



How Credit Cards Work

At Republic Bank of Chicago



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INTRODUCTION TO CREDIT CARDS



IMPORTANT FINANCIAL TOOL

- Revolving line of credit
- Convenient way to buy
- Buy now, pay later
- Limit on how much you can borrow
- Must pay at least a portion of the bill every billing cycle (minimum payment)



- Can build evidence you are credit worthy
- Can help you pay for emergency expenses
- Convenient option for purchases online
- Right to dispute erroneous credit card charges
- Right to dispute certain charges for goods and services that weren't delivered as agreed



WHAT IS A CREDIT CARD?

Understanding Credit Cards

→ Applying for a Credit Card

Several options to find credit card offers

- Financial institutions and retail stores
- Card comparison websites
- Offers received in the mail

→ Key Terms in Application Process

- Credit Card Applicant
- Creditor
- Individual Credit
- Joint Credit
- Authorized User
- Credit Limit
- Credit History

→ Cards That Are Not Credit Cards

- Charge cards
- Prepaid cards
- Debit cards

Steps to Managing Your Credit Card

- ✓ Keep good records
- ✓ Check statements for mistakes
- ✓ Pay on time and at least minimum due
- ✓ Understand impact of different payment strategies
- ✓ Try to limit what you owe compared to your credit limit





How Payments Are Applied to Your Balance

- Creditor chooses how to apply to balance
- Minimum payments often applied to portion of balance with lowest interest rate
- Amounts over the minimum payment are typically applied to a portion of balance with the highest interest rate.





Rewards

- Examples: rebates, points, airline miles
- Know how to qualify
- Understand how to maintain rewards
- Will rewards cause you to overspend?
- Consider fees when you look at rewards
- Shop around

Truth In Lending

Credit card rates and fees vary greatly. Creditors are required to provide a Truth in Lending disclosure to all prospective credit card customers. Review this disclosure carefully as it will outline all aspects of the credit card you are considering.





Credit Card Interest Terms and Promotions

Low Introductory APRs

Teaser rates

- Last for a limited time, at least six months

For example:

- 0% interest on purchases for 15 months then, variable APR of 15.49% to 25.49%

Rates and Fees

- Annual Percentage Rate (APR): Cost of credit expressed as a yearly rate
- Penalty APR: Increased rate if you don't pay bill on time
- Interest Rates: Fixed or Variable

Credit Card Payment Timing and Calculation Policies

Balance Computation Method

- How interest on your account is calculated
- There are different methods
- Cardholder agreement will include which method is used

Grace Period

- Time between when your statement is issued and when your payment is due
- Creditors do not have to give a grace period



Unsecured and Secured Credit Cards

Unsecured credit cards- *no collateral*

Secured credit cards- *require collateral*

- Keep money (collateral) in a dedicated deposit account; maybe equal to card's credit limit
- If you pay balance regularly by due date, you generally can improve your credit history and scores
- Usually easier to qualify for than unsecured cards
- Typically have lower credit limits
- Some people apply for secured credit cards if they are unable to get unsecured cards
- Can help them build their credit history

Credit Costs: Minimum vs. Extra Payment



Paying only the minimum on your credit card stretches out repayment and racks up interest, while paying extra reduces both the time and total interest paid.

Paying Only the Minimum Payment

Item	Price	Credit Card APR	Interest Paid	How much you really pay for the item	Total Years to Pay Off
TV	\$500	18%	\$132	\$632	3
Repair	\$1,000	18%	\$863	\$1,863	8
Furniture	\$2,500	18%	\$5,636	\$8,136	23

Paying More Than Minimum Payment

Original Balance	Credit Card APR	Monthly Payments	Interest Paid	Total Amount Paid	Total Years to Pay Off
\$2,500	18%	Minimum Payment	\$5,363	\$7,863	23
\$2,500	18%	Minimum Payment +\$24	\$1,025	\$3,525	4
\$2,500	18%	Minimum Payment +\$41	\$754	\$3,254	3

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