

SELECTING A CREDIT CARD

WHAT IS A CREDIT CARD?

A **credit card** is pre-approved credit which can be used for the purchase of items now and payment of them later. Credit cards can assist people with money management. However, if used improperly, they can cost people large amounts of money and even cause debt. Comparison shopping for a credit card is an excellent practice. The terms and conditions of accounts vary with individual cards along with the costs of borrowing. By knowing the facts, consumers will not be surprised by some of the hidden costs associated with credit cards.



Why Use a Credit Card

- Responsible use can help establish good credit history
- Conveniently accepted across United States and abroad
- Emergency buying power
- Additional form of identification
- Record of purchases on bill statement
- Often required to hold a reservation
- Purchase 'big ticket' items earlier

Why Not Use a Credit Card

- Irresponsible use can damage credit history
- Higher risk for impulsive buying and over-spending
- Debt trap when used unwisely
- Expensive way to borrow due to high interest rates
- Possible hidden fees & surcharges
- Less to spend in the future due to paying off purchases from past
- Privacy is an increasing concern
- Identity theft easier

PROPER CREDIT USE

Acquiring habits for proper credit card use is important. First, one should only use a credit when there is no doubt about the ability to pay off the charges at the end of the billing cycle. Second, it is important to record all expenses upon purchase, keep all receipts and, at the end of the billing cycle, check the credit card statement for errors. When paying a credit card bill, one should always pay the balance off completely and timely, to avoid costly interest charges.

TYPES OF CREDIT CARDS

- **Bank Credit Cards** - Flexible account accepted for purchases anywhere made available by a financial institution (commercial bank, credit union, savings and loan association) with a service provider (Visa, MasterCard, American Express). Transactions occur through an electronic network.
- **Retail Credit Cards** - Account which allows for a customer to make credit card purchases at a particular retailer such as The Buckle or Old Navy. Retailers can also work with a bank to offer a bank credit card with the retailer's logo
- **Travel and Entertainment Cards** - Accounts similar to bank credit cards except the entire balance must be repaid in 30 days.
- **Prestige Cards** - High status accounts which require higher credit qualifications, but receive special benefits such as free travelers checks and higher credit limits.
- **Affinity Cards** - Accounts through financial institutions with the logo of a sponsoring organization such as Mothers Against Drunk Driving. Typically, the financial institution donates a small percentage of the charge to the organization.

SCHUMER BOX

- The Federal Truth in Lending Act requires credit institutions to list the costs of credit cards in a Schumer Box in order for consumers to avoid unexpected finance charges. It is helpful for consumers in comparing credit card offers.



SELECTING A CREDIT CARD

Annual Percentage Rate for	Grace Period for Purchases	Minimum Finance Charges	Balance Calculation Method for	Annual Fees	Transaction Fees for Cash Advances	Late Payment Fees
19.9%	Not less than 25 days	\$.50 when a finance charge at a periodic rate is charged	Average daily balance method (including new purchases)	\$20 per year	2% with a minimum fee of \$3	\$29

TERMS

- **Annual Percentage Rate (APR)** - The interest rate charged to the cardholder on the amount borrowed in terms of per dollar per year.
- **Grace Period** - Amount of time, in days, allowed to the cardholder between the day the items are charged on the credit card and the day finance charges begin to apply.
- **Minimum Finance Charge** - The minimum amount to be charged for use of a credit card.
- **Balance Calculation Method** - The method used to determine the balance for which finance charges are accumulated.
 1. **Average daily balance excluding new purchases** - Interest is only paid on the previous balance, not on purchases made since the last payment.
 2. **Average daily balance including new purchases with a grace period** - If the balance is not zero, interest is applied to new purchases when they are made. If the balance is zero, a grace period is allowed before interest is charged.
 3. **Average daily balance including new purchases with no grace period** - Regardless of the previous month's balance, interest is applied to new purchases as they are made.
 4. **Two-cycle average daily balance including new purchases** - This method should be avoided by consumers, as it is the least-beneficial. The average daily balance is determined on 60 days, rather than 30 days, so finance charges are doubled. A zero-balance must be held for two months in order to avoid charges.
- **Annual Fees** - A fee charged once per year for credit card ownership.
- **Cash Advance Transaction Fees** - A fee charged for a cash withdrawal from a credit card account.
- **Late Payment Fees** - A fee charged when a cardholder does not make the minimum monthly payment by the due date.

