

Using Credit Cards

A credit card enables you to buy now and pay later. It is a line of credit that lets you borrow money for multiple purchases up to a certain limit. You repay what you borrow by either making monthly payments or paying the total balance. When you make monthly payments, you will pay interest, expressed as the Annual Percentage Rate (APR) on the balance.



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Pros of Using Credit Cards

- You can use a credit card to purchase a product or service you need now but can't pay for all at once
- Carrying a credit card is safer than cash
- Having a credit card can be useful for short-term emergencies
- A credit card can provide purchase protection, travel insurance, frequent flyer miles or cash-back bonuses
- If used wisely, a credit card establishes a positive credit history
- A credit card enables you to buy over the phone or online

Cons of Using Credit Cards

- Interest and fees may outweigh the financial benefit of extra perks such as frequent flyer miles
- Having a credit card makes it easier to spend money you don't have
- Bad credit debt could affect your future applications for mortgages, other installment loans – even job applications and insurance coverage
- If you think of your available credit as an emergency fund, you are likely to find yourself in more debt than you can afford

Credit Card Terms You Should Know

- Annual percentage rate (APR) – interest rate charged on unpaid balance
- Annual fee – some companies charge once a year
- Grace period – time you have to pay for purchases before interest charges apply
- Credit limit – maximum amount allowed to borrow on a credit card (credit line)
- Balance transfer – paying off all or part of what you owe by moving balance to another credit card
- Cash advance – on the spot cash loan charged to card
- Balance – total of what you owe

Factors to Compare

- Read the credit card terms and conditions, as cards can vary greatly. Interest rates on credit cards average 15 percent, but can be as low as zero percent (temporary, introductory offers) and as high as 29.99 percent or more, depending on your payment history and credit score.
- A single card can have several APRs, for example the APR may be different for a cash advance or balance transfer
- A card could also have an introductory rate that later increases
- Be aware of the fees associated with a card, such as annual fees, late payment fees or over the credit limit fees
- Know the grace period, as some cards give you longer to repay your balance without paying interest



This side-by-side comparison shows the difference interest rate makes in the amount you pay.

Details	3% APR	20% APR
Balance	\$1,000	\$1,000
Monthly payment	\$25	\$25
Interest you pay	\$26	\$190
Balance you owe	\$726	\$890

Smart Tips for Credit Card Use

- Limit yourself to two or three cards – having more could cause banks to decline your applications for other types of loans
- Do not use a credit card for a purchase unless the amount is within your monthly spending limit
- Pay off the balance in full each month
- Always pay more than the minimum balance
- Do not consider a credit card an emergency fund

Consider this:

If a person charges \$2,000 on a credit card with 19.8% APR and annual fee of \$40 and makes only the monthly minimum payment over 31 years, he or she will end up paying approximately \$8,202 over 31 years. By doubling the minimum payment and making no additional charges, this person could be out of debt in 3 years.

Tips for Credit Card Security

- Record the names, account numbers and addresses of each card company and keep in a safe place – in case you have to report lost or stolen cards
- Never give out your card number or Social Security number to any solicitor
- Destroy old cards; cut vertically through the account number
- Advise your institution if you no longer are using the card
- Treat cards as if they were cash
- Never leave cards or card receipts in cars
- At home, keep cards out of sight
- Make sure after each purchase your card is returned to you; make sure it is the right card
- Never lend a card to a friend
- Contact your financial institution immediately if you notice fraudulent activity on your card
- Always notify your financial institution immediately if a card is lost or stolen
- Call the police and request a case number, which should then be provided to the financial institution
- Possibly the greatest sources of fraud for credit cards, checks and other negotiable items are mailboxes; consider a locking device
- Mobile/online banking is also helpful in monitoring your card and preventing ID theft



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Adapted from Old National Bank Real Life Finance financial education program.