

# 5 Terms to Know When Using a Credit Card

## Where to Start

Understanding key credit terms can help individuals make informed decisions that align with their financial goals. When used thoughtfully, credit cards can be a valuable and effective tool for managing personal finances.

Many of the most important and common credit card fees, interest charges, and rewards structures are explained through terms that can be easily overlooked or misunderstood.

Knowing the following key terms can help cardholders to avoid unnecessary costs, make informed decisions, and use their credit to their advantage.

## The 5 Terms

### Credit Term #1: Credit Utilization

A credit score is calculated using several factors, with credit utilization accounting for approximately 30% of the total score. Credit utilization is calculated by dividing the amount of revolving credit currently in use by the total credit available.

For example, a credit card with a \$10,000 limit and a \$1,000 balance has a credit utilization rate of 10% for that individual card. However, credit-scoring models evaluate total credit usage across all accounts, not just one card. If your combined credit limit is \$50,000 and you are using \$25,000 across all accounts, your overall credit utilization rate is 50%. Financial experts generally recommend keeping credit utilization at or below 30% to support a healthier credit profile.

### Credit Term #2: Minimum Payment

Credit card usage operates on a cycle driven by time and billing statements. At the end of each billing period, financial institutions create a statement summarizing all account activity, including purchases, credits, fees, and interest accrued since the previous cycle. This statement, either



delivered electronically or by mail, outlines both the total balance and minimum payment due.

Some cardholders may focus primarily on the minimum payment required, however, making only the minimum payment does not eliminate the debt. The terms “paying the minimum” and “paying in full” represent two very different approaches to credit card management and can have significantly different impacts on cash flow and long-term costs.

For example, if a statement shows a balance of \$1,000 with a minimum payment of \$40, paying only \$40 satisfies the account’s monthly requirement. The remaining \$960 carries over into the next billing cycle, continues to accrue interest, and remains outstanding until paid.

Depending on payment behavior, it may take months or even years to pay off the remaining balance, along with the associated interest charges. In comparison, paying the full statement balance of \$1,000 by the due date typically avoids interest altogether. In this scenario, the cardholder only pays for what was spent, provided the payment is posted on time.

### Credit Term #3: Balance Transfer

The average American household receives hundreds of marketing mail pieces each year, many of which include offers for credit cards and related financial products. Credit card issuers often use prescreening or prequalification methods, based on information from credit reports, to identify potential customers. In particular, balance transfer promotions can be appealing, but they do require a careful review.

A balance transfer involves moving existing credit card debt to a new card. The new card often offers a lower interest rate or a promotional introductory rate, such as 0% interest for a limited period. This can provide an opportunity to temporarily reduce interest costs and pay down debt more efficiently.

### Credit Term #4: Late Fees

Payment due dates are a critical part of credit card management. They can be found clearly listed on each monthly statement. Credit card issuers allow account holders to set up payment reminders through email, text, or push notifications. Whether making the minimum payment, paying the full statement, or an amount in between, payment must be credited to the account by the monthly due date.

Missing a due date may result in a late fee. This fee is added on top of the existing account balance. Beyond avoiding unnecessary fees, making payments on time sends an important signal to creditors about an individual's ability to manage debt. Payment history is a key factor in credit scoring, and while on-time payments can positively affect your credit score, late payments can have a negative impact.

### Credit Term #5: Cosigners and Authorized Users

Opening or using a credit card does not have to be a solo financial decision. Increasingly, parents are adding children or teenagers as authorized users on existing accounts to help introduce responsible credit use and potentially build credit history.

Authorized users typically receive their own card and are permitted to make purchases on the account. While account activity may appear on an authorized user's credit report, they are not legally responsible for repayment of the balance.

Cosigners, on the other hand, play a critical role for individuals seeking to qualify for credit or access to higher limits.

A cosigner applies jointly with the primary cardholder and shares full legal responsibility for the account. The cosigner's income and credit profile are used to help qualify for the card, and they are obligated to make payments if the primary cardholder is unable to do so.

## Frequently Asked Questions

### How do balance transfers work?

A balance transfer moves existing credit card debt to a new card, often with a temporary low or 0% introductory interest rate. If the balance is not paid off before the promotional period ends, regular interest rates resume.

### Do late fees affect credit?

Late fees increase the amount owed and may indicate payment challenges to creditors. Because payment history is a major component of credit scoring, repeated late payments can negatively impact credit reports.

### Can adding an authorized user help build credit?

In some cases, yes. If the credit card issuer reports authorized user activity to credit bureaus, and the account is managed responsibly, it may help establish or strengthen the authorized user's credit history.

### Does APCI Federal Credit Union's Mastercard Plus credit card have fees?

Our **Mastercard** does not have an annual fee, a balance transfer fee, a cash advance fee or a late payment fee. There is a small fee related to foreign transactions.