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AbuvMedia has contracted with Galvin and Associates to write an article on low interest credit cards. WORD COUNT 2230

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Low-Interest Credit Cards

The continuing popularity of state lotteries makes it clear that most Americans dream of a time when they can buy whatever they want, whenever they want, and not care about the consequences to their wallet or purse.

However, in real life, most people work hard to make ends meet, and sometimes use credit to tide them over when cash is running short or they face an unexpected bill. By far the most popular way to do that is "plastic": the ubiquitous credit card. Fully 71 percent of Americans have one or more credit cards.
"The Credit Handbook" – the Office of Minnesota Attorney General Lori Swanson
https://www.ag.state.mn.us/Consumer/Handbooks/CreditHnbk/credithnbk_3.asp

There are dozens of credit card companies and each has a number of different "products," meaning credit card programs that differ in significant ways:

- Whether the card requires an annual fee
- Special offers provided during an introductory period, with variations in how long the introductory period lasts
- Special offers for transfers of balances from competing credit cards
- In the interest rate charged, presented as an annual percentage rate (APR)

Because of the many types of credit cards, the average interest rates vary:

11.62 percent	low interest card
14.12 percent	balance transfer
15.15 percent	card with a rewards program
15.27 percent	card with a cash back program
18.00 percent	instant approval card
22.73 percent	consumer with poor credit rating

Note: Rates as of November 2015
http://www.creditcards.com/credit-card-news/credit-card-debt-statistics-1276.php#ixzz3qOiiTyMf

Choosing the best combination of features requires a close look at the offers, plus a realistic look at the cardholder's financial management skills and habits. But at first glance, the most attractive card is the one with a low interest rate – or is it?

A Low Interest Rate Credit Card

A low interest rate credit card typically features either a low fixed interest rate, or a low fixed rate during an introductory period followed by a higher, variable interest rate once the introductory period is over. Many low interest cards do not charge an annual fee. Low interest rate credit cards require good to excellent credit, meaning a FICO score of 680-740 (Good) to 740-850 (Excellent).
http://credit.org/blog/what-is-a-good-credit-score-infographic/

As a rule of thumb, credit cards with a low fixed rate have modest introductory period offers; those with a variable rate add a lot more marketing “sizzle” to offers during the introductory period, and then make up for their marketing costs by charging a higher variable rate than the fixed rate cards. In the fourth quarter of 2015, variable APRs on low interest credit cards ranged from 11.9 to 22.9 percent.
http://www.creditcards.com/low-interest.php#ixzz3qOuc3JNw

Credit card companies promoting low interest cards with a variable APR use a wide variety of introductory offers. Among the types of introductory offers are:

- An APR as low as zero percent on purchases made during the introductory period
- An introductory period that may be 6, 10, 12 or 18 months in length. The federal Credit CARD Act of 2009 mandates that credit card company introductory offers be in place for a minimum of 6 months; for competitive reasons, credit cards often offer more than 6 months
- Zero percent interest on any balance that is transferred from another credit card, for a period of anywhere from 6 to 18 months
- Bonus incentives for the card company’s rewards programs, such as bonus miles, or cash awards, or membership points that are redeemable for goods and services. Most of these reward programs have a cash value of $100 to $200 and do not kick in until the cardholder has reached a dollar threshold in purchases, which may vary from a few hundred dollars up to $1,000

http://www.creditcards.com/credit-card-news/credit-card-debt-statistics-1276.php#ixzz3qOiiTyMf

Fixed Rate vs. Variable Rate Low interest Credit Cards

Both fixed rate and variable rate low interest credit cards have their advantages, especially when fees, special offers and rewards programs are factored in. The first step in deciding which is best is to consider how the cardholder will use the card. The credit card industry describes the two primary cardholder behaviors as “transactors” and “revolvers.”

Transactors: If the cardholder uses a card for purchases and then pays off the balance each month, then the amount of interest charged is not that important - interest is charged primarily on the balances carried forward to the next month and with a ‘transactor’, there is no balance.

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- The Transactor should choose a card with the lowest fees and best rewards program

Revolvers: If the cardholder is likely to carry a balance from month to month, he or she will pay interest charges on the balance carried forward. For revolvers, rewards programs and other incentives to spend are less important than the interest rate itself – the value of the rewards program in unlikely to match the additional costs of paying interest on the purchases.

- The Revolver should choose a card with the lowest interest rates and finance charges and if possible, low or no fees

It is important to take a realistic look and how the cardholder will actually manage their credit card account. Most people choosing a new credit card intend to be Transactors and pay off their balances each month. In reality, many do not always pay off their balances and wind up paying interest charges and finance fees. More than 35 million Americans roll over $2,500 or more in credit card debt each month.
http://www.creditcards.com/credit-card-news/credit-card-debt-statistics-1276.php#ixzz3qOk1hnvi

Credit Card Interest Matters!

Credit card companies publish the cost of interest charges as a yearly percentage rate (APR). On each statement, the company will state the "periodic rate," which is the figure the company uses to figure finances charges for that particular billing period.

If credit card companies were to charge simple interest, then the amount of interest a cardholder pays would be a simple calculation: current month's purchases times the period interest rate. However, almost all credit card companies charge based on "compounding of interest."

Compounded Interest

With compounded interest, the cardholder pays interest on current purchases as well as any outstanding balance from previous months, including previous interest charges. Since this practice means the cardholder is charged interest more than once for previous purchases, the net rate of interest paid can be significantly higher than the published periodic rate.

