

Credit Cards

Many individuals use credit cards on a regular basis. They are both easy and convenient to carry so people regularly use them for expenses throughout the day. However, one of the downsides is that individuals quickly accumulate debt on a credit card. Individuals can purchase items almost effortlessly and without out giving much thought to the transaction.

Here's how a credit card works. You apply to a credit card company. Based on your credit score, you are approved for a certain limit. This means that you can make regular purchases on your credit card, but you need to stay below the amount you are approved for. If you go past the pre-approved amount, the transaction may be declined, or you might be charged a transaction fee.



If you make no additional charges and each month you pay...	You will pay off the balance shown on this statement in about...	And you will pay an estimated total of...
Only the minimum Amount Due	7 years 3 years	\$12,248 \$8,820 (Savings = \$3,428)

Individuals who have a balance on their credit card receive monthly statements indicating how much they owe along with payment information. The statement will always include the minimum amount due for that

month. If the minimum is paid and the company receives the payment on time, the individual will not receive any additional charges, other than the interest rate on the balance. It's important to know that there are costs affiliated with credit cards, such as:

- **Annual Fee** – credit card companies can charge you an annual fee just to use their card. This usually falls in the range of \$0-\$50 per year.
- **Annual Percentage Rate (APR)** – this is the percentage rate charged for any monthly balances.
- **Finance Charge** – a dollar amount paid to use credit, including any additional costs of the transactions and interest.
- **Grace Period** – the number of days an individual must pay off new purchases before interest is charged.

Kathleen Elk. "Here's What Happens When You Only Pay the Minimum on Your Credit Card Balance ." *CNBC*, CNBC, 24 July 2018, www.cnbc.com/2018/07/23/what-happens-when-you-only-pay-the-minimum-on-your-credit-card-balance.html.

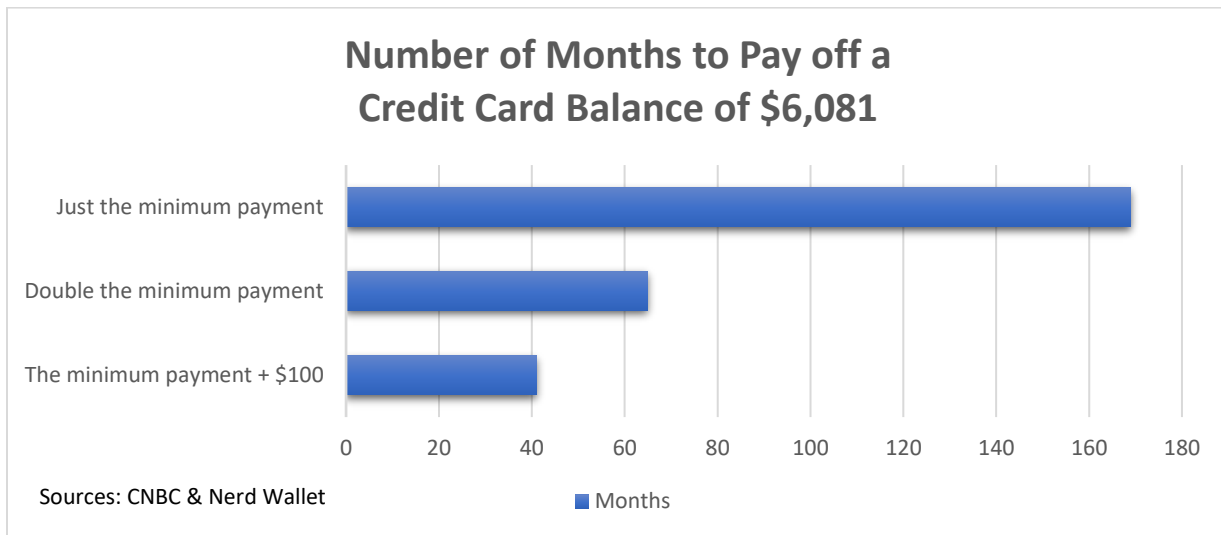
Nance-Nash, Sheryl. "5 Credit Card Traps." *Forbes*, Forbes Magazine, 19 June 2012, www.forbes.com/sites/sherylnancenash/2012/06/19/5-credit-card-traps/.

Caldwell, Miriam. "5 Steps You Can Take to Avoid the Credit Card Trap." *The Balance*, The Balance, 9 Dec. 2018, www.thebalance.com/how-to-avoid-the-credit-card-trap-2386313.

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- **Periodic Rate** – the interest rate a credit card company charges your account for any outstanding monthly balances.
- **Transaction Fees** – some credit card companies charge fees for a cash advance, late payments, or if you go past your credit limit.

On average, United States households with credit card debt carries a balance of \$6,081. The chart below shows that if an individual only paid the minimum balance, it would take the individual 169 months to pay off the credit card. However, if the payment was doubled each month, it would take the individual less time to pay off the credit card. If the minimum payment was made, along with an additional \$100, the credit card would be paid off in approximately 40 months.



That’s a big difference! Think of the interest the individual would be paying back over the course of 169 months.

Credit cards are a nice convenience to have, but it is important to be thoughtful when using it. When using a credit card, remember: The cost of the item you are buying is more expensive if you do not pay it off right away. Very quickly, a fun purchase of just \$10 can triple with interest. Try to not carry balances on your credit card, but if you do, make sure you know when your payments are due and how long you have to pay off your purchase.

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