



Using Your Credit Card Wisely

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VISA ASIA PACIFIC FINANCIAL EDUCATION SERIES

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You haven't had a vacation for a long time, you've been thinking of a holiday to your dream destination after months of stressful work, but with a price tag of \$2,000, it seems unreachable. One day, you find a special off-season deal at a travel agent at only \$1,000.

With opportunities like these, your credit card can be the most powerful budgeting and money management tool you own.

But a credit card is a responsibility and, if misused, can get consumers in over their heads.

Here's what you need to know about your credit card:

Your Cardholder Agreement: No Secrets Here

One of the greatest things about credit cards is that there are no secrets. If you've got a card in your wallet, the issuing bank has already sent you everything you need to know about using the card. If you're shopping for a card, issuing banks will be glad to send you the information you need with your application. Then, it's up to you to read, understand, and live by the rules.

Remember, **READ AND UNDERSTAND THE TERMS AND CONDITIONS** of your cardholder agreement, which is essentially a contract between you and the bank.

Understand Your Responsibilities

As a responsible credit card user, you should understand the terms used by your issuing bank. Among those you're likely to find are the following:





Miscellaneous Fees

Some card issuers require an annual fee - the amount you must pay to get a card or to renew it every year. Some banks also charge fees for submitting an application, for being late with a payment, for taking out a cash advance, for exceeding your credit limit, or for maintaining a zero balance. Read your statement carefully so that you know all of the terms and conditions.

Grace Period

This is the number of days the bank allows you to borrow their money interest-free. Grace periods vary, usually from two weeks to 25 days, depending on the bank that issues the credit card. This period is usually applied to new purchases, but only if there is no old balance being carried forward. After the grace period expires, if you haven't paid your balances in full, interest can be accrued from the date of purchase.

Some cards do not offer interest-free grace periods, and you start incurring interest from the date of any purchase.

Cash Advances

The issuing bank or financial institution treats cash advances like loans, not like purchases or merchandise. When you take a cash advance, interest begins to accrue differently - sometimes without a grace period and at a higher rate. Check with your card-issuer for cash advance fees and interests.

Interest Calculation

When you use your credit card, the issuing bank or financial institution is really giving you a loan for the amount of your purchases. The bank charges a fee - called interest - for using its money.

All interest charges can usually be avoided by paying the balance in full within the time limit specified on your statement. Check the fine print though, because some banks charge a fee for maintaining a “\$0 balance” or don’t have a “grace period”.

If you choose not to pay all you’ve borrowed from the bank - banks call that “revolving the balance” - interest will be charged. Banks use various methods to calculate interest, and it’s up to you to learn how your bank computes these charges.

If you do not pay the balance in full, interest on the unpaid amount, or revolving balance, will be added to the total amount owed. When this happens, you are paying interest on interest, also called compound interest. Any new purchases you make can be included in the total balance immediately and will begin to accrue interest from the date of purchase. If you have a large balance, paying only the minimum amount each month can be an expensive way to use your credit card.

Try to anticipate your credit needs. A few months before the holidays or before you head off on that dream vacation, start paying down your balance by sending in more than the minimum payment. When you begin charging holiday gifts or charging for your vacation, you won’t be piling new bills on top of old ones, and there will be less chance of exceeding your credit limit.

Be sure to know what your APR (annual percentage rate or interest) is, and always include the cost of credit in your budgeting or money management.

