit is a double-edged sword: yes you can borrow more, but will that encourage you to borrow more so that you'll have to carry a balance? Even if you don't run up your balance, it can negatively affect your credit rating because potential lenders may worry that you'll run up your card and not be able to pay them. Although you might think you need a high credit limit in case you need emergency funds, it's better to get a card that fits your spending habits and your budget.

If you have no credit or poor credit, you may want to look into opening a secured credit card. With this type of card, you give the card issuer a certain amount of money that they hold, and as you use your card, the amount you sent in is reduced by the amount you charge plus a small amount of interest. A secured credit card is a great way to establish credit. You can't spend more than your secured amount so it helps you learn to use credit safely.

Finally, when it comes time to apply for a card, read every word of the account disclosure statement before you apply. Some card issuers will put in language that says they can change your APR at any time without a reason. Try to avoid those companies.



Go to the Credit Card Guide online website and check out all of the various credit card offers there. Are you surprised at how many there are? Sort the list by current APR. What is the lowest rate? Scroll to the bottom of the list. What is the highest rate? Do any of the rewards listed appeal to you? Is the interest rate higher on the cards that offer more rewards? Why do you think that is?





Using credit cards too often can cause big problems, but there *are* some advantages to these cards. The first benefit is that you can charge an item and start using it and you won't have to pay for it until the next bill is due at the card issuer. This float, also called a deferred payment, can give you a little time to get the money together while you are using the item. You can use cards to make major purchases over time without having to get a separate loan.

For example, buying a new refrigerator can be expensive. If your old fridge breaks, you can use your card to charge one and pay for it over time so you don't have to go without one until you have saved enough money. Keep in mind that when you pay over time, you are paying interest on the purchase so you want to pay it off as quickly as possible.

Credit cards are convenient. You don't have to worry about carrying around large amounts of cash since most businesses take major credit cards. Be careful though, that extra convenience can lead to overspending. Credit cards also make it easier to buy online. You can also put major expenses on your credit card while traveling. This can help you keep track of your spending. If you have an emergency, like your car breaks down, and you don't have the money to make the repairs, credit cards are a convenient way to get the repairs done and get your car back on the road right away. Credit cards can give you access to cash in an emergency, just remember that you may have to pay a higher rate.

Credit cards are convenient, but again, be careful about overusing them. Try not to charge more than you can pay off each month.

