

How Much Does a Credit Card Cost?

Credit card companies make their money by charging customers interest and fees. If you're careful, however, you can avoid all of that.

Credit Cards Don't Need to Cost Anything at All

If you manage your spending and can pay your balance off in full every month, you won't be paying anything to use your credit cards. Moreover, with all of the programs offered by card companies these days (like cash back, signing bonuses, etc.) you can actually make money from these companies. Some people can earn hundreds of dollars!

Unfortunately, most Americans aren't able to pay their balances in full each month, and the costs add up fast. Here are 8 common credit card fees

- Interest charges
- Annual fees
- Late payment fees
- Returned payment fees
- Cash advance fees
- Over-the-limit fees
- Balance transfer fees
- Foreign transaction fees

Interest charges

Some cards charge variable Annual Percentage Rates (APRs). Others have fixed APRs.

A **variable APR** is one that changes over time, usually based on an index or other benchmark that fluctuates periodically.

A **fixed APR**, on the other hand, does not change. It stays the same, regardless of what the market or other indexes are doing.

The best way to avoid interest charges is to pay your balance in full every billing cycle. That said, not all interest charges are purchase-based. Cash advances, for example, begin accruing

interest the moment you take them out. And, if your payment is late (even if it pays off your entire balance), you will accrue interest charges during the next billing cycle.

If you aren't able to pay your balance in full, you have a couple of options:

- Reduce your spending
- Transfer your balance to a card that offers a zero-interest grace period for balance transfers.

Card recommendations:

- **Citi Diamond Preferred:** zero interest for 21 months on balance transfers, zero-interest for 15 months on new purchases, no annual fees.
- **Bank Americard Mastercard:** zero interest for 21 months on balance transfers and new purchases, no annual fees.
- **Wells Fargo Reflect:** zero interest for 18 months on balance transfers and new purchases, both periods can be extended to 21 months if you make all of your payments on time during that period. No annual fee and, as a bonus, you'll get \$600 worth of mobile phone insurance if you use the card to pay your cell phone bill.

Late payment fee

If you pay your credit card bill even a few hours late, you'll be charged a fee. That fee can range from \$29 to \$40, depending on how many times your payments are late.

Every time you fail to pay your credit card bills on time; you'll incur a fee. That fee usually starts at \$29 for first-timers and can go all the way up to \$40 for any other late payments that happen within the next six billing cycles.

To avoid late fees, apply for a card that doesn't assess a late payment fee, like one of the following:

- **Citi Simplicity:** Never charges late payment fees.
- **Petal 2 Cash Back No Fees Visa:** Never charges late payments. No annual fees. Additionally, the card offers 1%-10% cash back on purchases, depending on the vendor.
- **Discover It Cash Back:** No late fee for your first late payment. All subsequent late payments are charged \$41.

Opting into auto-pay can prevent you from having to deal with late fees. Agree to automatically pay at least the minimum due every month. Then, if you want to pay more than that, you can simply make a second payment.

If you do fail to make your payment on time, send that payment in as soon as you remember it's due. Wait a couple of days to make sure it posts and then contact the company. Politely request a non-time courtesy refund on the late fee. It helps if you have a history of on-time payments before this. Some companies will allow you to do this once a year, max.

Balance Transfer Fee

Usually it costs 3%-5% or \$5-\$10 fee (whichever is higher) per transfer to transfer a balance from one card to another.

If this fee is less than you'd pay in interest charges over the course of a grace period, the balance transfer is a worthy option to help you manage your debt.

Cash Advance Fee

Cash advances usually cost between 3% and 5% of the advance amount. Interest also starts to accrue as soon as the advance is approved. This is definitely an expensive way to borrow money. It does, however, cost much less than you'd pay to take out a payday loan or a title loan.

A better option is to borrow money via a peer-to-peer lending platform or to ask your friends and/or help.

Over-the-Limit Fee

This fee is unique because, based on the CARD Act of 2009, you have to opt in before it can be charged. If you choose to opt in, your credit card company can charge you as much as \$35 for every purchase that takes your balance over your credit limit.

If you choose not to opt in to the fee, any purchase that will send your balance over your limit will simply be declined.

