



## Credit Cards

Teens are interested in credit cards, and why not? Advertising makes buying look easy when paying by plastic. But there can be high costs associated with using credit cards. Teens need to be aware that they are an important “target market” for credit card issuers. Understanding how credit cards work before heading off to college will help avoid credit pitfalls.

This study guide is different from others you may have used. It is lengthy and may look overwhelming, but it really isn't. What you will find on its pages are guides to help you understand the new disclosure requirements for credit cards from the Federal Reserve Board. In fact, the pages resemble credit card offers you receive in the mail as well as the credit card statement you get when it is time to pay your bill. All of this information is from the Federal Reserve Board, who has the responsibility for overseeing these new rules and regulations. Check out Credit Card Tips from the Federal Reserve Board at <http://www.federalreserve.gov/creditcard> for more detail.

The new credit card rules that went into effect in 2010 make it much easier for you to:

- compare credit card offers,
- understand your credit card statement, and
- understand how long it takes to pay off your credit card and at what cost.

### Compare Credit Card Offers

Just about every household receives credit card offers in the mail. The newly designed disclosures provide vital information that make it easier to compare credit card offers. One big change is that all of the terms are now defined. The print is also larger. In the first four pages that follow, you will learn important facts about interest rates and charges. Each number below matches a number on the sample credit card offer as well as its definition/description. These are the most important features to understand when you compare credit card offers. Look at one or two actual credit offers that reach your family through the mail and you will immediately see differences in the offers.

1. Annual Percentage Rate (APR) for Purchases
2. APR for Balance Transfers
3. APR for Cash Advances
4. Penalty APR and When It Applies
5. How to Avoid Paying Interest on Purchases
6. Minimum Interest Charge
7. Set-up and Maintenance Fees
8. Transaction Fees
9. Penalty Fees
10. Other Fees
11. How We Will Calculate Your Balance
12. Loss of Introductory APR

## Understand Your Credit Card Statement

The new regulations require credit card statements to clearly spell out 10 items. Study the detail in the sample statement in this study guide. When you receive your own credit card statement, the information disclosed will apply to your specific account balance, terms, and conditions.

1. Summary of Account Activity
2. New Balance, Minimum Payment Due
3. Late Payment Warning
4. **Minimum Payment Warning.** This is the most dramatic and important disclosure because you are shown how long it will take to pay off the balance if you make the minimum payment vs. increasing the monthly payment. In the example, the minimum payment of \$53.00 means the balance will be paid off in 10 years, with total payments of \$3,284. By paying \$62 each month instead, the balance will be paid off in 3 years, for a savings in interest of \$1,052.
5. Notice of Changes to Your Interest Rates
6. Important Changes to Your Account Terms
7. Transactions (you have made)
8. Fee Costs
9. Totals Year-to-Date (total fees and total interest charged)
10. Interest Charge Calculation (shows what rates have been applied to purchases, cash advances, and balance transfers.

## How Long It Takes to Pay Off Your Credit Card and at What Cost

By requiring the Minimum Payment Warning (see #4 above and on the sample statement), the new regulations help consumers increase their knowledge about the cost of credit. By knowing the costs, consumers can make better payment decisions. The last page in this Study Guide is from the Credit Card Repayment Calculator at [www.federalreserve.gov/creditcardcalculator/Default.aspx](http://www.federalreserve.gov/creditcardcalculator/Default.aspx). Using the calculator gives consumers valuable information to use in becoming “debt-free” earlier and at a lower cost. Knowing the actual dollars and cents can influence consumer behavior positively.







## Additional Protection for Underage Consumers




Another important rule that went into effect in 2010 protects underage consumers. If you are under 21, you will have to show that you are able to make credit card payments, or you will need a cosigner, to open a credit card account. Consumers under age 21 who have a card with a cosigner and want an increase in their credit limit must have their cosigner agree in writing to the increase.

## References

Board of Governors of the Federal Reserve System. Credit Cards.  
<http://federalreserve.gov/creditcard/>.

Prepared by Nancy L. Granovsky, Professor and Extension Family Economics Specialist, Texas AgriLife Extension Service, Texas A&M System, September 2010.

