

Paying Your Credit Card Bill

When you receive your credit card bill, you have to pay at least the minimum amount due.

The chart below shows the **cost** of making only the minimum payment. *The chart also assumes you are not making additional purchases and you are making your payments on time.*

Item	Price	APR	Interest Paid	How Much You Really Pay For the Item	Total Years to Pay Off
TV	\$500	18%	\$439	\$939	8
Computer	\$1,000	18%	\$1,899	\$2,899	19
Furniture	\$2,500	18%	\$6,281	\$8,781	34

The chart below shows the benefit of paying more than the minimum payment. *This chart assumes you are not making additional purchases and you are making your payments on time.*

Original Balance	APR	Monthly Payments	Total Number Of Monthly Payments	Total Years to Pay Off	Total of Payments
\$2,500	18%	Minimum Payment	404	34	\$8,781
\$2,500	18%	\$50	94	8	\$4,698
\$2,500	18%	\$100	32	3	\$3,163

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Commonwealth of Kentucky
 Environmental and Public Protection
 Cabinet
 Office of Financial Institutions
 1025 Capital Center Drive
 Suite 200
 Frankfort, KY 40601

1-800-223-2579

Fax 502-573-8787

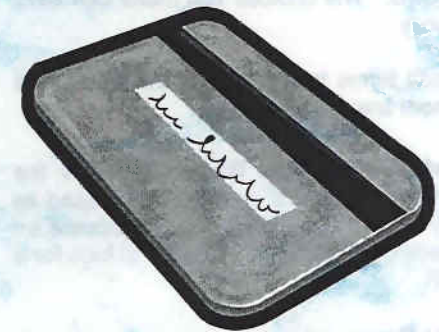
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NEED A SPEAKER?

This Office can provide you with a speaker. If your interest is trust companies, predatory lending, investments, financial planning, banking, credit cards, consumer awareness, or if you would just like to know what we do and how we do it; we are fortunate to have several staff members who are willing to share their knowledge. There is no cost for speakers or educational materials provided.

SELECTING A CREDIT CARD

Presented by
 The Kentucky Office of
 Financial Institutions



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Using a credit card can be both a convenience and a necessity. However, many people get into trouble by not using a credit card wisely.

Credit cards represent a revolving line of credit. This means you can make an unlimited number of purchases, up to a pre-approved dollar limit. You must pay at least a portion of the balance every month.

Before you decide to apply for a credit card, decide what it will be used for. Keep in mind a credit card is not free money. It is a loan you must repay.

SHOP FOR YOUR CREDIT CARD

Shop among some of the credit card issuers. Compare them with cards you already have and with offers you receive in the mail for the terms that best suit your spending and repayment habits. The choices you make can save you money.

Key credit terms to consider in the credit card agreement are:

Annual Percentage Rate (APR) is the rate of interest you are charged, expressed as a yearly rate. If you plan to keep a balance on your credit card account, you want to look for a low APR.

Annual Fee is a fee some companies charge annually for the privilege of using their credit cards.

Average Daily Balance is a balance calculation method most creditors use in calculating their finance charge. The average daily balance is calculated by adding each day's balance and dividing the total by the number of days in the billing cycle.

Finance Charge is the cost of credit. It includes interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.

Grace Period is the number of days you have to pay your balance before a creditor starts charging interest. Once you receive your monthly bill, you will have three to four weeks (with most creditors) to pay your bill interest free. If your credit card does not provide a grace period, a finance charge might be imposed from the date you use your card or the date the transaction is posted to your account. *Be advised that a grace period does not apply to cash advances.*

Late fee - payment must be received (not postmarked) on the due date to avoid a late fee. If you are mailing a payment, send it at least five days before it is due to avoid a late fee.

Over-the-limit fee is a fee applied, if your outstanding charges exceed your credit limit.

Periodic Rate is the interest rate applied to your balance to calculate the finance charge. For example, the monthly periodic rate for a card with an 18% APR is 1.5% (18% divided by 12 months). If your monthly balance were \$1,000, you would multiply it by 1.5% to get your monthly finance charge of \$15 ($\$1,000 \times 1.5\% = \15). The daily periodic rate for the same 18% APR is 0.04932% (18% divided by 365 days).

Credit Card Features to Consider

Smart consumers find the best deal for their budget and repayment styles. If you always pay your monthly bills in full, the best type of card is one that has no annual fee and offers a grace period for paying your bill without paying a finance charge.

If you don't always pay off the credit card balance at the end of the month, be sure to look at the annual percentage rate.

EXAMPLE:

Terms	Card A	Card B
Average monthly balance	\$ 2,500	\$ 2,500
APR	x.18	x.14
Annual Finance Charges	\$ 450	\$ 350
Annual fee	+\$ 20	-0-
Total Cost	\$ 470	\$ 350

Other features to consider are enhancements to the credit card that the issuer offers. Enhancements can include cash rebates, purchase protections, warranty guarantees, and usage incentives such as frequent flyer miles.

TIPS WHEN SHOPPING FOR A CREDIT CARD

Decide how you will use the credit card and what you will purchase with it.

Start small. Don't charge too much on your credit card until you get comfortable with the monthly bill.

Make sure you understand the terms of the agreement before you accept the card and beware of introductory rates. You might start out with a credit card that has no annual fee for the first year, but will be charged a fee in the second year. You might start out with a low interest rate and then find the interest rate is much higher after a few months.

Make sure you understand the implications of fixed and variable rates.