

WHAT IS A GOOD CREDIT CARD APR?

The APR is one of the most important things to know about your credit card.



By: **Coryanne Hicks** - April 27, 2023

The annual percentage rate, or APR, on a credit card determines how much it costs you to carry a balance on that card.

The APR represents the cost of borrowing over the course of a year. It is also used to calculate the interest you owe each billing cycle on any unpaid balances. You can calculate your own credit card interest to understand how much you would pay for carrying a balance.

But what is a good credit card APR? To answer that question, you need to first understand how APRs are determined.

How Does the Prime Rate Affect Credit Cards?

The prime rate is a fluctuating interest rate individual banks use when determining the rate they charge on many products, including credit cards. You can view the prime rate posted by the majority of the largest 25 U.S. banks on the Federal Reserve's website.

"Credit card companies often base their APRs on the prime rate," says Jason Werner, an accredited investment fiduciary and founder of Werner Financial in Indianapolis. "Therefore, an increase in the prime rate will have a direct impact with an increase on your credit card's APR."

Credit cards typically have variable rates made up of a baseline APR plus the current prime rate. Your credit score will help card issuers set the baseline APR.

While the Fed does not set the prime rate, many banks base their prime rates on the Fed's target federal funds rate, at least in part.

What Is a Good APR for Your Credit Card?

When comparing credit cards, you want to ensure you're getting a competitive rate. But what exactly is a good APR on a credit card?

"Oftentimes, many credit cards start out with a low- or no-interest introductory offer," says Chuck Czajka, a registered financial consultant and founder of Macro

Money Concepts in Stuart, Florida. "However, this is typically just in the beginning."

One way to determine what constitutes a good APR for your credit card is by comparing averages across the industry. The average credit card interest rate across all accounts was 20.09% as of February 2023, according to the Fed.

It's important to note that the APR may vary based on the type of credit card you're looking at. For instance, rewards credit cards, which offer additional perks, may carry higher APRs. The current average minimum APR for rewards credit cards is 20.28%, and the average maximum APR is 27.81%, according to U.S. News data.

The APR may also vary from person to person. You'll generally want good to excellent credit to access the best credit card APRs.

To make matters even more confusing, credit cards can also have more than one APR. For instance, you might be charged one APR for purchases but another rate for cash advances. Or if you miss a payment, your purchase APR may switch to a higher penalty APR.

"It's very important to understand these different types of APRs so that you, as a card user, can truly understand and decide if the payment structure of each is a fit in your specific financial plan," Werner says.

What Kinds of Credit Cards Have Low APRs?

To qualify for a low credit card APR, you'll generally need at least a good credit score, which is a FICO score of 670 or higher. This is when lenders start to view you as a prime borrower. If you have a good credit score – indicating that you regularly pay your bills on time and have other positive credit habits – you'll be a more attractive client to credit card companies.

"Advantageous deals such as a 0% introductory APR credit cards for a specific amount of time or low-interest-rate credit cards are made available to customers who would be deemed a favorable client based on their credit history (and) score," Werner says.

Low-interest credit cards tend to have fewer perks than rewards credit cards. But what they lack in extras they can make up for in lower interest rate charges if you're the type of person who carries a balance from month to month. If you're a responsible user and pay your balance in full each month, then you may be better off

looking for a rewards credit card since you won't incur any interest from the APR anyway.

What Kinds of Credit Cards Have High APRs?

Just as consumers with strong credit scores and credit histories tend to have access to lower APRs, folks who have lower credit scores tend to have only options with higher APRs, Werner says. These could include secured credit cards and retail store credit cards.

At the same time, consumers with good enough credit to qualify for rewards credit cards could still see high APRs. If you carry a balance, the value of your rewards could quickly be erased by interest charges.

How Can You Qualify for a Good Credit Card APR?

Since the APR you're offered on a credit card is in part based on your creditworthiness, there are some strings you can pull to qualify for a good credit card APR.

"To put yourself in the position to have access to a favorable APR card, it is important to focus on building up a strong credit score that shows excellent credit health," Werner says.

Here are some steps that can help you qualify for a better credit card APR:

- Improve your credit score. You can boost your score by paying your bills on time, not opening too many credit cards at once to prevent multiple hard inquiries and using no more than 30% of your available credit.
- Avoid closing credit cards. In general, closing a credit card can damage your credit score. If you have an annual fee you don't want to pay anymore, you can try to downgrade to another card from the same issuer that does not charge a fee.
- Negotiate for a better rate. You can call your issuer and ask for a lower APR. This may not always work, but it can't hurt to ask. It may help if you have a strong payment history and your credit score has improved.
- Monitor your credit report. Keep your eye out for inaccuracies by routinely getting a free copy from each of the three major credit reporting agencies at AnnualCreditReport.com.

"Learning and understanding how to achieve and maintain strong credit history will provide an individual with more advantageous options when researching a loan or specific credit card opportunity," Werner says.

Jason is the founder of Werner Financial in Indianapolis, Indiana. He has over 10 years in the industry as a registered investment advisor and holds Series 6, 7, 62, 63, & 65 licenses. Werner Financial aims to be the advisor on your team that helps you achieve all the goals you have set for yourself, your business, and or your family.

To contact Jason, call 317-735-9202 or visit wernerfinancial.com.

