

Choosing A Credit Card That Is Right For You...

By FoolProof's Information Edge

Pre-approved credit card offers continue arriving daily in the mail in spite of the recent credit crunch. Many present temptingly low introductory or balance transfer rates. Others dangle "rewards" or "cash back" programs. Their goal: to entice you to apply for their card. If you need a credit card, what factors should you look at to make the best decision for you and your wallet?

This report helps you get past the sales hype so you can truly compare what is the best offer for you.

What Basic Terms and Conditions Should You Consider and Compare?

By law, all credit card offers and applications must include a disclosure box which describes important information about the credit card. That box is a rich mine of information (though often in tiny type) on a number of important factors, including the following.

How do your credit union's credit cards stack up?

- They generally don't have Binding Mandatory Arbitration Clauses (Want to know more?)
- They generally don't have a Penalty APR
- Their Visa cards generally have a fixed-rated APR
- They generally have a longer grace period
- They generally don't have a minimum finance charge
- They generally don't charge a cash advance transaction fee
- They generally don't charge a balance transfer fee
- They generally charge about \$20 fee per occurrence if your payment is late
They generally do not charge an "over your credit limit" fee
- They generally charge about 1% for foreign transactions

Annual Percentage Rate (APR). This is the interest rate you will pay if you carry a balance, take a cash advance, or transfer a balance from another card. The APR is stated as a yearly rate.

The card issuer may charge different APRs for purchases, cash advances, and balance transfers, as well as charging a penalty APR. Many card issuers charge higher APRs for cash advances and balance transfers than for purchases. The issuer must also explain when the penalty rate will apply. Many issuers charge penalty APRs as high as 29.9%. Your credit union does not charge a penalty APR. Some may even increase your rate if your payment is late on any debt in your credit report – even if you are paying their card on time.

The APR may be a fixed rate or a variable rate. Fixed rate APRs may only be changed after the card company provides you at least 15 days notice. Variable rate APRs change according to a specific formula. Variable rates are usually tied to another rate such as the prime rate or U.S. Treasury Bill rate. Your credit union's Visa cards have a fixed rate APR.

Many card offers also emphasize an introductory APR. An introductory rate is usually a low APR that will last for a specific period of time. The introductory rate may be paired with a deferred rate, which will take effect at a specific date in the future, such as at the end of the introductory rate period. The introductory rate may only apply to certain types of transactions such as a cash advance when the account is opened.

Some credit card issuers use a tiered APR approach. This means that a different APR is applied for different levels of an outstanding balance. For example, they may charge 14% on balances under \$500, 15% over \$500.

Grace period for repayment of balances for purchases. The grace period is the number of days you have to pay your bill in full without triggering a finance charge (interest). You get a grace period only if you pay your balance in full for each billing cycle. In addition, the grace period typically applies only to purchases and not to cash advances or balance transfers. If you carry a balance, interest typically starts accruing from the date of purchase. Interest normally begins accruing immediately on cash advances and balance transfers for many cards. Grace periods have been shrinking in recent years. They now average about 25 days with some as short as 20 days.

Method of computing the balance for purchases. The card issuer may use several methods for determining the outstanding balance on the account. These methods can affect the monthly finance charge in addition to the APR. Your brain would cramp if I went into detail, but it's important that you be aware of these differences.

Annual fee. Some cards charge a fee for the use of the card. This fee may be billed monthly. You need to consider this fee when you calculate the cost of the card. Most credit unions don't charge an annual fee.

Minimum monthly payment. We would never recommend making the minimum monthly payment on a consistent basis. This would greatly increase the interest you pay over time. However, there are times when you will want to defer paying off your bill because of other planned or unplanned expenses. In those times, a smaller minimum payment is better.

Minimum finance charge. If you carry a balance, there may be a minimum amount that will be charged for the interest. For example, if the stated minimum finance charge is \$1, and the calculated finance charge on your balance is 75 cents, then the issuer will apply the minimum finance charge of \$1. You pay for carrying little debt, in this case. Most credit unions don't have a minimum finance charge.

Transaction fee for cash advances. This is the amount that it will cost you each time you use the card for a cash advance. This fee may be a specific dollar amount or a percentage of the cash advance. This fee is in addition to any interest you will pay. There is usually no grace period for cash advances. Most credit unions don't charge a cash advance transaction fee.

Balance transfer fee. This is the amount that you will pay to transfer a balance from another card to this card. This fee may be a specific dollar amount or a percentage of the amount transferred. This fee is a part of the cost of borrowing, so be sure to consider that before you make a transfer. For example, a credit card offer may headline "2.9% APR on balance transfer till paid off" but stick a 5% balance transfer fee in the disclosure box. The effective cost of this loan is actually 7.9%. So look at "deals" carefully. Most credit unions don't charge a balance transfer fee.

Late payment fee. This is the amount charged if your payment is received after the due date. Most credit unions charge about \$20.00 per occurrence.

Over-the-credit-limit fee. This is the amount charged if you go over your credit limit. Most credit unions don't charge an over-the-limit fee.

Foreign currency conversion fee or foreign transaction fee. This is the amount charged for purchases made outside the U.S. It is usually a percentage—typically 1% to 3%—of the purchase amount. Most credit unions charge about 1% of the transaction amount.

What about Points, Cash Back, and Rewards Features?

