

# CHOOSING A CREDIT CARD



**Office of the Staff Judge  
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## INTRODUCTION

Many companies that solicit new credit card accounts use prescreening to identify potential customers for the products they offer. Prescreened offers – sometimes called “preapproved offers” – are based on information in your credit report that indicates you meet criteria set by the offeror. Before you accept a credit card offer, please review the card's credit terms and compare costs of similar cards

## TERMS

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

*Annual Percentage Rate (APR)* - The APR is a measure of the cost of credit, expressed as a yearly interest rate. It must be disclosed before your account can be activated, and it must appear your account statements. 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 your APR when interest rates, payment history, or other economic indicators change. These plans are commonly called “variable rate” plans. Rate changes raise or lower the finance charge on your account. The card issuer must tell you that the rate may change and how the rate is determined, including which index is used. You must be told how often your rate may change.

*Grace Period* - A grace period is the number of days you have to pay your bill in full without triggering a finance charge. For example, the credit card company may say that you have 25 days from the statement date, provided you paid your previous balance in full by the due date. The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers. 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. Some card issues assess the fee in monthly installments.

*Transaction Fees and Other Charges* - A credit card may also involve other costs. For example, some issuers charge a fee if you use the card to get a cash advance, make a late payment, or 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**

The Servicemembers' Civil Relief Act (SCRA) is designed to ensure that service members are not disadvantaged either legally or financially when serving their country. Under SCRA, a credit agency may not identify a member's status as guard or reserve because such information may cause a lender to deny or revoke credit, change credit terms, or view the credit report negatively against the member. Additionally, under SCRA members may reduce the interest rates of any financial obligation (credit card, loan, mortgage) individually or jointly entered into **before** entering active duty

to six percent. The reduced interest rate is effective only during the period of active duty. The reduced interest rate **does not** apply to financial obligations entered into or incurred while on active duty.

## **CONCLUSION**

Comparing offers before applying for a credit card will help you find the right card for your needs, and ensure that you're not paying higher fees or interest rates than you have to. The best option may depend on how you use the credit card. If you already have a credit card, let history be your guide. If you have carried balances in the past, or think you are likely to do so, consider credit cards with the lowest APRs. If you have consistently paid off your balance every month, then you may want to focus more on fees and rewards.

When shopping for a credit card, you should also consider non-cost factors -- 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 provides basic information on credit cards. 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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