

Consumer Corner

Interesting Facts About Credit Interest

(NAPSA)—Comparison shopping when it comes to selecting a credit card can save a consumer money and help to protect a credit rating down the road. While some consumers are willing to pay for the convenience a card offers, many are not aware they can save money in the long run by comparing interest rates.

Here are a few key terms to consider and compare when shopping for a card. The annual percentage rate or APR is the interest rate the consumer pays on an annual basis on balances carried from one billing cycle to the next.

Be aware that some credit cards charge different interest rates for purchases and cash advances.

If a credit card offers a variable rate, the interest rate is calculated according to a formula that usually involves what is called an index rate.

The index rate can be taken from the prime rate, Treasury bill rates, the fed fund rate or the Federal Reserve discount rate. If the index rate used to calculate the interest rate on a credit card changes, the rate on the card will change too.

Some cards offer a tiered interest rate. This means that different rates apply to different levels of the outstanding balance. For example, a card may charge 16 percent on balances of \$1 to \$500

	20%	14%
Current Balance:	\$2,000	\$2,000
Fixed Monthly Payment: (principal and interest)	\$40.00	\$40.00
Total Number of Monthly Payments until Payoff	109	76
Time Until Payoff	9 years, 1 month	6 years, 4 months
Total Amount Paid	\$4,335.96	\$3,019.08
Total Interest Paid	\$2,335.96	\$1,019.08

The difference in interest rates shows the real cost of a purchase over time.

and 17 percent on balances over \$500.

When shopping for the right card consumers should consider their shopping and spending habits. For instance, if you don't always pay your monthly bill in full, you should probably consider a card that carries a lower APR.

But if you do pay off your bill in full each month, your best choice may be a card with no annual fee.

For more information, visit www.federalreserve.gov/pubs/shop or call 202-452-3244 or write to Federal Reserve Board, Publications, MS-127, Washington, DC 20551.