For example, if a cardholder spends $500 in purchases with a simple interest of 11 percent, the cardholder's interest charges will be $55 a year. If the cardholder pays off the $500 within 30 days, he or she will pay the $500 principal plus 1/12 of $55 in interest, a total of $504.83. If the balance rolls over to another month, the amount due is calculated on the new balance of $504.83. Left unpaid, the original $500 in purchases will have a balance due of $562.92, which means an effective interest rate of 12.58 percent.

- Moral of this example: Pay off a credit card balance as quickly as possible – you will save money if you do!

Average Daily Balance
Another consideration when assessing the cost of a credit card is a credit card company's practice of charging interest based on the average daily balance. With the average daily balance method of calculation, the credit card company gives you credit from the day they receive a payment. The company then adds new purchases and cash advances and at the end of the billing period, divides the total by the number of days in the billing period to arrive at a daily average balance. The cardholder's interest is figured based on the average daily basis.

- Moral of this example: Pay a credit card bill as soon as possible – each day means additional interest charges!

Multiple Interest Rates on a Single Bill
Credit card companies typically charge one interest rate for purchases, and different interest rates for other credit card uses, like cash advances and transferred balances. Cash advances and other uses most often have a higher interest rate than the rate applied to purchases. The credit card company lists the categories of transactions and the interest rate applied on the monthly statement.

When you pay more than the minimum required, by law the credit card company must apply the amount you pay over the minimum to the balance with the highest interest rate. If a cardholder pays only the minimum amount, the credit card company has the right to apply the payment to a balance of its own choosing.

Balance Transfers
Most credit card companies provide special incentives to induce a cardholder to transfer a balance from another credit card company to their company. Promotions can include zero interest charged on the transferred balance for a period of six months or more. The credit card company may or may not charge a one-time fee for the balance transfer.

For the cardholder who is paying a high rate with a current card, transferring the balance to a new company with a lower rate is a great idea. However, any purchases made with the new card may incur regular interest rate charges immediately. If the cardholder clears the transferred balance plus new purchases within the allotted promotional window, he or she will save money. However, if the transferred balance remains on the books, the cardholder will be paying interest on a new, higher balance until it is paid off.

Grace Periods

Credit card companies typically allow a 'grace period,' meaning the cardholder does not have to pay interest on new purchases for a specific amount of time. Grace periods are an incentive to get the cardholder pay the balance on time.

However, if a cardholder fails to make a payment within the grace period, or fails to pay the total amount, the cardholder loses the grace period benefit and interest rates kick in on a daily basis. The cardholder may have to make regular balance-clearing payments for a number of months before he or she can 'earn' a return of the grace period benefit.

What You Can't Buy with a Credit Card

Plastic works most everywhere for anything – with a few exceptions. Among the no-no's:

- Mortgages
- Mutual Funds and Stocks
- Money Orders
- Online pornography
- Lottery Tickets
- Gambling Chips
- Medical Marijuana

http://www.creditcards.com/credit-card-news/10-things-credit-cards-wont-easily-buy-1267.php

Laws that Govern Credit Card Company Charges

The U.S. government passed a federal law in 2009 called the Credit Card Accountability Responsibility and Disclosure Act, most often called the Credit CARD Act. The law was passed to govern how credit card companies market their products and includes rules regarding rates, how principal and interest are calculated, how fees are assessed and what happens if a cardholder misses a payment or is in default. The Credit CARD Act also places limitations on marketing practices.

The Credit CARD Act limits when a credit card company can increase rates on a new card, or on the existing balances of a card, an amount called 'retroactive interest rate hikes':

- After the introductory promotional period ends, which by law must at least six months
- If the credit card owner has agreed to a variable rate, then the rate will increase or decrease based on a published index
- If the card user is more than 60 days late in making a monthly payment
- If the card user, after agreeing to a workout plan to pay off excessive debt, fails to make the agreed-upon payments
- If the card member is a military service member who is no longer on active duty. Federal law caps credit card interest rates at 6 percent for active duty

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service members but the rates will likely rise to market conditions when active duty ends.

Once rates have increased on a card, the credit card company is required to review the account every six months. If the market rates for interest decline, or if the cardholder has a positive change in creditworthiness, the card company must reduce rates to reflect the cardholder's financial progress.

Getting the Most Out of a Low Interest Credit Card

To get the most out of a low interest credit card, here are tips on credit card best practices:

- Pay the full balance each month whenever possible. Even a small balance means the cardholder will pay interest charges immediately and will lose the grace period
- If the cardholder is a transactor and pays the entire balance each month, get a card with no annual fee and the rewards program that brings the most value
- Pay a credit card bill as quickly as possible. Even if the payment does not clear the balance, it reduces the amount of balance subject to daily interest charges
- Whenever possible, pay more than the minimum payment
- Avoid going over the credit card limit - keep track of transactions
- Cardholders will high interest rates can transfer balances to a card with a lower rate and save money
- Avoid using a credit card for cash advances – the credit card company will assess a higher interest rate and likely a fee as well
- If a cardholder maintains a good payment record, he or she should contact the credit card company and ask for a lower interest rate. A surprising percentage of times, the card company will say yes

Finding a Great Low Interest Credit Card

Credit card companies spend billions of dollars each year promoting their products, and all major card issuers have low interest credit cards. A simple online search will provide a large number of options.

With so many choices, the real challenge is finding the card that's fits the cardholder's needs and money management savvy!