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Using Credit Cards

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Using Credit Cards

A popular form of credit used today is the credit card or charge account offered by many retail stores, banks and other businesses. Gasoline credit cards allow you to charge gas or repair work at a company's gas station. Department stores have their own charge accounts that allow you to make purchases at any of their stores. Many credit-card companies allow you to charge goods and services at any business that will honor the card.

Using credit cards is easy and convenient. If you know how to use them wisely, they can be an important source of credit for you.

How Credit Cards Work

Every store or company that offers a credit card or charge account may have its own rules and regulations about credit. Always find out what the policies of each business are.

Here is how to get and use a credit card.

- Fill out an application and send it to the company. If you qualify for their credit card, you will receive the card and the instructions about how to use it. There may be a yearly fee for the use of the card. You will also be told how much you can charge — this is your **credit limit**.
- To make a purchase present your “charge card” or “credit card” instead of cash and take the merchandise home.
- If you use the credit card, you will get a statement showing all your purchases made during the month. Usually, there is no charge for the card if you don't use it.
- When you get the statement or “bill” showing what you owe, you usually have a choice:
- You can pay the entire bill by the due date noted on the statement and avoid paying any finance charge. If you do this, the use of credit will not cost you anything. (Some credit cards may require this complete payment.) Or,

- You can pay only part of the bill. The minimum amount you can pay each month will be shown on the statement. If you do not pay the entire bill, the company adds a **finance charge** on to what you still owe. The finance charge is usually 1.5 percent per month or an 18 percent **Annual Percentage Rate (APR)**. This is called **revolving credit**.
- With a revolving-credit account, the minimum amount you can pay each month depends on the **credit agreement** you sign when you open the account. Be sure you understand what the credit agreement says before you sign it. (See L-811 **Your Credit Contract**)
- Using revolving credit, you can continue to make purchases while you are paying off previous charges, as long as you do not exceed the maximum amount of your **credit limit**.

When applying for a charge account or credit card, check with the business to find out what its charge-account policies are.

Be Sure You Know

- **Your credit limit**
- **When the bill must be paid**
- **How to figure out your minimum payment**
- **When finance charges start**

Credit cards have a number of **advantages**. By using credit cards, a person does not have to carry large amounts of cash.

Credit cards are an excellent source of identification. This can help when cashing checks.

Credit cards can also let you take advantage of a sale or make other needed purchases even though you do not have the ready cash. This can save many dollars or help to “make it” until payday.

But there are also **disadvantages** of using credit cards.

Instead of shopping to compare prices, you may pay more for something because a particular store or business allows you to charge. If you don't pay the entire balance by the due date you will have to pay finance charges on what you still owe.

Another disadvantage is that you may either lose or have your credit card stolen. You should keep a personal record of all your credit cards and the account numbers in a safe place.

A major problem with credit cards is that it is easy to overspend without knowing it. You may find that you bought more than you can afford to repay. Remember, always be in control of your credit cards!

Lost or Stolen Credit Cards

If you lose a credit card, notify the company at once, first by telephone and then in writing. The company will stop payments on the old card and issue you a new one. Once you notify the company that the credit card was lost, stolen or used illegally, you are no longer responsible for anyone's use of the card. If you do not notify the company, you may have to pay up to \$50 per credit card for anyone's illegal use of the card.

Keep a record of your credit cards in a safe place where you can easily get it when needed. Include the name, address and telephone number of each company and your credit card number.

Other publications in this series include:

- L-1881 Understanding Credit Costs
- L-1882 Deciding When to Use Credit
- L-1883 When You Apply for Credit
- L-1884 What Is Credit?
- L-1886 Borrowing Money
- L-1887 Handling Credit Problems
- L-1888 Buying on the Installment Plan

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