Many credit cards today provide some form of reward to the cardholder. Three of the most popular rewards programs are cash back, points, and travel (frequent flyer miles). Card issuers promote them heavily in their mailers.

Cash back. Cardholders receive a percentage back of the amount spent. Typical percentages range from 0.5% to 2%. Many use a tiered approach; the more money charged to the card during the year, the higher the percentage, possibly as much as 5%. Other cards may pay a higher percentage for specified categories such as supermarkets or gas stations. Some cards may also give a year-end bonus in addition to the cash back. Cash back can work for some people, but remember that cards with cash back programs typically have higher APRs. For example, if your current card has 13.5% APR and the cash back card pays back 1% and has a 15% APR if you carry a balance, you'd be losing 0.5% to go with the cash back card over your regular card.

Points. Points are earned based on the dollar amount of purchases. Cash advances typically don't earn points under these programs. More points may be earned at specific locations such as supermarkets or gas stations. Points typically may be redeemed for merchandise, travel, gift certificates, or other items as specified by the particular program. Check what points your credit union offers.

Travel. Card purchases under these programs earn frequent flyer miles or travel reward points based on the dollar amount of purchases. Miles may be for a specific airline only.

Some tips for judging reward programs. When shopping for a rewards card, read the fine print carefully. Some things to look for and consider include:

- Some cards have an annual fee or charge a higher interest rate than a card without rewards. Such charges can cancel out any reward.
- There may also be a maximum number of points, miles, or dollars you can earn. Some maximums are per month, others are per year.
- Make sure that you can earn rewards where you do most of your purchasing. For example, with some cards you don't earn rewards for purchases at certain retailers, such as warehouse clubs.
- Most reward points have an expiration date that is usually between three and five years after they were earned.
- Most cards require that you continue using the card and remain in good standing to maintain your rewards. For example, if you pay late, you may lose the rewards earned for that billing period.
- Redeeming travel rewards may be hard due to blackout dates or limited rewards seats. Also, you may not be able to redeem travel rewards for vacation packages.
- The plans' terms and conditions can be changed at any time.

Does the Card Protect Your Right to Use the Court System to Settle a Grievance?

When commercial transactions are involved, sometimes things can go wrong. Many credit card issuers automatically include Binding Mandatory Arbitration (BMA) clauses in their contract agreements. When you accept the terms of the card, you have relinquished your rights to ever use the U.S. court system to resolve any complaint, no matter how serious or injurious that might arise. Instead, you must use binding arbitration. Voluntary arbitration can be a great way to settle disputes. But should you be forced to give up your rights? Most consumer groups and advocates say no. Most credit unions' credit cards do not have BMA clauses.

Choosing a Card to Match Your Spending and Repayment Habits

When shopping for a credit card, you need to make sure that you find one that suits how you will use it. Our first tip is to look for a card with no annual fee. The following tips apply depending on how you plan to use the card.

If you will pay the balance off each month. Choose a card with a longer grace period. Many cards have reduced their grace periods to 20 days. Most credit unions' grace periods are around 25 days. You might want to choose a rewards card if you'll redeem the awards.

If you plan to carry a balance. Choose a card with a low APR. Make sure you know when the card company can raise the rate. If a card offer has an introductory rate, look at the disclosure for the rate that will take effect after the introductory period.

If you plan to do both. Consider having two cards. Use one for convenience and pay off the balance each month so you don't pay interest. Use the other one for more important purchases you want to pay off over time. Most credit unions allow qualified members to have more than one credit card account.

If you plan to transfer a balance. Choose a card that doesn't charge a balance transfer fee and has a low APR. Most zero percent interest balance transfer offers last from 3 to 12 months and many have a balance transfer fee. If you choose a zero percent interest offer, do the math to make sure that the transfer fee doesn't wipe out most of your interest savings. Your credit limit needs to be high enough for the entire balance you want to transfer. You'll want to make sure you know the length of the introductory rate and the rate it will rise to if you haven't paid off the balance. You also want to know under what circumstances you could lose the introductory rate.

If you plan on getting cash advances. Since interest starts accruing on a cash advance as soon as you get it, choose a card that has a low APR for cash advances. Most credit unions have the same APR for cash advances and purchases.

If you plan to use the card for a combination of purposes, such as carrying a balance, cash advances, or balance transfers, you could end up with balances with different rates. If so, determine how the card issuer allocates payments. Some issuers apply payments to lower rate balances first and then apply payments to the higher rate balances.

If you plan on paying your bill over the phone. Some card issuers charge fees for on-time payments by phone. Fees for some issuers are as high as \$15. Some card issuers still charge fees for online e-payments also.

When shopping for a credit card, doing your homework can pay off. I recommend that you start with your credit union. In most cases, you'll find that one of your credit unions' Visa cards will be one of your very best options.

For more information:

- [Choosing a Credit Card](#) from The Federal Reserve Board includes a [checklist for comparing credit cards](#) and a [survey of credit card plans](#) that is updated every six months.
- [SHOP The Card You Pick Can Save You Money](#) (1.15 MB pdf) from The Federal Reserve Bank of San Francisco provides explanations of costs and terms associated with credit cards and how to use these costs and terms to comparison shop for a credit card.
- [2007 Credit Card Survey](#) from Consumer Action looks at the details of various practices of the credit card industry.