FTC Facts For Consumers

focus on CREDIT

FEDERAL TRADE COMMISSION
FOR THE CONSUMER

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Choosing A Credit Card: *The Deal is in the Disclosures*

A credit card lets you buy things and pay for them over time. Using a credit card is a form of borrowing: you have to pay the money back.

When you are choosing a credit card, there are many features – and several kinds of cards – to consider: Fees, charges, interest rates, and benefits can vary among credit card issuers. As a result, some credit cards that look like a great deal at first glance may lose their appeal once you read the terms and conditions of use and calculate how the fees could affect your available credit.

Credit Card Terms

Important terms of use generally must be disclosed in any credit card application and even in solicitations that don't require an application. Here are the most important terms to understand – or ask about – when you are choosing among credit offers.

Fees

Many credit cards charge membership and/or participation fees. Issuers have a variety of names for these fees, including "annual," "activation," "acceptance," "participation," and "monthly maintenance" fees. These fees may appear monthly, periodically, or as one-time charges, and can range from $6 to $150. What's more, they can have an immediate effect on your available credit. For example, a card with a $250 credit limit and $150 in fees leaves you with $100 in available credit.

Transaction Fees and Other Charges

Some issuers charge a fee if you use the card to get a cash advance or make a late payment, or if you exceed your credit limit.

Annual Percentage Rate

The APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before your account can be activated, and it must appear on your account statements.

The card issuer also must disclose the "periodic rate." That's the rate the issuer applies to your outstanding balance to determine the finance charge for each billing period.

Some credit card plans let the issuer change the APR when interest rates or other economic indicators – called indexes – change. Because the rate change is linked to the index's performance and varies, these plans are called "variable rate" programs. Rate changes also can raise or lower the finance charge on your account. If you're considering a variable rate card, the issuer must tell you that the rate may change and how the rate is determined.

Before your account is activated, you also must be given information about any limits on how much your rate may change – and how often.

Grace Period

A grace period, also called a "free period," lets you avoid finance charges if you pay your balance in full before the date it is due. Knowing whether a card gives you a grace period is important if you plan to pay your account in full each month. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

When choosing a credit card, consider fees, charges, interest rates, and benefits.

Balance Computation Method for the Finance Charge

If you don't have a grace period – or if you plan to pay for your purchases over time – it's important to know how the issuer calculates your finance charge. Which balance computation method is used can make a big difference in how much of a finance charge you'll pay – even if the APR and your buying patterns stay pretty much the same.

Balance Transfer Offers

Many credit card companies offer incentives for balance transfers – moving your debt from one credit card (Card Issuer A) to another (Card Issuer B). All offers are not the same, and their terms can be complicated.

For example, many credit card issuers offer transfers with low introductory rates. Some issuers also charge balance transfer fees. If Card Issuer B charges four percent to transfer $5,000 from Card Issuer A, your fee would be $200. In addition, if you pay late or fail to pay off your transferred balance before the introductory period ends, Card Issuer B may raise the introductory rate and/or charge you interest retroactively. And if you use your card from Card Issuer B to make new purchases, any payments you make will go toward your balance with the lowest interest rate – and finance charges at the higher interest rate will be assessed on the portion of your balance that came from new purchases.

Balance Computation Methods

Average Daily Balance

This is the most common calculation method. It credits your account from the day the issuer receives your payment. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, cash advances typically are included. The resulting daily balances are added for the billing cycle. Then, the total is divided by the number of days in the billing period to get the "average daily balance."

Adjusted Balance

This usually is the most advantageous method for cardholders. The issuer determines your balance by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period aren't included.

This method gives you until the end of the billing period to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior unpaid finance charges from the previous balance.

Previous Balance

This is the amount you owed at the end of the previous billing period. Payments, credits, and purchases made during the current billing period are not included. Some creditors exclude unpaid finance charges.

Two-cycle or Double-cycle Balances

Issuers sometimes calculate your balance using your last two month's account activity. This approach eliminates the interest-free period if you go from paying your balance in full each month to paying only a portion each month of what you owe. For example, if you have no previous balance, but you fail to pay the entire balance of new purchases by the payment due date, the issuer will compute the interest on the original balance that previously had been subject to an interest-free period. Read your agreement to find out if your issuer uses this approach and, if so, what specific two-cycle method is used.