Interest Rates and Interest Charges	
<b>Annual Percentage Rate (APR) for Purchases</b> 	<b>8.99%, 10.99%, or 12.99%</b> introductory APR for one year, based on your creditworthiness.  After that, your APR will be <b>14.99%</b> . This APR will vary with the market based on the Prime Rate.
<b>APR for Balance Transfers</b> 	<b>15.99%</b>  This APR will vary with the market based on the Prime Rate
<b>APR for Cash Advances</b> 	<b>21.99%</b>  This APR will vary with the market based on the Prime Rate.
<b>Penalty APR and When it Applies</b> 	<b>28.99%</b>  This APR may be applied to your account if you: <ol style="list-style-type: none"> <li>1) Make a late payment;</li> <li>2) Go over your credit limit;</li> <li>3) Make a payment that is returned; or</li> <li>4) Do any of the above on another account that you have with us.</li> </ol> <b>How Long Will the Penalty APR Apply?:</b> If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
<b>How to Avoid Paying Interest on Purchases</b> 	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
<b>Minimum Interest Charge</b> 	If you are charged interest, the charge will be no less than \$1.50.
<b>For Credit Card Tips from the Federal Reserve Board</b>	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at <a href="http://www.federalreserve.gov/creditcard">http://www.federalreserve.gov/creditcard</a> .

Fees	
<b>Set-up and Maintenance Fees</b>  <ul style="list-style-type: none"> <li>• Annual Fee</li> <li>• Account Set-up Fee</li> <li>• Participation Fee</li> <li>• Additional Card Fee</li> </ul>	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of \$250, your initial available credit will be only about \$209 (or about \$204 if you choose to have an additional card).  <ul style="list-style-type: none"> <li><b>\$20</b></li> <li><b>\$20</b> (one-time fee)</li> <li><b>\$12</b> annually (\$1 per month)</li> <li><b>\$5</b> annually (if applicable)</li> </ul>
<b>Transaction Fees</b>  <ul style="list-style-type: none"> <li>• Balance Transfer</li> <li>• Cash Advance</li> <li>• Foreign Transaction</li> </ul>	  Either <b>\$5</b> or <b>3%</b> of the amount of each transfer, whichever is greater (maximum fee: \$100).  Either <b>\$5</b> or <b>3%</b> of the amount of each cash advance, whichever is greater.  <b>2%</b> of each transaction in U.S. dollars.
<b>Penalty Fees</b>	



• Late Payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000
• Over-the-Credit Limit	\$29
• Returned Payment	\$35

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**How We Will Calculate Your Balance:** We use a method called "average daily balance (including new purchases)."

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**Loss of Introductory APR:** We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.

**CALLOUT DESCRIPTIONS:**

**1) APR for purchases**

The interest rate you pay, on an annual basis, if you carry over balances on purchases from one billing cycle to the next. If the card has an introductory rate, you will also see the rate that applies after the introductory rate ends. Multiple interest rates may be listed here. Your rate will depend on your creditworthiness, which is based on your debt, income, credit score, and other factors, such as your history of paying bills on time.

**2) APR for balance transfers**

The interest rate you pay, on an annual basis, if you transfer a balance from another card. Balance transfer fees may apply, even if the balance transfer APR is 0%. If there is an introductory rate, pay attention to when that rate ends and what the new rate will be.

**3) APR for cash advances**

The interest rate you pay if you withdraw a cash advance from your credit card account. Cash advance fees may also apply. Most credit card companies charge interest immediately, starting from the date you get the cash advance.

**4) Penalty APR and when it applies**

Your credit card company may increase your interest rate for several reasons. For example, if you:

- pay your bill late,
- go over your credit limit,
- make a payment that is returned, or
- do any of these on another account that you have with the same company.

Be sure to read the terms and conditions of your card to know what can cause your interest rate to go up. If you trigger the penalty rate, your credit card company must tell you that they will be raising your rate 45 days in advance of the increase.

**How long will the penalty APR apply?**

Credit card companies must tell you how long the penalty rates will be in effect. You may be able to go back to regular rates if you pay your bills on time for a period of time (for example, 6 months). Companies may not automatically remove the penalty rates. You may have to ask your credit card company to lower the rates.