OPENING A CREDIT ACCOUNT

1. Complete a **credit application**, a form requesting information on ability to repay debts.
2. Lender conducts a **credit investigation**, a comparison of information on a credit application to information on a credit report, in order to insure all information is correct.
3. Applicant is given a **credit rating**, an evaluation of a person's ability to repay debts.
4. Lender accepts or denies the request for credit.
5. Applicant evaluates the details of the credit card using Schumer Box information.
6. Applicant accepts or refuses the terms of the credit card.

If one's request for a credit card is denied, they have the legal right to obtain a free credit report in the two months following.

LOST AND STOLEN

CREDIT CARDS

A lost or stolen credit card should always be reported immediately. The owner of the card is only liable for \$50 if the card was used illegally before the credit card company was notified of the loss. Many credit card companies will waive this fee as a gesture of good-will.



SAFETY TIPS

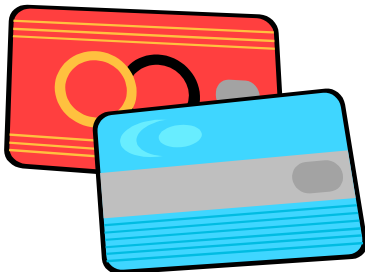
- Sign the back of credit cards with signature and "Please see I.D.".
- Do not leave cards lying around the home or office.
- Close unused accounts in writing and by phone, then cut up the card.
- Do not give out the account number unless making purchases.
- Keep a list of all cards, account numbers, and phone numbers separate from cards.



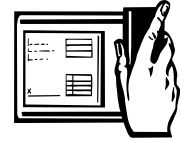
SELECTING A CREDIT CARD

UNDERSTANDING THE BILL

- **Minimum Payment Due** - The minimum amount to be paid. If this amount is paid and a balance is left on the account, additional finance charges will be included in the following month's balance.
- **Past Due Amount** - The required amount not paid before the due date.
- **Due Date** - The specified day by which the company requires a payment to be made.
- **New Balance** - The total amount owed including the previous balance, any charges or payments made to the account, and finance charges.
- **Credit Line** - The maximum amount of charges allowed to the account.
- **Closing Date** - The last day transactions are reported on the statement. After this day, transactions go onto the next statement.
- **Charges, Payments, and Credits** - All of the transactions which occur with the use of a credit card. Charges add to the account balance, while payments and credits subtract from the balance.
- **Finance Charge** - The charges assessed to the account for the credit card use throughout the month.



No Name Service Center
 P.O. Box 123
 Any City, MI 59555-4321



MOUNTAIN NATIONAL BANK
 P.O. Box 89375
 SEATTLE, WA 51403-2497

Brittany Matbitten
 248 Link Circle
 Billings, MT 59305

MINIMUM PAYMENT DUE	PAST DUE AMOUNT	PAYMENT DUE DATE	NEW BALANCE	ACCOUNT NUMBER
\$15.00	0.00	06/17/03	\$707.59	4444 1111 3333 2222

ACCOUNT NUMBER	CREDIT LINE	AVAILABLE CREDIT	DAYS IN BILLING CYCLE	BILLING CYCLE CLOSING DATE
4444 1111 3333 2222	\$2,000	\$1,292.41	31	5/22/03

TRANSACTION DATE	CHARGES, PAYMENTS, AND CREDITS SINCE LAST STATEMENT	AMOUNT
4/22/03	PREVIOUS BALANCE	\$600.00
4/25/03	APPLEBEE'S	\$ 37.22
4/30/03	TARGET	\$ 45.72
5/05/03	PAYMENT RECEIVED	\$ 65.00-
5/17/03	THE BUCKLE	\$ 80.00

PREVIOUS BALANCE	PAYMENTS	CREDITS	CASH ADVANCE	PURCHASES	FINANCE CHARGE	NEW BALANCE
\$600	\$65.00	\$0.00	\$0.00	\$162.94	\$9.65	\$707.59



	AVERAGE DAILY BALANCE	MONTHLY PERIODIC RATE	ANNUAL PERCENTAGE RATE
PURCHASES	\$643.538	1.5%	18%
CASH ADVANCES	\$0.00	1.83%	22%

