



Managing Credit Card Finance Charges

Credit cards can be a valuable financial tool. They provide a convenient way to pay for things, feature built-in protections for your purchases, and can help you to build a good credit rating. But using credit cards can also cost you money in finance charges and fees.

The easiest way to avoid paying finance charges on credit card purchases is to pay your statement balance in full every month. That way, your account will have a zero balance and no finance charges will be assessed on it. If you're unable to pay off your entire balance, you can save on finance charges another way by paying off the debt as quickly as possible. Pay at least the minimum amount as indicated on your statement, but pay more than the minimum whenever possible.

Pay on time every time and do not exceed your credit limit. Some credit card issuers will charge a default rate (a higher rate of interest) if a cardholder misses two minimum monthly payments.

Understanding how creditors calculate interest can also help you to manage your costs. Here is information that can help:

Compare the APR

When you want to determine which credit card will likely cost you the most, the Annual Percentage Rate (APR) is a quick way to make a first comparison. The APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of the loan. So look for a credit card with the lowest APR you can find. Keep in mind that if a credit card has a variable rate, that means it can change throughout the year. Read your disclosure statement or talk to your lender to make sure you understand the details.

Understand the Fees

In addition to comparing APRs, look carefully at optional fees for items such as late payments and cash advances.

Know the Periodic Rate

The periodic rate is the interest rate described in relation to a specific period of time. For example, the monthly periodic rate is the cost of credit per month; the daily periodic rate is the cost of credit per day. If a creditor charges interest on a daily basis, the cost of credit per day is the APR divided by 365. An APR of 18% would therefore equal a Periodic Rate of about 0.05%.

Managing credit card finance charges (continued)

How is your interest calculated?

After you know the APR and Periodic Rate, look at the method the creditor uses to calculate the interest you owe. This can make a big difference in how much interest you'll pay. Here are four common methods:

Past Due Balance

With this method, no interest is charged if you make payment in full within the grace period defined in your cardmember agreement (usually 25–28 days). If you don't pay in full, interest is charged on the unpaid amount, and then added to your next bill.

Average Daily Balance

This is the most common method used. Your credit card issuer calculates your balance every day in the billing cycle. Each day, they add new charges and subtract payments from your existing balance. They then add all daily balances together and divide by the number of days in the billing cycle to get the average daily balance. Finally, they multiply the average daily balance by the periodic rate to determine the finance charge.

Two-Cycle Average Daily Balance

With this method, the average daily balance is calculated from two billing cycles rather than one. The finance charges you pay are typically higher than with the single cycle calculation.

Adjusted Balance

Interest is charged on the opening balance of your account minus any payments made during the billing cycle. Since your new purchases are not included (which would raise your balance) and your payments are included (which lowers your balance), this means that you'll usually pay less in interest than you would with other methods.

Previous Balance

With this method, the card issuer charges interest on the opening balance of your account. They don't subtract any payments received during the billing cycle. This means that you'll pay more interest compared to the Adjusted Balance method, but less than you would with either of the Average Daily Balance methods.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.