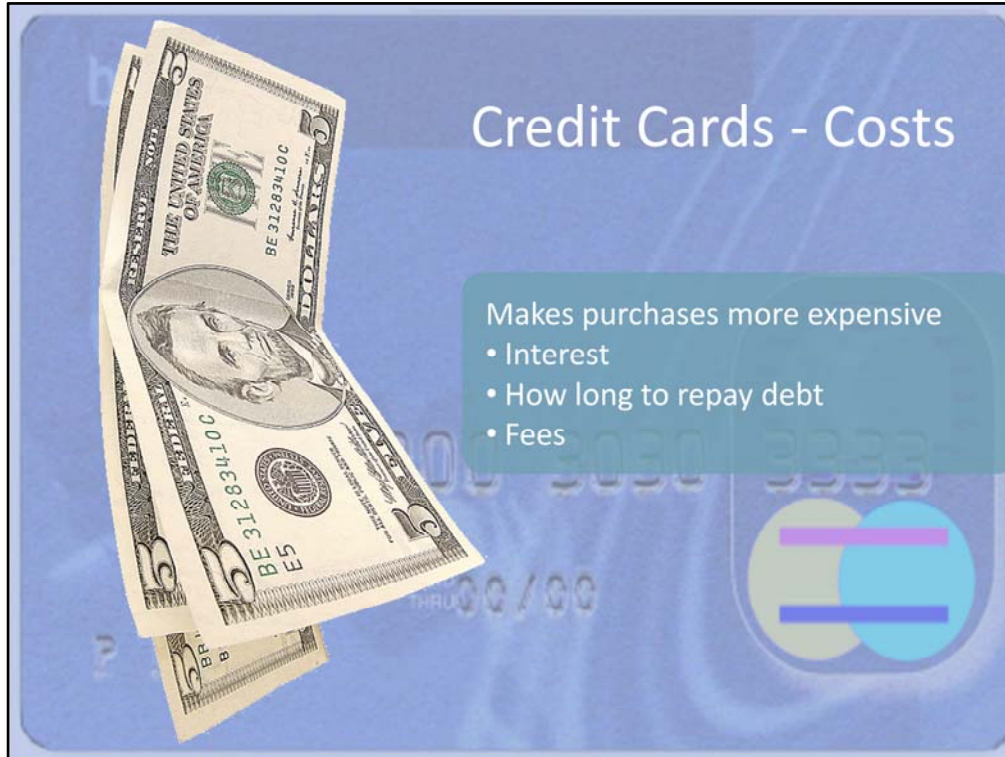


Many credit cards also offer purchase protection. Suppose you buy an item that you saw advertised on TV, but it just doesn't work like you thought it would. But, when you try to return the item, the seller won't take it back. You can put the power of a large credit card company to work for you. If you have a dispute about a purchase, you can call the credit card company and they will use their influence to get the seller to take the item back and refund your purchase price or to send you a product that does work. Basically, the credit card company holds the payment from the vendor until the matter is resolved. While an amount is in dispute, you don't have to pay on that amount and interest isn't charged on the disputed amount. You do still have to pay on the remaining balance you may owe to the credit card company. This protection also helps you if you ordered something, were charged for it, and never received it.

In addition to purchase protection, credit cards also offer fraud protection. If someone steals your credit card and uses it without your permission, you can report the fraudulent purchases to the credit card company. After the card is reported stolen, you may be responsible for \$50 of the purchases that were made before you reported it. Some credit card companies don't make you pay at all for the fraudulent purchases. Also, after the card is reported stolen or missing, you will not be held responsible for any of the purchases made after you report it.

Many credit card companies, banks, credit unions, and retail stores offer online transactions with their credit cards. You can purchase items online with your card, check your balance and payment history, make payments, and receive statements all electronically. This not only helps the environment by saving paper, but it saves postage and increases convenience because you don't have to write a check or mail it. Just click and go!





Of course along with benefits there are downsides to credit cards.

There are the costs of using the card. If you carry a balance, anything you buy using the card will cost more than it does to buy with cash. How much more? That varies based on a number of factors.

First, interest is the main cost of using credit. The higher the interest rate, the more buying on credit is going to cost you! Remember credit cards charge compound interest, which just keeps adding up until you pay off your balance.

The second biggest cost is the length of time it takes you to pay off the debt. The longer you take to pay off the balance on your credit card, the more you will pay because of compounding interest. Think back to the warm up. Remember it took almost five years to pay off the \$3,000 balance on a credit card. If you pay more each month so you can pay off the debt quicker, you will save yourself a lot of money!

