



CardRatings.com Answers the Burning Question: “How Do Credit Cards Work, Anyway?”

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Everyone essentially knows what a credit card is, but CR experts explain how it functions, why it functions, and how it can work in favor of the consumer

Foster City, CA – April 14, 2021 – Whether filling up the tank, shopping online or upgrading an appliance for the home, credit cards offer convenience and potential money-saving maneuvers to consumers. While most understand the nuts and bolts of a credit card, [CardRatings.com](#) introduces a new guide to expand on a host of other facets, including how credit cards differ from debit cards and how to navigate the multitude of options for the cardholder.

Find the new resource here: [How Do Credit Cards Work?](#)

Since it's virtually impossible to get by in today's world on cash and checks alone, the advantages of credit cards have understandably increased. Here are the important advantages:

- **Builds credit:** Responsible credit card usage goes a long way toward building a credit history that helps secure approvals and favorable rates for things such as car loans or home mortgages.
- **May reap rewards:** Card perks and benefits can include anything from cash back to airline miles to retail discounts.
- **Protects purchases:** Many credit cards compensate the cardholder if something purchased with the credit card gets lost, stolen or damaged within a set timeframe post-purchase.
- **It's more secure:** When cash is stolen, or lost, it's as gone as a balloon to the wind. If a credit card is stolen, federal law protects the cardholder from being on the hook. Protections for debit cards, on the other hand, are much less favorable for the cardholder.
- **Convenience when traveling:** These days, credit cards are accepted around the world, and many don't even charge foreign transaction fees.
- **Emergency calls:** Credit cards can provide a cushion for emergency purchases, such as a medical bill or car repair.

The new resource compares the mechanics and pros and cons between credit/charge cards, debit cards and prepaid debit cards and different types of rewards cards (such as [cash back credit cards](#) and travel rewards cards).

"Credit cards offer a lot of financial flexibility and protections, as well as potentially money-saving benefits," says Brooklyn Lowery, CardRatings' editorial director and credit card expert, "but those benefits only save money for those who also understand how credit card interest works."

How *does* credit card interest work? There are three factors to grasp:

- **Fixed vs. variable rate:** A fixed APR credit card is rare but has a rate of interest that doesn't change, while variable rate cards automatically adjust the APR to a set amount, such as to the prime rate.
- **How interest is calculated:** The interest is generally calculated by dividing the APR by 365 or 360 to get a "daily periodic rate." That rate is then applied to the balance at the end of each day or multiplied by the number of days in the billing cycle. Sorry. We never said there would be no math.
- **Yes, rates make a marked difference.** [Rate calculators](#) can show just how much a high APR can cost.

"Take, for instance, a \$4,000 balance on a credit card with an APR of 19%," adds Lowery. "Making a monthly payment of \$222 would take the consumer 22 months to pay off the balance, spending roughly \$900 on interest alone. Truly maximizing the benefits of a credit card means paying it off in full every month. Otherwise, the interest charges could more than offset any rewards or perks the card offers."

Lowery is available for comment and can expand on the nuances of credit cards and how they can work to the consumer's advantage.

About CardRatings

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CardRatings innovated online credit card ratings and has been offering independent ratings and reviews of credit card offers since 1998. The website collects and maintains data on more than 700 credit card offers and carefully compiles objective lists of the top credit cards by card type, making it easy for consumers to find the right card to fit their needs. Sign up for the bimonthly newsletter [here](#).

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