

Cram Session for Credit Cards

In the beginning

Credit cards developed over time from the original concept of store charge cards. Years ago, stores such as Sears and Macy's offered "in store" charge cards to their regular customers to encourage them to buy their products. The problem became having a wallet full of individual store cards which made it clumsy and hard to keep track of all the cards belonging to one person. To simplify this, companies like Visa and MasterCard came along and offered the consumer a credit card that could be used at many different stores and businesses. Banks, credit unions, and other similar financial type institutions offer these two most commonly used credit cards. You can also apply for an American Express or Discover card, but these kinds of "non-bank" cards are applied for and received directly from the company itself.

So how does it work?

You first have to apply to the card company. They check out your credit status, and items like whether you have a job or not, the financial record you have created over time in paying your bills, paying back loans and other similar transactions. If your record is clean, they'll start you off with a card balance that is probably on the low side, usually less than \$2,000, unless you make a good salary. Then it could be higher.

Remember, the goal of these companies is to lawfully issue as many cards as they can, hoping that you will not pay off your charges each month. That way they can charge you a monthly interest fee based on the amount outstanding (borrowed) multiplied by the applicable monthly interest rate. Credit cards are a form of revolving short term credit. The company will give you an established borrowing limit, called a **credit line**, and as you pay off the amounts you owe, it will replenish the line limit.

That's cool, but I'm still in school.

Can I really get a card?

In many cases, even if you don't have a full time job and/or a good credit rating, you can still get a credit card. The limit may be quite low but if you use the card properly and develop a good track record of charging and repaying, the issuing institution will probably increase your credit limit over time. You can also call them and ask them to increase your limit.

If you have real credit problems, there is the possible option of applying for a secured credit card. For example, you deposit \$500 with the company and you can get a \$500 line of credit from the issuing institution. The benefit of this arrangement is that you can start to develop a credit history with the institution. They can see evidence of your responsible usage and a track record of your on-time payments. *Good deal!*

Now, this is weird

Credit card issuers like to offer cards to college students that have no





job or credit history. Why? Because they know that you will probably get a good paying job when you graduate and they want you to start to depend on them for your credit needs well before you leave the college scene. The idea is to get you into the habit of using your card while you are young, and forming your financial habits . . . clever, huh? **Wow, should I get excited?**

If you get a letter from a credit card issuer that says you are "pre-approved," take that with a "large grain of salt." It usually means that they want your business, but you will have to apply and go through most, if not all, of the normal application process. It's a good sign to get that letter, but there's still some work to do to get the card. If it sounds too good to be true, it probably is!

Ok, so where can I get hurt?

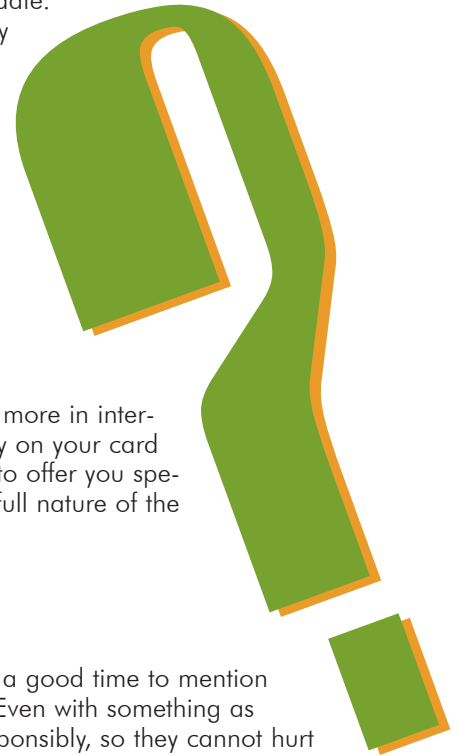
Watch out for annual fees. Many cards don't charge an annual fee, but it is common on some of the premium cards like American Express Gold, Platinum or Titanium cards. If you are being charged a fee, then you should also be getting other services from the company, such as roadside assistance or life insurance.