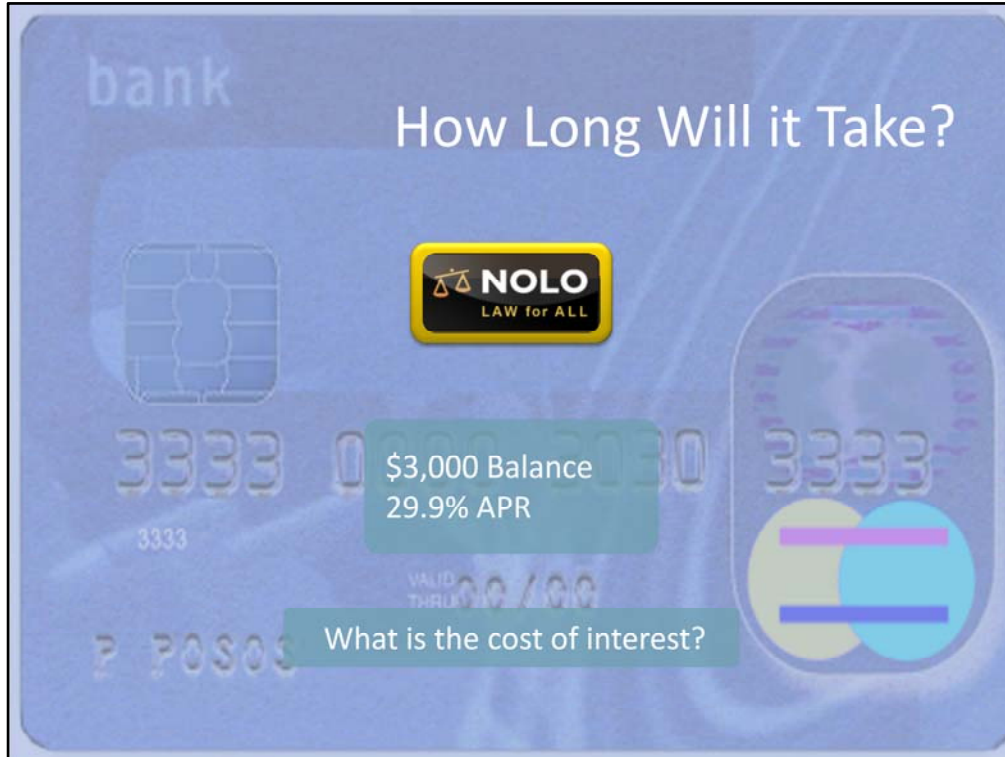
We already talked about some of the fees that credit cards charge, like late fees, over-the-limit fees, and balance transfer fees. These things are all part of the cost of using credit. Your best bet is to pay on time, don't go over your credit limit, and avoid balance transfers, unless you can negotiate a good rate.



Although credit cards may have fraud protection, that doesn't mean they are immune to thieves. Someone might steal your credit card and use it to make fraudulent purchases. Or they might go through your trash in order to get the credit card offers that you threw away and then apply for credit in your name. They may use skimmers, which are machines that read the magnetic strip on your credit card. Some of these machines can get your information just by coming into close contact with you. Some thieves have put a card reader over the machine where you swipe your card to capture your information. Be on the lookout for anything suspicious on these machines and report it to the store and the local authorities.

The last cost of credit cards is the most obvious one: the risk of borrowing too much. Since credit cards are so convenient, many people charge more than they can pay off each month. This leads to carrying debt. Paying only the minimum payment amount can also contribute to carrying too much debt because you end up paying more interest, usually a lot more. It is way too easy to charge, charge, charge, and not realize how much you spent until you get your next bill. Be sure to keep track of your spending and follow your budget. Again, make a list and only buy the things on your list. Use credit as a last resort. Try to pay cash for items instead. Many experts recommend not charging anything less than \$25 or anything that is consumable, which means anything that is depleted (or consumed) as you use it—such as food when you eat out. When you look at your billing statement each month, if you can't remember what you charged, you are definitely spending too much!

Remember that credit cards companies make money off of you by charging you interest and fees on your purchases. That's the cost of buying on credit.



Open the NOLO website and click the “How long will it take me to pay off my credit card?” link under the Personal Financing section. Be sure to click in the box for “Show payment schedule.”

Use a balance of three thousand dollars and the 29.9% interest rate like before, but for the payment amount, try increasing it by fifty dollars, then check out how long it takes to pay off the balance and the amount of interest you will end up paying. Try it again with an extra one hundred dollars each month.

What do you notice about the length of time it takes to pay off and especially the amount of interest it costs you each time. What did you learn?



Your first credit card might feel like a liberating experience. Before you start using it, remember why the credit card company offered it to you in the first place — to make money off you. Any time you carry a balance, you are paying interest to the bank on the money you borrowed. Any fees that you pay go to the bank as well.

Try not to use your card for anything you can't pay off at the end of the month. If you don't carry a balance, the bank doesn't make any money off you, unless you pay an annual fee, but you still have access to credit when you really need it.

If you do find yourself carrying a balance, pay on time and make more than the minimum payment every month, or it will take you years to pay off your debt.