

What is Your Credit Card IQ?



Credit cards are handy pieces of plastic. Just swipe them through a slot in a machine – or enter your credit card number online or by phone. The item you want to purchase is yours!

But that's the big picture. How much do you know about the details? Test your credit card IQ by answering 7 simple questions.



True or False

1. Credit cards are accepted as cash by stores.
 True False
2. Most credit cards have a credit limit.
 True False
3. If I pay my credit card in full by the due date, I will not owe any interest.
 True False
4. There's no penalty if I pay my balance after the due date.
 True False
5. If I pay the minimum monthly payment, then I won't owe any interest.
 True False
6. Credit card companies charge merchants a percentage of the price of anything purchased with a credit card.
 True False
7. My credit report contains information on bills I have not paid.
 True False

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Answers

- 1.** Credit cards are accepted as cash by stores.
TRUE. Actually, credit cards are a type of loan. You borrow money from the bank. The bank pays the store.
- 2.** Most credit cards have a credit limit.
TRUE. Card holders may charge only up to a certain dollar amount set by the card company. The limit is set based on your ability to handle debt.
- 3.** If I pay my credit card in full by the due date, I will not owe any interest.
TRUE. If you pay the entire balance within the grace period allowed (usually about 28 days), you will not owe any interest on your purchases.
- 4.** There's no penalty if I pay my balance after the due date.
FALSE. Credit card companies charge late fees to card holders who do not pay their bill by the due date. Not paying your bill on time can be costly.

Most credit card companies charge \$25 or more to credit card users who fail to meet their deadlines – regardless of whether you pay the minimum due or the whole balance. In fact, you could pay a \$35 penalty fee on a \$15 balance.

- 5.** If I pay the minimum monthly payment, then I won't owe any interest.
FALSE. After you subtract the minimum payment from your balance, finance charges will be added to your remaining balance. So avoid the minimum payment trap. Pay your bill in full, or as close to in full as you can.

The minimum payment is the least amount of money you can pay if you want to keep using your credit card. If you pay less than the minimum payment, the credit card company will often “turn off” your card so that it cannot be used to buy anything more. The card will not work again until you have made your minimum payment.

- 6.** Credit card companies charge merchants a percentage of the price of anything purchased with a credit card.
TRUE. When you use a credit card to make a purchase, the credit card companies charge the merchants a percentage of the sale.

- 7.** My credit report contains information on bills I have not paid.
TRUE. Actually, your credit report contains a lot more than that. It contains some vital non-credit facts such as your name, nicknames, maiden name, marital status, spouse's name, social security number, year of birth, current and previous addresses, current and previous employers, and estimated income.

Plus, it contains detailed information for each credit account you hold, including the type of account, when it was opened, the credit limit or loan amount, the balance you still owe, and whether you have been late with any payments. It also includes information such as lawsuits, bankruptcies and liens against your property.