While we are on fees, you should be aware of the various kinds of charges the card companies like to use. There are late fees which are charged when you miss a payment due date. These fees vary and you might be able to get them waived if you call the company and talk to them. But if you are frequently late with your payments, they will usually charge you the maximum charges. Remember, they're out to make money on you!

Here's a good habit. Whenever you receive the credit card statement, stop what you are doing, write a check and put it in the mail. If you pay online, do it the same day you get the statement. If you set it aside to pay later, you may forget and miss the due date. *Ouch!*

What's up with the cash advance thing?

Cash advance fees can be quite expensive. Companies can charge at least 2-6% more in interest rate charges just for cash withdrawals taken out on your card. So try not to rely on your card for getting cash. Use that feature only in an emergency if possible. They also like to offer you special services and offers that carry special charges. Make sure you understand the full nature of the services and charges before you agree to them. *Think!*



Man, this is getting complicated

Yes, borrowing money always gets involved. This is a good time to mention that going into debt should never be taken lightly. Even with something as common as credit cards, you need to use them responsibly, so they cannot hurt you. Some people go too far, too fast with card purchases, and in the end they get caught paying large interest fees or worse. Don't let that happen to you.

Here's a good tip. Before you make a major purchase with a card, wait a few days, sleep on it, and then do what you think is right.

Giving yourself that extra time usually takes the "impulsive urge" element out of the decision. Besides, you may find that same item at a lower price somewhere else in the meantime, and in the end, you might save a bundle!



More important stuff

Make sure you understand the billing cycle method that the company

uses. The company will give you a grace period (the time from when you receive your credit card statement up to the payment due date). That grace period will vary from company to company and is not always a full month. Missing just one payment date can lower your credit score significantly. So this is important. Additionally, be very careful about zero interest or very low interest rate card offers. In many cases the terms of these offers can be very penalizing. If you miss a payment due date, the initial low rate offered can be withdrawn and a much higher rate substituted on card balances. *Ugh!*



Oh man, you've got to be kidding.

Most people hate to do this, but it is important to read the terms and conditions that apply to your card. This is especially true if you plan to keep a balance revolving on the card from month to month. There's an old saying that "the devil is always in the details" and this is particularly true when dealing with credit card companies. Like insurance companies, they like to sometimes bury inconvenient details in the seldom read fine print. *Watch out!*

Ok, I'm ready to hear how they make money off of me

Every card company charges interest for the use of the card. If you pay off the balance owed each month, then you usually will not be charged anything for the use of the card. The credit card company makes the bulk of its money from charging interest and fees to the card holder. But it can only charge you if you keep a balance on the card from one month to the next. How they calculate that charge can be fairly complicated. In the terms and conditions section of your contract, there should be sample calculations that illustrate how the company charges. If you cannot find an example, then call the company before you sign up. If that information is not readily available, then you should look for another card company.

By law, the credit card company has to quote you an interest rate or what is known as the APR, or annual percentage rate. This is the annual interest charge on your card. However, there could be a different APR for cash advances (amounts you borrow on your card that are actual cash withdrawals) as compared to normal merchandise purchases. In addition, you need to be aware that your APR is compounding on a monthly basis rather than annually. So for example, if your APR is 18%, because of monthly compounding of interest, your real APR could be closer to 19.55%. In essence you are being charged interest on the interest because the credit card company calculates your charge monthly, not annually. \$\$\$!

What's the deal with minimum payments?

Minimum payments are the smallest amounts that the card company allows you to pay each month. In many cases it only covers the interest owed and maybe 2 or 4% of the principal balance. If you pay only the minimum each month, it'll be a long time before you make any real headway against the outstanding balances. In the meantime, you could be paying a relatively high price for whatever was purchased with the card because of all the interest charged over time. Here's another hot tip. You should not be fooling around with minimum payments anyhow. Remember, the idea is to only buy things with a credit card that you can afford to pay for when the next card statement comes in the mail or online.