Returned Payment Fee

If there isn't enough money in your bank account to cover your card payment, your bank will deny or request that the card "return" your payment. Every time this happens you can be charged up to \$40.

Annual Fee

Some credit cards charge a fee every year just for continuing to have the card, regardless of whether or not you've used it. Annual fees can range from around \$95 to more than \$500.

Yikes!

Thankfully, there are plenty of cards that don't charge an annual fee, including:

- **Chase Freedom Flex:** offers a cash back bonus of between 1% to 5% and a \$200 for spending \$500 on the card during the first three months the account is open.
- **Wells Fargo ActiveCash:** offers a flat 2% cash back and a \$200 bonus for spending \$1,000 within your first three months of having the card.

- **Discover It Cash Back:** offers 1% to 5% cash back on purchases, and Discover will double your reward at the end of your first year

If you already carry a card that is charged an annual fee, ask the issuer for a retention offer.

Alternatively, downgrade your card to one that doesn't charge a fee. Don't close the account, though! Closing that account could negatively impact your credit score. A better option is to call the issuing company to ask that your account be transferred to a fee-free product.

Foreign Transaction Fee

Do you ever shop outside of the United States? If you're using your credit card to do so, you should know that every purchase you make will incur a foreign transaction fee. The fee typically ranges from 3%-5%.

If you shop internationally, go for a card that doesn't charge foreign transactions fees (or annual fees), like:

- **Capital One Quicksilver:** offers cash back bonuses and a one-time \$200 bonus if you charge \$500 worth of purchases within your first three months of opening the account.
- **Discover It Miles:** matches the number of miles earned during your first year of card membership.
- **Bank of America Travel Reward:** offers unlimited 1.5 points per \$1 spent on all purchases, and 25,000 bonus points after you make at least \$1,000 in purchases in the first 90 days of opening your account.

Use Your Card Responsibly

Credit cards can offer you plenty of benefits. Once you've chosen your credit card, however, you need to use it wisely if you want to keep your card-related costs to a minimum. Here is how you do that:

- Pay your balance in full each month (unless you have a 0% promotional rate).
- Make all of your payments on time
- Only use your credit card for emergencies
- Set up automatic payments for all of your credit card accounts
- Set up alerts and notifications to ensure you won't go over your credit limits
- Only allow cash advances on one of your cards. This way any purchase that would be considered a cash advance (and thus trigger a fee) will be automatically declined
- Set your cards up to decline any purchase that would send your balance over your credit limit. This way you won't have to worry about over-the-limit fees.
- Keep your cards in a safe place that is easily accessible but that is *not* your wallet. The closer at hand your cards are, the easier it is to use them spontaneously.

Debit Cards vs. Credit Cards

Debit cards are cards that are tied directly to your checking or spending account. They allow you only to spend the amount of money you actually have on hand.

Credit cards are more like a loan. You can use them as long as you haven't gone over your credit limit and pay back your purchases incrementally over time.

The Bottom Line

Credit cards can be helpful tools—if you know how to use them responsibly. Pay attention to the potential fees you might be charged and do everything you can to avoid them. This doesn't just make the cards useful, thanks to bonus offers and cash back, they might even be profitable!

FAQs

What's the difference between credit card refinancing and debt consolidation?

Refinancing your credit card allows you to lower your fees and interest rates on cards you already have. Debt consolidation is when you pay all of your debts using a single loan or card, so that that your multiple debts become one.

What are some of the best credit card options for college students?

The Discover It® Student Cash Back card is considered to be the best card for students. Other good cards are the Chase Freedom Student Card, Capital One SavorOne Student Card, and the Journey Rewards card offered by Capital One.

What Credit Score Do You Need to Qualify for a Credit Card?

Most cards will require a score of at least 700, but you can still qualify for a few cards (with higher interest rates and fees) if you have a lower score, usually 600-700. If your score is lower than 600, however, your best bet is a secured credit card.

A secured card is one that you “secure” with an up-front payment. Your up-front payment will usually determine your credit limit. They're sort of like pre-paid gift cards, but you can make payments against what you owe and your activity is reported to the credit bureaus.

FICO Score Ranges

- 750 or better (Excellent)
- 700 to 749 (Good)
- 600 to 699 (Average)
- Under 600 (Rebuilding)