

CHOOSING A CREDIT CARD



**Office of the Staff Judge
Advocate
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INTRODUCTION

Have you ever received a letter saying you are “pre-approved” for a credit card, with a line of credit already set aside for your use, and they urge you to accept quickly before the offer expires? Before you accept a credit card offer, understand the card's credit terms and compare costs of similar cards to get the features you want.

TERMS

It is crucial you understand credit card terms before you select a card. Consider and compare the following terms.

Annual Percentage Rate (APR) - The APR is disclosed when you apply for a card, again when you open the account, and it is noted on each bill you receive. It is a measure of the cost of credit, expressed as a yearly rate. The card issuer must also disclose the *periodic rate* -- the rate the card issuer applies to your outstanding account balance each billing period. Some cards further differentiate between rates for cash advances and purchases, billing at a higher rate for cash advances yet not applying any payments made towards advances until all purchases are paid off.

Some credit card plans allow the card issuer to change the annual percentage rate on your account when interest rates, payment history, or other economic indicators change. These plans are commonly called “variable rate” plans and the card issuer must inform you how the rate is determined, including which index is used. You must be told how much and how often your rate may change.

Grace Period - A grace period allows you to avoid the finance charge by paying your current balance in full before the “due date.” Knowing whether a credit card plan gives you a grace period is especially important. If there is no grace period, the card issuer will impose a finance charge from the date you use your card or from the date each transaction is posted to your account. If your credit card plan allows a grace period, the card issuer must mail your bill at least 14 days before payment is due.

Annual Fees - Most credit card issuers charge annual membership or other participation fees. These fees range from \$25-\$50 for most cards, and from \$75 on up for “gold” or “platinum” cards.

Transaction Fees and Other Charges - A credit card may also involve other costs. For example, some cards carry a fee when you use them for a cash advance, when you fail to pay on time, or when you exceed your credit limit.

BALANCE COMPUTATION METHOD FOR THE FINANCE CHARGE

If your plan has no grace period or if you plan to pay for purchases over time, it is important to know how the card issuer will calculate your finance charge. The charge will vary depending on the method the card issuer uses to figure your balance.

Average Daily Balance (including or excluding new purchases) - The average daily balance method gives you credit for your payment from the day the card issuer receives it. To compute the balance due, the card issuer totals the beginning balance for each day in the billing period and deducts any payments credited to your account that day. New purchases may or

may not be added to the balance, depending on the plan, but cash advances are typically added. The resulting daily balances are totaled for the billing cycle and the total is then divided by the number of days in the billing period to arrive at the "average daily balance." This is the most common method used.

Adjusted Balance - This balance is computed by subtracting the payments you made and any credits you received during the present billing period from the balance you owed at the end of the previous billing period. New purchases that you made during the billing period are not included. Under the adjusted balance method, you have until the end of the billing cycle to pay part of your balance to avoid the interest charges on that portion. Some creditors exclude prior, unpaid finance charges from the previous balance. The adjusted balance method is usually the most advantageous to card users.

SERVICEMEMBERS' CIVIL RELIEF ACT (SCRA)

The SCRA was signed into law 19 December 2003 by President Bush to replace the antiquated Soldiers' and Sailors' Civil Relief Act of 1940. It is designed to ensure that service members are not disadvantaged either legally or financially when serving their country. One of the provision allows for credit card debt, which existed prior to enlistment, to be lowered to a six percent APR. The SCRA also requires that there be a reduction in monthly payments, and that any interest in excess of six percent is forgiven, not deferred.

CONCLUSION

Credit terms differ among card issuers, so shop around for the card that is best for you. Which

one is best may depend on how you use it. If you plan to pay bills in full each month, the size of the annual fee or other fees, and not the periodic and annual percentage rate, may be more important. If you expect to use credit cards to pay for purchases over time, the APR and the balance computation method are important terms to consider. Also consider whether or not there is a grace period.

When shopping for a credit card, you will probably want to look at other factors besides costs -- such as whether the credit limit is high enough to meet your needs, how widely the card is accepted, and what services and features are available under the plan.

This pamphlet is for basic information on credit cards as it relates to military personnel stationed in Alaska. It is not intended to take the place of legal advice from a Judge Advocate. There may be important exceptions in some states to the information presented here. Please contact the 354th Fighter Wing Legal Office for questions and further information.



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