

Shopping Guide: Credit Cards

The following are the important aspects of a credit card to keep in mind when shopping around. These questions are only a start and should not be considered legal advice. It is best to seek the assistance of experts and shop around.

1. Annual Percentage Rate (APR).

The APR is the measure of the cost of credit, expressed as an annual figure. It tells the interest you will pay on your loan. The lower the APR, the better. You should ask these questions about APR on your credit cards:

What is the APR on purchases?

What is the APR on cash advances?

Is the APR a “variable” or “fixed” rate?

If it is fixed, can it ever be changed? Most lenders reserve the right to change the interest rate even if it is advertised as a “fixed” rate.

If it is variable, what is the highest rate possible for the card? You need to understand when and how it may change. Variable interest rates can be very confusing. Is the rate advertised a “teaser” or introductory rate? When will the real (higher) rate go into effect? When the rate changes, will you pay off old dates at the old low rate, or the new high one? (Note: for most cards, you’ll pay the higher rate.)

What is the penalty rate on the card? What activities trigger the penalty rate to go into effect? If late payments trigger the penalty rate, you should ask what counts as “late.” For some companies, your payment must

arrive by a certain time of day on the due date, or it is considered late.

2. Fees.

Is there an annual fee? If so, how much? Is it worth the rewards?

What is the fee for late payment?

What is the over limit fee?

What other fees are associated with the card? Some examples might be cash advance fees, balance transfer fees, even fees for buying lottery tickets with a card.

3. Credit Limit.

What is your credit limit? Is it high enough for your needs?

4. Grace Period.

The Grace Period is the amount of time during which you can pay off purchases without incurring finance charges (cash advances usually don’t have a grace period). Without a grace period, finance charges begin accruing immediately, so make sure any card you use has a Grace Period, and know how long it is so you can pay off as much as your balance as possible before the finance charges kick in.

5. Notification of Payment Due Date.

How far in advance will your lender notify you that a payment is due? Some lenders shorten this timeframe so you have less time to prepare your

payment, and thus, trigger late fees and higher interest rates.

6. Universal Default.

Is there a Universal Default clause? Some lenders increase the rate even if you are never late on their credit card, but are late with a payment to any other creditor or if your credit score drops.

7. Binding Mandatory Arbitration.

Is there a Binding Mandatory Arbitration Clause (“BMA”)? BMAs are present in almost every credit card contract, but it’s worthwhile to ask a lender to leave it out anyway. BMA clauses state that in case of a dispute with the lender, you must resolve your complaint through an arbiter appointed by the lender. This denies you your right to go to court if there is a problem, and denies you your right to a fair trial.

8. Interest on Balance Computation.

How is the interest calculated? There are several ways a creditor can calculate the interest on your balance such as Average Daily Balance, Adjusted Balance, Previous Balance and Two-Cycle or Double Billing Cycle Balances. These methods are described below. If you do not understand how your bill is calculated, ask your lender. An explanation should appear on your billing statement.

Average Daily Balance (most common).
Credits account from day payment is received. Creditor totals the beginning

balance for each day in the billing period and subtracts any credits made to your account that day. New purchases are not usually added to the balance, though cash advances may be included. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the “average daily balance.”

Adjusted Balance. Payments or credits sent during the current billing period are subtracted from the balance. Purchases made during the billing period are not included in the interest computation during that cycle. Some cards may exclude prior, unpaid finance charges from the previous balance.

Previous Balance. Interest is calculated on the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some lenders exclude unpaid finance charges.

Two-cycle Balances. Calculation is based on the last two month’s account activity. This computation is very confusing and can be the most costly for consumers. Understand the specific terms of this kind of computation.

9. Other features.

How widely accepted is the card?
Do they have good customer service?
Are there other features or services?