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# What To Know About Credit Cards and Secured Credit Cards

## How do credit cards work?

When you use a credit card, someone lends you money to buy something. Here is how it works:

- You want to buy groceries.
- You pay with a credit card from a bank.
- The bank pays the store for your groceries.
- The bank sends you the credit card bill, including charges for the groceries.
- You pay your credit card bill.

## How do I get a credit card?

You must apply to get a credit card. The company you apply to will check your credit history. The company uses your credit history to decide:

- if you will get a credit card
- how much you will pay for the card

Before you apply for a card, be sure you compare at least three cards. You want to get the best deal you can.

## How do I compare credit cards?

Credit cards offer different deals. Before you get a credit card, find out these things:

- **What is the annual fee?** This is what you pay to use the card for a year.
- **What is the APR?** APR means annual percentage rate. This is how much interest you pay every year. A lower APR means you pay less interest. That costs you less money.
- **Are there other fees?** How much will it cost if a payment was late? What will it cost if you go over your credit limit?
- **What is the grace period?** This is the time between when you spend money and when the card charges you interest. A longer grace period is better. Look for one that is at least 25 days long.

## What if I can't get a credit card?

You might be able to get a secured credit card. Many credit unions, banks, and some other companies offer secured credit cards.

Using a secured credit card can help you build or improve your credit history.

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## What is a secured credit card?

A secured credit card is a card that you pay for in advance. You put money in an account. Then you can use the card to spend that much money. It works like a regular credit or debit card. It is different from a prepaid card:

- A secured credit card usually has lower fees than a prepaid card.
- A secured credit card should give information to the three credit reporting companies. Most prepaid cards do not.

## How do secured credit cards work?

Here is how secured credit cards work:

- You apply for a secured card from a credit union, bank, or credit card company.
- The credit union, bank or company checks your credit history.
- If your application is approved, you pay a fee to use the card for a year.
- You deposit money in the bank. The deposit usually is \$300-\$500.
- Sometimes the amount you deposit is your credit limit. But sometimes your credit limit is less than the amount you deposit. Your credit limit means the amount you can spend on the card.
- You use the card to buy things. You can spend only up to your credit limit.
- You deposit that amount back into your account. You can spend that money next month.
- The secured credit card company gives information to the three credit reporting companies about the way you pay for your card.

## How do I choose a secured card?

Before you apply for a card, find out these things:

- **Is there an application fee?** Look for a card with no fee.
- **What are the other fees?** Look for:
  - a low annual fee
  - a card with no processing fees
  - a low interest rate
- **Does the card company send your information to the three credit reporting companies?** You want them to. Your credit history might improve that way.
- **What interest does your deposit earn?** It should earn interest like any other bank account.

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# What To Know About Credit Cards and Secured Credit Cards

## Answer Key

### How do credit cards work?

When you use a credit card, someone lends you money to buy something. Here is how it works:

- **You want to buy groceries. (#5)**
- **You pay with a credit card from a bank. (#5)**
- The bank pays the store for your groceries.
- **The bank sends you the credit card bill, (#8)** including charges for the groceries.
- **You pay your credit card bill. (#8)**

### How do I get a credit card?

**You must apply to get a credit card. (#1)** **The company you apply to will check your credit history. (#2)** The company uses your credit history to decide:

- if you will get a credit card
- how much you will pay for the card

Before you apply for a card, be sure you compare at least three cards. You want to get the best deal you can.

### How do I compare credit cards?

Credit cards offer different deals. Before you get a credit card, find out these things:

- **What is the annual fee? This is what you pay to use the card for a year. (#3)**
- **What is the APR? (#7)** APR means annual percentage rate. This is how much interest you pay every year. A lower APR means you pay less interest. That costs you less money.
- **Are there other fees?** How much will it cost if a payment was late? **What will it cost if you go over your credit limit? (#6)**
- **What is the grace period?** This is the time between when you spend money and when the card charges you interest. A longer grace period is better. Look for one that is at least 25 days long.

### What if I can't get a credit card?

You might be able to get a secured credit card. Many credit unions, banks, and some other companies offer secured credit cards.

Using a secured credit card can help you build or improve your credit history.

### What is a secured credit card?

A secured credit card is a card that you pay for in advance. You put money in an account. Then you can use the card to spend that much money. It works like a regular credit or debit card. It is different from a prepaid card:

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- A secured credit card usually has lower fees than a prepaid card.
  - A secured credit card should give information to the three credit reporting companies. Most prepaid cards do not.

## How do secured credit cards work?

Here is how secured credit cards work:

- **You apply for a secured card from a credit union, bank, or credit card company. (#1)**
- **The credit union, bank or company checks your credit history. (#2)**
- If your application is approved, **you pay a fee to use the card for a year. (#3)**
- **You deposit money in the bank. (#4)** The deposit usually is \$300-\$500.
- Sometimes the amount you deposit is your credit limit. But sometimes your credit limit is less than the amount you deposit. Your credit limit means the amount you can spend on the card.
- **You use the card to buy things. (#5) You can spend only up to your credit limit. (#6)**
- **You deposit that amount back into your account. (#9)** You can spend that money next month.
- **The secured credit card company gives information to the three credit reporting companies (#10)** about the way you pay for your card.

## How do I choose a secured card?

Before you apply for a card, find out these things:

- **Is there an application fee?** Look for a card with no fee.
- **What are the other fees?** Look for:
  - a low annual fee
  - a card with no processing fees
  - **a low interest rate (#7)**
- **Does the card company send your information to the three credit reporting companies?** You want them to. Your credit history might improve that way.
- **What interest does your deposit earn?** It should earn interest like any other bank account.