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# About Credit Cards

Charging with a credit card is paying for purchases by instantly borrowing the money that you spend on the purchase. You pay later for whatever you bought by repaying the loan that you received when you made the purchase.

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# Confusing and frustrating

Credit cards are potentially the most confusing and frustrating part of household finances. Depending on your usage, keeping up with your credit card activity could be how you spend most of your time managing your household finances.

Careless use of credit cards can lead to steadily increasing, very expensive debt that can be difficult to repay. It is very easy to charge more than you can afford to pay back, especially when you lose sight of the fact that credit cards are a source of debt instead of free money.

Credit card debt can get out of control quickly with careless charging and failure to pay the monthly statement's new balance in full each month. The exorbitant interest rates charged on credit cards contribute to the rapid increase in unpaid credit card balances.

Limiting and tracking credit card usage is how overspending and the resulting credit card debt can be avoided. Ways to do this include:

- setting a limit on monthly charges that you can afford to pay in full;
- keeping track of all credit card charges to stay within your charging limit;
- paying the credit card statement's new balance in full every month.

Staying on top of your credit card activity is easy when you follow the four-step method available in You Need A Cash Plan.

# Expiration date and security code

Most credit cards have an expiration date (month/year) that is displayed on the front of the card. There are exceptions such as the Amazon Store Card which has no expiration date as the card is used exclusively for online purchases from Amazon. For credit cards with an expiration date, as long as your credit card account is in good standing, prior to the expiration date the credit card company will send you new cards with a new expiration date.

Most credit cards also have a three or four digit security code (CVV - Card Verification Value, CVC - Card Verification Code). This code is normally printed on the back of the card to the right of the signature panel. There are

exceptions like American Express which prints the security code on the front of the card. When you are issued new cards to replace those that are expiring, the new cards will have a new security code.

When you receive a replacement for an expiring credit card that you use to automatically pay bills, you will have to update the credit card expiration date and security code for your account on the websites of each of the bills paid with the card. In *You Need A Cash Plan*, the credit card update process is aided by the *Bills Paid With Credit Card* dialog box. Right-clicking on a bill in the dialog box displays the bill's *Contact Info*.

## Billing periods

Each credit card has a monthly billing period, which is set when the credit card is issued to you.

- **Closing day:** The monthly closing day is the day each month on which statements are normally generated. Statements may be generated on an earlier day at the convenience of the credit card company.
- **Payment due day:** The monthly payment due day is the day each month on which payment for the current statement is due. This day never changes. (You can request that a credit card payment day be changed, which will also change the closing day.)

The payment due day is at least 21 days after the statement closing day. There is no advantage to making a payment before the payment due date. There is, however, an advantage to paying attention to your credit card closing dates. Using two credit cards for day-to-day purchases and timing your purchases correctly can give you the maximum time to pay for purchases. For example, you have two credit cards that you use for day-to-day purchases.

- One card always closes on the 4th with payments due on the 1st of the following month.
- The second card normally closes on the 19th, but can close as early as the 17th. The next closing date is posted on the credit card company's website so you always know when the card will close next.

Each month you switch to the card that just closed by starting to use:

- the first card on the 4th, and
- the second card on the next closing date.

By switching cards on closing dates, you give yourself the maximum time before you pay for purchases.

## Statements

On a credit card closing day each month the credit card issuer tabulates account activity and sends you an account statement. Each statement has a:

- new balance amount (everything owed),
- minimum payment amount, and
- payment due date.

If you pay the statement's new balance amount in full on or before the payment due date, no interest is charged.

If you make a payment that is less than the statement's new balance amount (such as the minimum payment) on or before the payment due date, interest is charged on the new balance amount *after your payment has been deducted*.

Regardless of the payment amount, when you make a payment after the payment due date, both a late fee and interest on the entire statement's new balance amount are charged.

Late fees and interest are added to a credit card account the same as a purchase transaction. They are included in the new balance amount on following statements and accrue interest the same as purchases.

Missing and making late payments can have a negative impact on your credit score.

## Interest

Credit card companies charge interest at an exorbitant rate on an account that carries an unpaid balance. The rates vary based on the type of card, your creditworthiness (higher credit score = lower interest rate), and the issuing bank or credit union. Here's a breakdown of typical APR (Annual Percentage Rate) ranges.

Credit card type	Typical APR range
Standard/general	20%-28%
Rewards	22%-30%
Balance transfer	17%-25% (after the transfer promotion ends)
Student	20%-27%
Secured	18%-26%
Store	25%-30%

The only way to avoid paying interest is to pay each statement's new balance in full on or before the payment due date every month. The simplest way to do that is to set up automatic payments on the credit card company's website with the payment set to the statement's new balance amount.

## Grace period

The credit card grace period is the time between the end of a billing cycle and the date your payment is due. During this time, you may not be charged interest as long as you pay your balance in full by the due date.

Failing to pay your credit card statement in full will result in you losing the grace period for the next billing cycle. When you lose your grace period not only will you pay interest on the unpaid balance, but new purchases will also start to accrue interest immediately from the date of the purchase, not from the statement payment due date.

To regain your grace period, you must pay your full statement balance by the due date for a certain number of consecutive months. How many months varies by credit card company.

Until your grace period is restored, you can minimize ongoing interest charges by paying off the full outstanding balance as soon as possible.