

# Credit Cards

The use of credit cards has become a widespread and accepted part of modern life. From modest beginnings in the early 1900s, credit card usage has grown to the point where 67.5% of American families have at least one general-purpose credit card, with a median credit balance outstanding of \$1,900.<sup>1</sup>

## Reasons to Use a Credit Card

There are many reasons individual consumers use a credit card.

- **Safety:** The use of credit cards allows a consumer to purchase goods and services without the need to carry large amounts of cash.
- **Opportunity:** A credit card allows a consumer to deal with short-term situations, such as Christmas or emergency auto repairs, when paying cash might not be possible.
- **Facilitate transactions:** Credit cards allow for payment of goods and services purchased via telephone or the Internet. Some transactions, such as renting a car, purchasing airline tickets or guaranteeing payment for late arrival at a hotel, would be impossible without the use of a credit card.
- **Leverage:** Paying with a credit card can provide a consumer with additional leverage, in case of disputes with merchants over defective or poor quality merchandise.
- **Identity:** In certain types of transactions, such as cashing a check, credit cards have become a means of personal identification.

## Types of Credit Cards

Not all credit cards are alike. They will vary widely in terms of issuer, scope of use and contract terms.

- **Bankcards:** Are issued not only by banks, but also by other financial institutions such as savings and loans or credit unions. These general-purpose credit cards can usually be used to purchase a wide range of goods and services. Credit is usually provided on a revolving basis, under which a borrower is granted a specific amount of credit. Typically, minimum monthly payments are required and any unpaid balance is subject to an interest charge. As borrowed amounts are repaid, the amount of available credit increases, up to the credit limit.
- **Charge cards:** Also known as travel and entertainment cards. Unlike bankcards, charge cards typically must be paid in full each month. Balances not paid are subject to heavy penalty fees. Like bankcards, charge cards are usually accepted widely.

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<sup>1</sup> Taken from U. S. Statistical Abstract, 2002. See Report No. 1166 - Usage of General-purpose Credit Cards by Families: 1989 to 1998. Data is from 1998.