**5) How to avoid paying interest on purchases**

You can avoid interest charges on purchases by paying your bill in full by the due date. About 40 percent of U.S. households pay in full each month; the remainder, about three out of five U.S. households, carry a balance and pay interest on their credit card accounts.

**6) Minimum interest charge**

Credit card companies often have a minimum interest amount. These charges typically range from \$0.50 to \$2 per month. Even if you carry over a low balance, you can be charged a minimum amount of interest. If the minimum interest charge is \$1 or less, the company does not need to disclose this charge here.

*Example: Your balance is \$25 and your APR is 12%. Your card has a minimum interest charge of \$2. Based on your balance of \$25, your monthly interest would be \$0.25 (as calculated by the APR), but instead you will be charged \$2.*

## 7) Set-up and maintenance fees

Some credit cards offered to people with lower, or subprime, credit scores may charge a variety of fees. Some fees are charged before the card is used and may reduce the amount of credit initially available. These fees can include:

- **Annual fee**--The amount you'll be charged during each 12-month period for having the card.
- **Account set-up fee**--Usually a one-time fee for opening and setting up the account.
- **Participation fee**--Usually a monthly fee for having the card.
- **Additional card fee**--This can be a one-time fee or an annual fee for having a second card for the account.

*Example: You are assigned the minimum credit limit of \$250, your initial available credit will be only about \$209 (or about \$204 if you choose to have an additional card).*

## 8) Transaction Fees (balance transfer, cash advance, foreign transaction)

Credit card companies may charge you a fee for transferring a balance, getting a cash advance, or making a transaction in a foreign country. These fees can be either a fixed dollar amount (for example, \$5) or a percentage of the transaction amount (for example, 3%). If you are planning to transfer a balance, get a cash advance, or make foreign transactions, check your agreement for these fees.

## 9) Penalty fees (late payment, over-the-limit, returned payment)

**Late payment.** Credit card companies may charge you a fee if you pay your bill late. Some companies may charge different fees depending on your balance--the higher your balance, the higher the late fee.

**Over-the-limit.** If you have consented to extensions of credit that exceed your credit limit (opt-in to going over the limit), credit card companies may also charge you a fee if your balance goes over your credit limit. Rather than denying a transaction, your credit card company may let the transaction go through but then charge you a fee for going over your limit.

**Returned payment.** If you make a payment, but you don't have enough money in your account to cover the payment, your credit card company may charge you a returned payment fee, just like a bounced check fee. This can happen whether you pay with a check or with a direct debit from your account.

## 10) Other fees

Some cards require credit insurance, or debt cancellation, or debt suspension coverage. Credit card companies may call this "account protection" or something similar.

*Example: Your credit card offers debt suspension coverage for up to 90 days if you become unemployed. If you lose your job, you may be able to stop making payments on your credit card for about 3 months. But interest may still continue to be added to your balance during the debt suspension period.*

## 11) How we will calculate your balance

Credit card companies can use one of several methods to calculate your outstanding balance. The method they use can make a big difference in the interest charges you'll pay. Find out if the card calculates your balance:

- using average balance or adjusted balance,
- by including or excluding new purchases .

Depending on the balance you carry over and the timing of your purchases and payments, you'll usually have a lower finance charge with:

- the adjusted balance method,
- the average daily balance method , excluding new purchases, or
- the previous balance method.

Descriptions of balance calculation methods:

**Adjusted balance method.** The balance is the outstanding balance at the beginning of the billing cycle, minus payments and credits made during the billing cycle.

**Average daily balance method, including new purchases.** The balance is the sum of the outstanding balances for every day in the billing cycle (including new purchases and deducting payments and credits) divided by the number of days in the billing cycle.

**Average daily balance method, excluding new purchases.** The balance is the sum of the outstanding balances for every day in the billing cycle (excluding new purchases and deducting payments and credits) divided by the number of days in the billing cycle.

