The True Costs of Credit

Using a credit card is not as easy as it seems. When you use a credit card, you are taking out a loan... and that's bound to cost you. Read the fine print! You could be subject to any or all of the following types of fees. Paying your bill in full each month is the best way to keep down the cost of credit.

Annual Percentage Rate (APR)
Rate of interest charged, expressed as a yearly rate

Annual Fee
A charge for the privilege of using the credit card

Late Payment Fee
Extra money due if payment does not reach the credit card company by the due date

Over-the-Limit Fee
Extra money due if you charge more than your limit

Returned Check Fee
Extra money due if the check you write bounces

ATM Transaction Fee
Extra money due if you use the card to get cash from an ATM

APR on Cash Advances and Convenience Checks
Interest due when you use your card to get cash or write a "convenience check" provided by the credit card company. This APR is usually higher than interest on other charges.

Tips for Using a Credit Card

- Pay your bills on time to keep finance and other charges to a minimum.
- Keep your receipts to compare charges when your monthly bill arrives.
- Protect your credit card and account number to prevent unauthorized use.
- Keep a record of your account numbers, expiration dates, and the phone number of each credit card issuer in a safe place—separate from your credit card—to quickly report a loss or theft.
- Carry only the credit cards you think you will use.
- Pay off your total balance each month. If you can't pay the total balance, try to pay more than the minimum amount.
- Read the fine print. Low advertised interest rates might not last as long as you think.

It Pays to Pay It Off!

The following example shows how much it truly costs to charge $2,500 on a credit card, then pay it off. The chart assumes you are not making additional purchases and you are making your payments on time.

Original Balance	APR	Monthly Payments	Total # of Monthly Payments	Total Years to Pay Off	Total of Payments
$2,500	18%	Minimum Payment	404	34	$8,781
$2,500	18%	$50	94	8	$4,698
$2,500	18%	$100	32	3	$3,163

Source: Information from *FDIC Money Smart—Financial Education Curriculum*