

**Kingdom of Bahrain**  
Bahrain Monetary Agency  
Economic Research Directorate



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**Credit Cards**

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## Contents

Credit Cards	1
What are the Uses of a Credit Card?	2
What are the Other Benefits of a Credit Card?	2
Costs of Having a Credit Card	3
Credit Card Information to Watch for	4
The Best Method to Select a Credit Card	5
Effective Credit Card Use	6
Glossary	8

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## CREDIT CARDS

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A credit card is a payment card that involves a line of credit that is issued to the cardholder. A cardholder is provided with the ability to pay a merchant (goods and services providers) if cash is unavailable. The amount of the purchase becomes the cardholder's debt to the credit card issuer.

A credit card allows a person to buy goods and services on credit, even though they might not have the money to pay for it right away. The debt a cardholder is allowed to run up is subject to a set credit limit agreed to between the cardholder and the card issuer. The card issuer generally determines the credit limit and looks at salary and previous credit rating to decide on how much credit to give.

Credit card users are billed on a monthly basis and are expected to pay at least the minimum payment. Any unpaid balances will be subject to interest charges. It is important to understand that users will have to pay off all outstanding balances and any interest accrued. Purchases with credit cards are just like purchases with cash, except that with credit cards payment can be delayed for a short time.

A recent development has been the launch of Islamic cards, which provide many of the same services as conventional credit cards but which are compatible with the precepts of the Shari'ah law. Such cards operate on principles distinct from conventional credit cards and are, therefore, not specifically dealt with in this booklet. Readers interested in learning more about this new product are encouraged to seek further details from a local Islamic bank.



## WHAT ARE THE USES OF A CREDIT CARD?

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A credit card transaction can be processed by merchants in all outlets that support the card type. Card networks (Visa, MasterCard, AMEX etc.) are accepted worldwide and allow a cardholder to purchase goods directly; card issuers will charge the cardholders' account for the amount spent and any finance charges, when applicable.

Credit cards can be used online (on the Internet), to withdraw cash from a bank or ATM and can also be used overseas. Having a credit card can be a very practical solution instead of carrying large amounts of cash when travelling. If using the card overseas, foreign exchange charges and transaction charges may also be charged.

Credit cards are a useful way to make purchases and are also a good starting point to develop a credit history – which can be beneficial for future borrowing.

## WHAT ARE THE OTHER BENEFITS OF A CREDIT CARD?

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It is much safer to use a credit card than to carry large amounts of cash. If cash is lost, it usually cannot be recovered.

If a credit card is lost, the credit card company can cancel it. Cardholders will need to notify their credit card company immediately as some cards will continue to charge for purchases until they receive notification that the card is lost or stolen. It is advisable to take precautions, such as having the card insured against theft and fraudulent use. If your card is lost or stolen, notify your card issuer as quickly as possible. Some cards come with additional services such as medical



cover for international holidays, purchase protection and a variety of promotional offers. Make sure to read the fine print and any supplemental material provided by the card issuer to understand all the benefits of a package and what terms accompany their use.

Credit cards are convenient; they can be used to make hotel, car and other reservations, and can be accepted over the phone and online over the Internet. Credit cards can be used for emergency payments should sufficient cash not be immediately available.

### **COSTS OF HAVING A CREDIT CARD:**

All credit cards charge interest on any unpaid balance each month. If you carry forward an unpaid balance from the previous month and continue using (charging) your credit card, you will pay interest on all the new purchases made as well as the balance you carried over from the previous month. If you do not pay down your credit card balances on a regular basis, your debt to the credit card company will rise quickly and managing your debt might become difficult.

The interest charges on credit cards are usually much higher than on normal bank loans. As a result, credit cards are not a good way of financing purchases over a long period of time. If you let your unpaid credit card balance increase, you run the risk of paying almost all of your monthly minimum payment as interest charges.

Credit cards with no grace period start charging interest as soon as a purchase is made. Making large purchases and paying off small amounts of the outstanding balance will make purchases more expensive.



Unnecessary costs, such as late payment fees, over the limit fees and penalty rates can greatly increase your outstanding balance.

Misusing a credit card (for example, running up a high credit card debt and then being unable to pay it off) can ruin your credit record and make it difficult to finance other purchases, or get a loan.

### CREDIT CARD INFORMATION TO WATCH FOR:

When considering credit cards, key credit card terms to look at are the annual percentage rate (APR), annual fee, grace period, and late payment charges. These and other terms and definitions are defined in the glossary.

Credit cards usually charge an annual fee similar to a membership fee, to entitle a consumer the use of the card. Some card issuers may not charge the annual fee. It is well worth shopping around for the best deal available.

Grace periods allow you time to pay your outstanding balance without additional charges, as long as you pay it in full before the end of the grace period. Grace periods do not apply if there is a balance brought forward from a previous month, or for cash advances.

Credit cards usually charge a fairly high interest rate. When billed, you will be charged interest on any unpaid balance. Some card issuers use different methods to compound their interest rates so customers are advised to inquire about calculation of the interest and how much it will cost them.



Different charges are usually applied in other circumstances. Cash advance fees are charged when withdrawing cash and over the limit fees are charged when cardholders exceed their credit limit. Inquire about these also.

