

NAME: \_\_\_\_\_ CLASS PERIOD: \_\_\_\_\_

## Comparing Credit Cards

### 1. Credit cards are in widespread use

Americans love credit cards. Here are some statistics that show how widespread credit card use is in the United States.

- 73% of all U.S. families had at least one credit card in 2007.
- Most U.S. families do not have credit card debt. In 2007, only 46.1 percent of families carried a credit card balance.
- For those who carry a credit card balance, the median amount owed was \$3,000 in 2007.
- For those who carry a credit card balance, the average amount owed was \$7,300 in 2007.
- Ninety-six percent of families with credit cards have a bank-type card. Bank cards accounted for 87 percent of all outstanding credit card balances.
- The average family has two bank-type credit cards.
- The median credit limit on bank-type cards was \$18,000 in 2007.
- The median interest rate on bank-type cards was 12.5 percent in 2007.
- Credit cards are an important component of all consumer credit in the United States. In 2009, total revolving debt (credit card debt is the majority of this amount) of U.S. households was \$866.1 billion.

(These statistics come from Federal Reserve statistical releases and the *Survey of Consumer Finances* conducted by the Federal Reserve in 2007. For more information on the *Survey of Consumer Finances*, see "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the *Survey of Consumer Finances*" by B. K. Bucks, A. B. Kennickell, T. L. Mach, and K. B. Moore, published in the *Federal Reserve Bulletin*, February 2009.)

### 2. Shopping for a credit card can save you money. Not all credit cards are alike. Here are some ways in which they differ:

- **The annual fee.** Some credit cards charge an annual fee, and some do not. The amount of the annual fee may vary from card to card. Most people who have a strong credit record can find cards that do not charge an annual fee.
- **Other fees.** Credit cards usually charge stated fees for late or missed payments, going over your credit limit, or making certain transactions such as cash advances.
- **The annual percentage rate (APR).** The APR can vary from card to card by several percentage points. Furthermore, some credit cards offer a low APR for the first few months and then increase it after three or six months. The APR on cash advances often differs from the APR for purchases.

- **The grace period.** This is the amount of time a cardholder has to pay the credit card balance without paying interest. The longer the grace period, the more interest-free days the cardholder has. If the entire balance is paid within the grace period, no interest is due.
- **The way interest is figured.** There are many different methods of calculating credit card interest. These include:
  - Average daily balance:** The interest rate is calculated each day on the average of each day's balance for the billing cycle. This is the most frequently-used method.
  - Adjusted balance:** The interest rate is calculated on the opening balance after subtracting the payments made during the month.
  - Previous balance:** Interest is calculated on the opening balance regardless of payments made during the month.
- **The credit limit.** This is the maximum amount of money a cardholder can charge. A higher credit limit gives the cardholder flexibility but can also lead to credit card balances that are difficult to pay off.

**3. Credit cards also differ in the types of services offered; this can be a reason to choose one card over another. Here are some of the services:**

- High or no credit limits.
- Rewards for the cardholder such as cash back, gifts, airline miles, or a discount on a new car.
- The number of merchants who accept the card.
- Travel services such as covering the rental car insurance deductible, discounts on hotels, travel-life insurance, or check-cashing privileges.

**Question:**

- a. What characteristics should you look for if you want to save money on a credit card?

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## Reading a Credit Card Statement

A credit card statement reveals a lot about what it costs to charge your purchases and then pay interest on the loan. Let's see what information is found on a typical statement. Take a look at the credit card statement below:

<p><b>Credit Is U</b> America's Credit Card Company</p> <p>Cardmember Name: <b>Tim Gray</b> <b>333 Palm Way</b> <b>Oceanview, FL 00000</b></p>	<p>Account Number: 000 000 0</p> <p>Payment Due Date: 2-19-09</p> <p>Minimum Payment: 23.00</p> <p>Total Amount Due: \$1,122.85</p> <p>Amount Enclosed: _____</p> <p>Mail Payment to: P.O. Box 00000000 Newark, DE 19716</p>																				
<b>Detach and mail this portion with your check or money order at the address above. Do not staple or fold.</b>																					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>Account Number</u></td> <td style="text-align: center;"><u>Billing Date</u></td> <td style="text-align: center;"><u>Payment Due Date</u></td> <td style="text-align: center;"><u>Days in Billing Period</u></td> </tr> <tr> <td style="text-align: center;">000 000 0</td> <td style="text-align: center;">01-25-09</td> <td style="text-align: center;">02-19-09</td> <td style="text-align: center;">32</td> </tr> </table>	<u>Account Number</u>	<u>Billing Date</u>	<u>Payment Due Date</u>	<u>Days in Billing Period</u>	000 000 0	01-25-09	02-19-09	32	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>Date</u></td> <td style="text-align: center;"><u>Reference Number</u></td> <td style="text-align: center;"><u>Description</u></td> <td style="text-align: center;"><u>Amount</u></td> </tr> <tr> <td style="text-align: center;">1-14-09</td> <td style="text-align: center;">01010101</td> <td style="text-align: center;">CD Haven</td> <td style="text-align: center;">22.30</td> </tr> <tr> <td style="text-align: center;">1-21-09</td> <td style="text-align: center;">02020202</td> <td style="text-align: center;">Pizza, Etc.</td> <td style="text-align: center;">8.33</td> </tr> </table>	<u>Date</u>	<u>Reference Number</u>	<u>Description</u>	<u>Amount</u>	1-14-09	01010101	CD Haven	22.30	1-21-09	02020202	Pizza, Etc.	8.33
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<p>*Purchases, returns, and payments made just prior to billing date may not appear until next month's statement.</p> <p style="text-align: center;"><b>Inquiries: Send inquiries (not payment) to: P.O. Box 222, Denver, CO 80202</b></p> <p style="text-align: center;"><b>Notice: See reverse side for important information</b></p>																					