Where can I go to check out some credit card deals?



You can check credit card rates and deals by going online to www.bankrate.com. Actually, there is a good deal of information on that website concerning all kinds of debt instruments. While we are talking about going online, many web browsers have a financial section that lists articles and current developments in the credit card industry. It doesn't take very long to get a good idea of what's happening in the industry if you take the time to read some of the articles. This can be valuable information to know before you apply for a card and even after you have one.

Man, I don't know; this all sounds like a scam

Credit cards are a good deal for the consumer if they get paid off each month. In that way there are usually no fees or interest charges. The card can be a convenient way to make purchases. Plus it helps you create a good track record for developing a strong credit history and a good credit score. That will help you when you go to apply for a mortgage and/or a business loan in the future. But be aware that the credit card company only makes money when you carry a balance from month to month. So they will encourage you to do that in very subtle ways. One of the more common ways is to notify you that your credit limit has been increased, even though you may not have asked for a line increase. This could have the effect of making you feel wealthier and it may encourage you to use the line, even though you had no plans to do so before the line increase. *Hmmmm!*

Ok, ok; so, what's this debit card thing?

There is also something called a debit card which is quite different than a credit card. With a credit card, some institution is extending you credit and in essence, is lending you money under a given set of terms. A debit card is simply a card that allows you to withdraw funds from your checking or savings account at your bank. Think of it as a plastic check. Every time you use it, you are drawing down on funds you have in your bank accounts. There can be fees attached to this account depending on the bank or institution that holds your account. So check out the details before you use it.

Is it ok to call the credit card company if I have questions?

Remember, you can always call your credit card customer service department and talk to them about any charges, fees or questions. They are usually quite anxious to help you especially if you have been a quality long time customer. If for example, you are having difficulty with a purchase you recently made with your card, they may be able to intervene and help settle any disagreement you have with the vendor or store where you bought the merchandise. This is one of those cool benefits with having a card. Sometimes you can only get so far with a store on a disputed item. The card company usually has some serious muscle and pull with the vendor. So they can help you. . . way cool!



Another really important idea

Take all of your credit cards, licenses, and ID out of your purse or wallet and photocopy each side of the cards. Then put a copy of that record in a safe place. In case your wallet or purse gets stolen or lost, you can easily call the companies and notify them quickly. Having a record of all the cards gives you the necessary phone numbers. Once your cards are gone, you need to move very quickly to notify the companies of the loss. **Wow, good idea!**

Other important stuff to remember

- Always pay the credit card balance off each month. If you can't pay it all, then make sure you at least pay two times the minimum amount required.
- Don't be afraid to negotiate with the bank or card issuer for a lower rate or fee charge.
- Always look at the credit card like you would a debit card. Don't charge anything unless you can pay for it in full when the statement comes. If it is a planned purchase that will require several months to pay, try to charge it on the card with the lowest APR.
- The maximum number of cards you need to have is about four. Some people may need more if they do business overseas or have other special needs.
- Keep your debt ratio low. In other words, keep your credit purchases under 25% of your credit limits. For example, if your credit limit is \$10,000 on a card, try to keep the outstanding balance under \$2,500. And that goes for all your cards in total. Credit card companies do not like to see cards "maxed out." That could hurt your overall credit score.
- Closing or canceling a card is usually not a good idea because when you do, you may be cutting down on the total available credit limit that you have with all your cards, in relation to the amounts outstanding. That could drive the debt ratio up. This is especially true of cards that you have had for a long period of time. Credit card companies like to see stable long term relationships between card holders and issuing institutions.
- Always pay your bills on time. This may sound like something your parents would say to you but it is good, solid, straight advice. Fewer and fewer people are following that advice these days, and it will hurt their credit score in the long run.
- And finally: Don't be afraid to use credit cards. In a way, they are like having a car. They are very useful and can help you get to where we want to be in life, from a financial perspective as well as in general. But again, like with a car, if you're not careful and responsible with them, you can get hurt.