Credit card issuers also have the right to apply late payment charges if the minimum payment is not made by the due date. You run the risk of incurring a penalty rate, which increases the interest charged.

### **THE BEST METHOD TO SELECT A CREDIT CARD:**

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A smart way to obtain a credit card is to comparison shop as it can save you money. Shop for a card with a low annual fee, and a long grace period that gives you enough time to pay your bills and suits your payment habits. Also consider your spending behaviour and find a plan that is suitable to your spending needs.

If necessary, phone card-issuing companies to verify information and inquire about any other credit card plans that may be available.

Also check the following information about the credit card plans available to you:

1. Where is the card accepted? Do many merchants, including the ones you usually shop with, accept it? Is it internationally accepted?
2. What is the interest rate charged on the card? How is it calculated?



3. What are the other fees and how are they charged?
4. How much is the annual fee?
5. How long is the grace period?
6. Is the card insured? If so, what does the insurance cover and how much does it cost?
7. What are the arrangements made by the card issuer in case the card is stolen or lost? What is the cardholders' (your) responsibility to report the loss and what is your maximum liability?
8. Are there any benefits? (Frequent flyer miles, free car rental insurance, for example)

Compare card offers on interest rates and read the fine print carefully before deciding on a credit card.

### EFFECTIVE CREDIT CARD USE:

- After receiving the card, sign immediately, memorise the PIN and destroy any documentation that can lead to fraudulent use.
- Enter your PIN carefully at an ATM and avoid leaving a receipt behind. Shred all evidence from card statements and receipts.
- Make sure the magnetic strip on the back of the card does not come into contact with other magnets as the information could be lost and a new card has to be issued.





- Make sure your credit card bill is fully paid on time every month. If that is not possible, make at least the minimum payment to avoid having a bad credit rating and late payment fees.
- Preferably use the card in emergency cases when cash is not easily accessible. Consumers can easily accumulate a large amount of debt if they use credit frequently. Do not let your debt accumulate without the ability to repay it.
- Always bear in mind the need to protect the security of your credit card. Do not quote your credit card number to an unrecognised or doubtful merchant for product payments. You must be convinced that the merchant you are purchasing from is reliable and has a long history with dealing with credit card transactions. Also quoting your card number over a cordless or mobile phone should be avoided; hackers can have the ability to tap into radio frequencies and listen to conversations.
- Credit cards can be very useful financial tools and can make your life easier. However, they can easily lead a person heavily into debt and the interest rates they impose are very high. Used carefully and with self-discipline, they are an option to be considered. If you have difficulty meeting your monthly expenses already, a credit card is not for you.



## GLOSSARY

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**Annual Fee:** A yearly fee charged by some credit card issuers to cardholders who agree to use the card in accordance with the card's rules. The card issuer must notify the cardholders if the card carries an annual fee.

**Annual Percentage Rate (APR):** The cost of the borrowed credit, expressed as a yearly interest rate.

**Cash Advance:** A credit card holder can obtain cash “on the spot” by using the card at the ATM of a bank. The outstanding balance is increased and a fee is usually charged for cash advances. The interest rate on cash advances is also higher than on card purchases. There usually isn't a grace period for cash.

**Credit Card:** A payment card that involves a line of credit that is issued to the cardholder. Credit cards provide flexibility, allowing you to pay your whole bill at once or over time in increments. If you do not choose to pay your balance in full each month, you will be required to make at least the minimum payment and to pay charges (interest) on the remaining balance.

**Credit Card Holder (Cardholder):** Individuals that use the credit provided by the credit card issuers.

**Credit Card Issuer (Card Issuer):** Institutions that provide credit through credit cards for consumers. Issuers are usually banks.



**Credit Card Network:** Institutions that link the credit card issuers to the merchants. Usually, credit card issuers belong to one of the major credit card networks (e.g. Visa, MasterCard).

**Grace Period:** A time period where a cardholder is not charged interest for purchases made. For example, if the billing date on the credit card bill is January 1, one may have until January 25 to pay the balance in full. If paid in full, there will be no interest charged. If payment arrives after January 25, or the entire balance isn't paid, interest will be charged on the outstanding balance from the date of purchase. Some accounts have no grace period, which means interest is charged immediately on purchases from the date they are posted.

**Interest/Finance Charges:** Amounts paid by cardholder to card issuer for borrowed money. Interest is paid as a percentage of the outstanding balance and finance charges can be applied on the transaction of withdrawal. Interest rates and finance charges will vary from card to card.

**Late Payment Charges:** A charge imposed on late payments. If payment arrives after the grace period, both a finance charge (the interest on the outstanding balance) and a late-payment charge will be due. Some card issuers may also impose a penalty rate if you have more than one late payment within several months.



**Minimum Payment:** The minimum amount of outstanding credit to be paid off. Card issuers charge this rate so that they receive a regular payment monthly.

**Outstanding Balance:** Amount due after payments. If bills are paid fully, outstanding balance is zero.

**Over the Limit Fee:** An Over the Limit Fee is charged when one exceeds the credit limit on the card.

**Penalty Rates:** A rate specified by the card issuer depending on specific credit card usage circumstances. The credit card issuer can change the APR to a higher penalty rate should a consumer fail to use the card under the terms and conditions stipulated as part of their package. For example, if a cardholder makes several late payments in a year, a penalty rate may be applied.