HBKS® Wealth Advisors

Credit Card Interest

How It Works

By Michael E. RINGLER
Financial Advisor

BEFORE YOU APPLIED FOR A CREDIT CARD, you probably checked the interest rate. But do you know how the credit card company figures that rate — and others — into your monthly statements? Of course, credit card companies differ on what and how they charge in interest and fees, but there are some fundamentals that are good to know before you apply for a card, or even before you make your next payment.

- **APR.** The annual percentage rate, or APR, is defined as the annual cost of a loan, including your credit card. It is expressed as a percentage, and it is likely the percentage figure you considered before applying for a card. It is typically expressed as a yearly rate, though applied each billing cycle — typically monthly — to any unpaid part of your balance. Your monthly rate is simply one-twelfth the APR. For example, If you have an unpaid balance on your statement from the previous billing cycle and your APR is 24 percent, your bill will be increased by 2 percent of that previously unpaid or "revolving" balance.
- **Minimum payment.** Credit cards typically require a minimum payment by a certain due date. Those minimums are usually small—and often how consumers run up unmanageable credit card debt. But if you are stretched and can only pay a small amount, at least pay the minimum due. If you don't pay it you will be assessed an additional fee, likely at a higher percentage rate than your APR. Missing a payment altogether, that is, missing the due date, will incur yet another fee, and could result in your APR being increased.
- **Cash advances.** If you use your card to withdraw cash from an ATM or other source, you will pay a fee. Again, that fee is usually a higher rate than for using the card to buy products or services.
- **Balance transfers.** A consumer with a large amount of debt on one card might be inclined to transfer that balance to another card, especially when the new card comes with a lower rate. Issuers often use special low rates to attract transfers, as low as zero

It's wise to learn some credit fundamentals before you apply for a card.

percent. Key to going that route is knowing how long the low percentage rate applies, which can be a year or even just a few months. As well, the issuer of the new card will charge a percentage of the balance you are transferring as a transfer fee, so figure that into your balance transfer cost. And of course be diligent: as the old adage goes, if you see an offer that looks too good to be true, it probably is.

Generally speaking, the higher your credit score, the lower the APR on your credit card.

A FEW OTHER FACTS OF INTEREST

- Your APR is generally based on your credit score. Again, every card is different, but generally speaking, the higher your credit score the lower your APR. Ways to improve your credit score include:
  - Make your credit card payments on time.
  - Apply only for cards you need and will use.
  - Keep your balance modest. Experts suggest keeping charges at about 20 percent of your limit.
- Some cards come with a "variable" APR. Those rates are based on "prime," a broadly used bank rate for borrowing money. As prime changes, so will your variable rate.
- Keep an eye on your card balances and activity. One of cyber criminals' favorite activities is stealing, using, and selling credit card numbers. If you see a charge you didn't make, call your credit card company immediately. And be wary of requests for your personal information, especially if they are offering some type of promotion or incentive, a popular way for scammers to get hold of and use your personal data.

Michael E. Ringler
Financial Advisor, HBKS® Wealth Advisors

Michael serves as a financial advisor in the Fredonia, New York. office of HBKS® Wealth Advisors. He joined HBKS® in 2018 after working as a financial advisor and field director for Northwestern Mutual for six years. He earned his Bachelor of Science degree in Finance from Duquesne University.