



Financial Education Resources

## **Understanding Your Credit Card's Terms and Conditions**

When you sign your application for a credit card, you're agreeing to the terms and conditions of the contract, which is often referred to as the cardholder agreement. This generally includes important information about your card, such as the interest rate you'll be charged on a balance and how that balance is calculated, which fees you may be charged and the cost of a balance transfer, as well as products or other perks you'll be offered.

You will receive the full terms and conditions when you get a new card. Be sure to keep this document in a safe place, as it contains everything you need to know about your credit card account. If you can't find your agreement or want another one, call your card's toll-free number and ask to have it sent.

Here are some of the most common terms and conditions you'll find in most credit card contracts.

### **Annual Percentage Rate (APR) for Purchases**

An annual percentage rate (APR) is a periodic interest rate that determines the finance charges you pay on your account if you carry a balance. Some card companies charge different APRs depending on the transaction. For example, your rate for cash advances may be higher than your rate for balance transfers.

### **Balance Transfer**

A balance transfer is when you pay off the balance on one credit card by using the credit you have on another account. In some cases, you may be charged a fee to complete the balance transfer. The fee is typically a percentage of the balance you are transferring.

You can only transfer an amount up to your credit limit on the new card. So if your credit limit is \$5,000 on the new card and you try to transfer a balance of \$6,000, you will only be able to transfer \$5,000 of that old balance. Balance transfers by themselves do not automatically close an account. You can continue to use the card or you can close the account.

### **Claims and Disputes**

If you find a discrepancy on your statement, contact the merchant first to discuss the charge. If the merchant is not responsive to your claim, contact your credit card company. Credit card companies provide an address for billing error disputes, or you may call their dispute department. Claims and disputes might include incorrect charges, unauthorized charges and charges made to your card



by an unauthorized person, as in the case of identity theft or fraud.

## Fees

You may encounter several different types of fees with your credit card account:

- **Annual Fee** This is a yearly fee for use of certain types of credit cards. Many of the cards that have an annual fee offer benefits, such as cash rewards, airline miles or points towards merchandise.
- **Late Fee** This is a fee imposed when you do not pay at least the minimum payment by the specified due date. Please note that after the CARD Act rules go into effect in early 2010, payments received by card companies by 5 p.m. on the due date will be considered on time.
- **Over-the-Limit Fee** This is a fee charged for exceeding your credit limit, which is the maximum amount that you can charge on your credit card. Please note that when the new CARD Act rules go into effect, issuers cannot charge you an overlimit fee unless you have specifically agreed to it. Discover is one of two major credit card companies that has decided to eliminate overlimit fees altogether.

## Finance Charge

A finance charge is the amount of interest charged on a credit card balance based on the annual percentage rate for that type of transaction (purchase, balance transfer, convenience check, cash advance). In short, it's a charge for the loan you've taken out on the card.

## Grace Period

A grace period is the amount of time from the date of the purchase to the date payment in full is due, during which you will not incur finance charges on your purchases. The length of a grace period varies from card to card, but it is commonly about 20 days. If you do not pay your bill in full, then you will not receive an interest-free grace period on future purchases.

Most credit cards do not provide a grace period on cash advances or balance transfers, so interest is assessed from the date of each of these transactions.

## Method of Computing the Balance for Purchases

This is how transactions are added to calculate a cardholder's monthly balance. If the method is "average daily balance," that means that each day's transactions are added to a running total, which is then divided by the total number of days in the billing cycle.



### **Monthly Minimum Payment**

The monthly minimum payment is the minimum amount that a cardholder with a balance has to pay each month to avoid default. If possible, you should try to pay more than the minimum amount in order to pay down your debt faster.

### **Transaction Fee**

This term is used to describe the fee charged for certain types of transactions, such as a balance transfer, cash advance and purchase made in a foreign country. This is usually a fixed percentage of the total amount of the transaction.

### **Variable Rates**

Variable rates are tied to an index, such as LIBOR (the London Interbank Offered Rate) or an interest rate, such as the U.S. prime rate. When the index changes, the rate on the credit card changes.

In addition to the fees and charges listed in the cardholder agreement, you also may find extra benefits. In many cases, these include free benefits for those who are traveling within the U.S. or abroad.