It's important to know how the issuer calculates your finance charge.

How do these methods of calculating finance charges affect the cost of credit?

Suppose your monthly interest rate is 1.5 percent, your APR is 18 percent, and your previous balance is $400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of $300. On the 18th day, you make a $50 purchase. Using the:

- Average Daily Balance method (including new purchases), your finance charge would be $4.05.
- Average Daily Balance method (excluding new purchases), your finance charge would be $3.75.
- Adjusted Balance method, your finance charge would be $1.50.
- Average Daily Balance Double-cycle method (including new purchase and the previous month's balance), your finance charge would be $6.53.

If you don't understand how your balance is calculated, ask your card issuer. An explanation also must appear on your billing statements.

Other Costs and Features

Credit Terms Vary Among Issuers

When considering a credit card, think about how you plan to use it: If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, and whether there is a grace period for purchases. If you use the cash advance feature, many cards do not permit a grace period for the amounts due – even if they have a grace period for purchases.

That makes considering the APR and balance computation method a good idea. But if you plan to pay for purchases over time, the APR and the balance computation method definitely are major considerations.

You'll also want to consider if the credit limit is high enough, how widely the card is accepted, and the plan's services and features. For example, you may be interested in "affinity cards" – all-purpose credit cards sponsored by professional organizations, alumni associations, and some members of the travel industry. An affinity card issuer often donates a portion of the annual fees or charges to the sponsoring organization, or qualifies you for free travel or other bonuses.

Default and Universal Default

Your credit card agreement explains what may happen if you "default" on your account. For example, if you are one day late with your payment, your issuer may be able to take certain actions, including raising the interest rate on your card. Some issuers' agreements even state that if you are in default on any financial account – even one with another company – those issuers' will consider you in default for them as well. This is known as "universal default."

Special Delinquency Rates

Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. This can exceed 20 percent. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

For Help & Information

Questions about a particular issuer should be sent to the agency with jurisdiction.

Office of the Comptroller of the Currency:
Regulates banks with "national" in the name or "N.A." after the name:

Office of the Ombudsman
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743 toll-free
www.occ.treas.gov

Board of Governors of the Federal Reserve System:
Regulates state-chartered banks that are members of the Federal Reserve System, bank holding companies, and branches of foreign banks:

Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (TTY: 877-766-8533) toll-free
ConsumerHelp@FederalReserve.gov

Federal Deposit Insurance Corporation:
Regulates state-chartered banks that are not members of the Federal Reserve System:

Division of Supervision & Consumer Protection
550 17th Street, NW
Washington, DC 20429
877-ASK-FDIC (275-3342) toll-free
www.fdic.gov

National Credit Union Administration:
Regulates federally chartered credit unions:
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314-3428
703-518-6330
www.ncua.gov

Office of Thrift Supervision:
Regulates federal savings and loan associations and federal savings banks:
Consumer Programs
1700 G Street, NW
Washington, DC 20552
800-842-6929 toll-free
www.ots.treas.gov

Federal Trade Commission:
Regulates non-bank lenders:
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
877-FTC-HELP (382-4357) toll-free
www.ftc.gov

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

The Federal Trade Commission (FTC) is the nation's consumer protection agency. Here are some tips from the FTC to help you be a more savvy consumer.

1. **Know who you're dealing with.** Do business only with companies that clearly provide their name, street address, and phone number.

2. **Protect your personal information.** Share credit card or other personal information only when buying from a company you know and trust.

3. **Take your time. Resist the urge to "act now."** Most any offer that's good today will be good tomorrow, too.

4. **Rate the risks.** Every potentially high-profit investment is a high-risk investment. That means you could lose your investment — all of it.

5. **Read the small print.** Get all promises in writing and read all paperwork before making any payments or signing any contracts. Pay special attention to the small print.

6. **"Free" means free.** Throw out any offer that says you have to pay to get a gift or a "free" gift. If something is free or a gift, you don't have to pay for it. Period.

7. **Report fraud.** If you think you've been a victim of fraud, report it. It's one way to get even with a scam artist who cheated you. By reporting your complaint to 1-877-FTC-HELP or ftc.gov, you are providing important information to help law enforcement officials track down scam artists and stop them!

Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education