



# Extension News Column

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A credit card is like a chain saw – it's a very handy tool, but it can create havoc if used improperly. The same advice applies to both – choose the right tool for the job, and follow the safety rules.

Not all credit cards are alike. That's why it's important to carefully review a card's terms and costs before you sign up for it.

In general, if you expect to pay your credit card bill in full each month, choose a card that has no annual fee and has the kinds of rebates or rewards that work for you. Make sure the creditor grants you a “grace period” before incurring interest charges; not all card companies offer this option. The problem with this type of card is that you always pay interest, starting from the date of purchase.

If you don't expect to pay off your card balance in full most months, go for a card with a lower Annual Percentage Rate (APR) and rebates or rewards that will justify any fees. Watch for those “teaser” rates. If the card has a low, introductory interest rate, be sure you know when the new, higher rate will take effect and what that rate will be. Credit cards with offers of “zero percent interest” on purchases for a certain amount of time could end up being more expensive if you don't pay the balance in full by the expiration date.

When considering a balance transfer, make sure you know all the details and terms of the transfer. Online credit card calculators also can help you compare the terms of existing accounts against the details of the new card. Comparing card products could save you money.

Also, be cautious of all fees. For example, credit cards that offer generous “rewards” (such as points or cash back) may have high annual fees. The terms and conditions of earning and using the rewards can be complicated. Rewards cards may also cause you to overspend just to earn the points.

Other fees to think about include late fees, over-the-limit fees (for transactions that would put you over your credit limit) and balance transfer fees.

When choosing a credit card, pay special attention to the Schumer Box, a prominent table in every credit card application. There is a tutorial to help you learn how to read the Schumer Box at <http://www.federalreserve.gov/creditcard/#>. Click on “Learn more about your offer.”

In general, it’s important that you understand the different aspects of the credit card application. *Money Magazine* suggests that you look for:

- An annual percentage rate of 11 percent or less on purchases.
- Low rates on other loans, such as cash advances or balance transfers. (If you’re doing a balance transfer, find a card that offers zero percent APR, at least for a year.)
- Reasonable penalty terms. Find the penalty rate (or default rate) and follow the asterisk to see what triggers it.
- No annual fee.

Don’t choose a card just because it offers a sign-up bonus or because it gives you a discount at your favorite store. Read the terms and conditions. Understand the card’s limitations. Remember: Your goal is to pick the right tool. You’re not looking for a one-time bonus, but a long-term relationship you can live with.

There are many online credit card comparison calculators. My favorites are at [cardratings.com](http://cardratings.com) and [IndexCreditCards.com](http://IndexCreditCards.com). Go online and compare different cards before you apply.

If you choose to use credit cards, make a commitment to use them responsibly.

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