**Previous balance method.** The balance is the outstanding balance at the beginning of the billing cycle.

**12) Loss of introductory APR**

If your card has a special, lower rate that is called an “introductory rate,” this area will list the ways that you can lose this lower rate. For the first year after opening an account, you can only lose an introductory rate if your account becomes more than 60 days past due.

XXX Bank Credit Card Account Statement  
Account Number XXXX XXXX XXXX XXXX  
February 21, 2012 to March 22, 2012

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### Summary of Account Activity

Previous Balance	\$535.07
Payments	-\$450.00
Other Credits	-\$13.45
Purchases	+\$529.57
Balance Transfers	+\$785.00
Cash Advances	+\$318.00
Past Due Amount	+\$0.00
<b>Fees Charged</b>	<b>+\$69.00</b>
<b>Interest Charged</b>	<b>+\$10.89</b>
New Balance	\$1,784.53
Credit limit	\$2,000.00
Available credit	\$215.47
Statement closing date	3/22/2012
Days in billing cycle	30

#### QUESTIONS?

Call Customer Service 1-XXX-XXX-XXXX  
Lost or Stolen Credit Card 1-XXX-XXX-XXXX

### Payment Information

New Balance	\$1,784.53
Minimum Payment Due	\$53.00
Payment Due Date	4/20/12

**Late Payment Warning:** If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APRs may be increased up to the Penalty APR of 28.99%.

**Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	10 years	\$3,284
\$62	3 years	\$2,232 (Savings=\$1,052)

If you would like information about credit counseling services, call 1-800-XXX-XXXX.

Please send billing inquiries and correspondence to:  
PO Box XXXX, Anytown, Anystate XXXXX

### Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.

Transactions made before 4/9/12: Current rates will continue to apply to these transactions. However, if you become more than 60 days late on your account, the Penalty APR will apply to those transactions as well.

### Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.

These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APRs described below will apply to these transactions.

Transactions made before 4/9/12: Current APRs will continue to apply to these transactions.

If you are already being charged a higher Penalty APR for purchases: In this case, any changes to APRs described below will not go into effect at this time. These changes will go into effect when the Penalty APR no longer applies to your account.

#### Revised Terms, as of 5/10/12

APR for Purchases	16.99%
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**XXX Bank Credit Card Account Statement**  
**Account Number XXXX XXXX XXXX XXXX**  
**February 21, 2012 to March 22, 2012**

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<b>Transactions</b>				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
5884186PS0388W6YM	2/22	2/23	Store #1	\$133.74
854338203FS8000Z5	2/25	2/25	Pymt Thank You	\$450.00-
564891561545KOSHD	2/25	2/26	Store #2	\$247.36
1542202074TWWZV48	2/26	2/26	Cash Advance	\$318.00
4545754784KOHUIOS	2/27	3/1	Balance Transfer	\$785.00
2564561023184102315	2/28	3/1	Store #3	\$34.32
045148714518979874	3/4	3/5	Store #4	\$29.45
0547810544898718AF	3/15	3/17	Store #5	\$72.25
<b>Fees</b>				
9525156489SFD4545Q	2/23	2/23	Late Fee	\$35.00
84151564SADS8745H	2/27	2/27	Balance Transfer Fee	\$23.55
256489156189451516L	2/28	2/28	Cash Advance Fee	\$10.90
<b>TOTAL FEES FOR THIS PERIOD</b>				<b>\$69.45</b>
<b>Interest Charged</b>				
Interest Charge on Purchases				\$6.31
Interest Charge on Cash Advances				\$4.58
<b>TOTAL INTEREST FOR THIS PERIOD</b>				<b>\$10.89</b>
<b>2012 Totals Year-to-Date</b>				
Total fees charged in 2012				\$90.14
Total interest charged in 2012				\$18.27

<b>Interest Charge Calculation</b>			
Your <b>Annual Percentage Rate (APR)</b> is the interest rate on your account.			
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	\$512.14	\$6.31
Cash Advances	21.99% (v)	\$253.50	\$4.58
Balance Transfers	0.00%	\$637.50	\$0.00
(v) = Variable Rate			



### **1) Summary of account activity**

A summary of the transactions on your account--your payments, credits, purchases, balance transfers, cash advances, fees, interest charges, and amounts past due. It will also show your new balance, available credit (your credit limit minus the amount you owe), and the last day of the billing period (payments or charges after this day will show up on your next bill).

