



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

The annual percentage rate (APR) is the yearly interest rate charged for purchases that are not paid off by the due date. The APR may be fixed or variable, and will vary by credit card.

A fixed rate will remain the same and does not fluctuate with market conditions. On the other hand, if the APR is variable, it will change depending on the interest rate index to which it's linked. For example, if the APR is tied to the U.S. prime rate, the APR will change when the prime rate changes.

### Other APRs

Some credit cards charge different annual percentage rates depending on the type of transaction. APRs may be higher for cash advances and convenience checks than for purchases. APRs may be different for balance transfers. A low balance transfer rate may last until you pay off the transferred balance or it may apply to the transferred balance for a specific period of time.

You may find a higher APR applied to your account if you make late payments or miss payments on your credit card. You may even have your APR increased if you are late paying on a different account—one that has no relationship to this account—because the lender deems you to be a greater risk. This practice is referred to as universal default, but it's rarely used today.

Finally, some cards offer low introductory APRs that expire after a certain amount of time, such as six months or a year.



## 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** Some credit card companies charge an annual fee to use their credit card. The cards that usually charge an annual fee offer benefits such as cash rewards, airline miles or points toward merchandise. The terms and conditions brochure or invitation letter will tell you whether there's an annual fee and how much it is.
- **Late Fee** This is the fee charged by a credit card company if a cardholder with a balance does not make at least the minimum payment by the due date. Some cards also increase interest rates if cardholders miss payment deadlines.
- **Over-the-Limit Fee** This is the fee charged by credit card companies when cardholders exceed their credit limit. For example, if your credit limit is \$10,000 and you charge \$11,000, you will be charged a fee.
- **Pay-by-Phone Fee** This fee may be charged by a credit card company if a cardholder chooses to pay his or her balance over the phone as opposed to online or through the mail. The fee covers customer service costs.



## **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. Many cards charge two percent of the outstanding balance, although some charge as much as five percent. 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.

## **Universal Default**

Some financial institutions reserve the right to change your rates if you have defaulted on an account or loan with another lender. For example, a cardholder who carries a balance on one card may have his rates increased on that card if he has missed a payment on one of his credit cards issued by another bank. This practice is rarely used today.



## **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. r report are permanently removed.