### **2) Payment information**

Your total new balance, the minimum payment amount (the least amount you should pay), and the date your payment is due. A payment generally is considered on time if received by 5 p.m. on the day it is due. If mailed payments are not accepted on a due date (for example, if the due date is on a weekend or holiday), the payment is considered on time if it arrives by 5 p.m. on the next business day.

*Example: If your bill is due on July 4th and the credit card company does not receive mail that day, your payment will be on time if it arrives by mail by 5 p.m. on July 5th.*

### **3) Late payment warning**

This section states any additional fees and the higher interest rate that may be charged if your payment is late.

### **4) Minimum payment warning**

An estimate of how long it can take to pay off your credit card balance if you make only the minimum payment each month, and an estimate of how much you likely will pay, including interest, in order to pay off your bill in three years (assuming you have no additional charges). For other estimates of payments and timeframes, see the [Credit Card Repayment Calculator](#).

### **5) Notice of changes to your interest rates**

If you trigger the penalty rate (for example, by going over your credit limit or paying your bill late), your credit card company may notify you that your rates will be increasing. The credit card company must tell you at least 45 days before your rates change.

### **6) Other changes to your account terms**

If your credit card company is going to raise interest rates or fees or make other significant changes to your account, it must notify you at least 45 days before the changes take effect.

### **7) Transactions**

A list of all the transactions that have occurred since your last statement (purchases, payments, credits, cash advances, and balance transfers). Some credit card companies group them by type of transactions. Others list them by date of transaction or by user, if there are different users on the account. Review the list carefully to make sure that you recognize all of the transactions. This is the section of your statement where you can check for unauthorized transactions or other problems.

### **8) Fees and interest charges**

Credit card companies must list the fees and interest charges separately on your monthly bill. Interest charges must be listed by type of transaction (for example, you may be charged a different interest rate for purchases than for cash advances).

**9) Year-to-date totals**

The total that you have paid in fees and interest charges for the current year. You can avoid some fees, such as over-the-limit fees, by managing how much you charge, and by paying on time to avoid late payment fees.

**10) Interest charge calculation**

A summary of the interest rates on the different types of transactions, account balances, the amount of each, and the interest charged for each type of transaction.

# Board of Governors of the Federal Reserve System

## Credit Card Repayment Calculator ?

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Welcome to the Federal Reserve's Credit Card Repayment Calculator. Based on the information you provide, the calculator will give you an estimate of how long it will take you to pay off your credit card balance. The calculator assumes:

- you make no more charges; and
- you make only the minimum payment each month.

A second calculation can help you develop a plan for paying off your balance sooner.

**Please use your most recent credit card bill. You may get a more accurate estimate from your credit card issuer's website.**

### How long will it take me to pay off my credit card balance if I make only the minimum payment?

My total balance: \$ 2500 ?

My highest annual percentage rate (APR) with a balance: % 19.00 ?

(Please scroll down to see your results)

**You have entered a balance of \$2,500 at 19.00%. We estimate that:**

**\$50** Estimated initial minimum payment ?

**27 years** Amount of time to pay off your balance, if you make no more charges and make only the minimum payment on time each month

**\$6,698** Interest charges you will pay in that amount of time

**This is an estimate based on the information you provided and assumptions made about your account. The actual time and cost to pay off your balance by only making the minimum payment will depend on the terms of your account and future account activity. ?**

### How do I pay off my credit card balance sooner?

**The following estimates are based on your balance of \$2,500 at 19.00%.**

I want to pay off my credit card balance in a specific number of years:

Enter number of years: 2 GET MONTHLY PAYMENT

**\$127** Amount you need to pay each month to pay off your balance in the time above, if you make no more charges and pay on time each month ?

**\$525** Interest charges you will pay in that amount of time

I want to pay a specific amount each month:

Enter monthly payment: \$ 150 GET TIMEFRAME

**20 months** Amount of time to pay off your balance if you make no more charges and make the above payment on time each month ?

**\$426** Interest charges you will pay in that amount of time