



FINANCE

Credit Cards

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Quick Facts...

If you travel, a bank or travel and entertainment card will eliminate the need for carrying large sums of cash.

Buy items on sale using your credit card only if you actually need and will use them.

Pay each month's bill in full and avoid interest charges.

Know how much you have charged on your card(s).

Compare fees, terms, and interest rates of at least three lenders when selecting a credit card.

Know the phone number to call if your cards are lost or stolen.

Credit cards are a widely used source of convenient credit for restaurants, hotels, mail order, on-line shopping, gasoline stations, grocery stores, dental and medical care, church bazaars, as well as telephone and television advertised products. There are many advantages of using credit cards, but the consequences of misuse can be drastic and painful.

Advantages

- If you are away from home without cash, you often can receive a cash advance or have the option of buying traveler's checks with a credit card.
- Places that are suspicious of personal checks often take credit cards.
- Credit cards act as a short-term loan if you find something that is a bargain and haven't the cash or balance in your checking account to pay for it.
- Credit cards eliminate the need to carry large sums of cash.
- If you move to a new place, credit cards give you purchasing power until you establish yourself as a good risk in a new community.
- If you charge an item or service that costs \$50 or more in Colorado (or within 100 miles of your home) and later discover it doesn't work or has other problems, you can withhold payment from the credit card company if you have attempted to resolve the problem with the merchant.
- You often get the best rates of exchange when traveling in foreign countries if you use your credit card for purchases and your ATM card to get cash. Check with your card issuers about surcharges before you leave on your trip. A two to three percent surcharge may eliminate this advantage.
- Credit cards can help coordinate receipts for tax purposes.
- Bookkeeping is reduced to one monthly bill as opposed to checks.

Disadvantages

- Adding monthly interest charges means you pay more for the goods and services.
- Consumers often have more than one credit card and each one has a credit limit. When the credit limits for all cards are added up, the total can be in the thousands of dollars. Consumers can fall into the habit of using credit cards to extend their income.
- Credit cards are easier to use than applying for loans even when a loan from a credit union, bank or other financial institution may provide the funds at a lower interest rate.
- Some people have been swindled by giving their credit card numbers to dishonest salespeople over the phone.

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Debit and ATM Cards

- *Don't confuse debit cards with credit cards. Debit cards may look like credit cards, but they act like checks. Once the debit card is used, the amount is immediately deducted from your checking or savings account. The debit card eliminates the need for carrying cash, but it does not extend credit. Debit cards may be used as guaranteed check cashing cards. In contrast, credit cards defer your payment until you are billed.*
- *Some cards can be used to withdraw money from automatic teller machines (ATM). Beware of fees eating up your money if you use your ATM card frequently for small withdrawals. Some financial institutions charge their customers a set fee for a certain number of transactions. Other institutions charge for each ATM use. If you get cash at an ATM machine that is not part of your financial institution's network, the fees could be as much as \$8 per transaction.*
- *Parents might want to introduce their children (ages 13 to 17) to prepaid debit cards such as Pocket Card, American Express Cobaltcard, and Visa Buxx, by funding a card that has a spending limit established by parents. Parents supply the funds and can use the cards to teach their children how to track how the money is spent. This parent-controlled card is designed to help parents teach their teens about using credit in a controlled environment. One example of a prepaid credit card can be found at VisaBuxx.com.*

Types of Credit Cards

There are four major types of credit cards: bank cards, travel and entertainment cards (T & E cards), retail store cards, and oil company cards. Applications and interest rates for each type of card may be different. When using a credit card, the consumer agrees to the terms of the credit card company. Read these terms carefully and understand them before using the card.

Bank cards. The two major bank cards are MasterCard and VISA. You may use bank cards to charge motel and restaurant bills, merchandise, airline tickets, services, and some cards allow cash advances. Interest on a cash advance starts the day you get the money and continues until you pay back this loan.

Some cards are offered without fees, some are included in a total banking package, and others charge a yearly membership fee. You are granted a bank card based on your credit record. Your credit record also determines the maximum amount you can charge. You may request to have this limit raised if you establish a good credit history while using the bank card.

The interest charges for bank cards range widely, so it's worth shopping for a low interest rate if you don't pay your bill in full each month. If you fail to make the monthly required minimum payment, this is reported and shows up on your credit report. You can have your account cancelled.

Some companies use banks to sponsor their own MasterCard and VISA cards for their customers. For example, the American Automobile Association offers a AAA/VISA card that can be used to charge no-fee travelers checks, and obtain a 30-day, interest-free \$300 emergency cash loan and emergency airline tickets if needed while traveling. More and more universities, organizations, travel clubs, and even political parties are sponsoring credit cards. If you support their goals, you can make a contribution to them when you make a purchase by using an affiliated (affinity) credit card.

Travel and entertainment cards (T & E). Consumers must apply for travel and entertainment cards such as American Express, Diners Club, and Carte Blanche and are charged an annual membership fee. Card holders are billed for purchases every 30 to 60 days. They are expected to pay each bill in full. Failure to pay promptly may result in a poor credit report, interest charges, and eventual cancellation of the account.

Some T & E cards offer card holders additional services such as group life and accident-and-health insurance, cash advances and gift catalogues. Free travel insurance is frequently provided when T & E cards are used and they may offer to stretch payments for large bills over a three- to six-month period.

Retail store cards. Retail credit cards are issued by department stores and other companies. If you have a retail store card, you may be notified of special sales before the general public. These cards offer revolving credit at a pre-established credit limit. Finance charges are added to your bill if you do not pay in full each month. Most retail stores also accept bank cards.

Oil company cards. Oil companies offer their own credit cards and most accept VISA and MasterCard.

College Students and Credit Cards

In addition to student loans, college students may have high credit card debt. Eager to woo college students, credit card companies market their cards on campus with incentives such as t-shirts and sunglasses. The result – students can get credit without understanding the responsibility of handling credit.

It is important for students to establish a credit history. At the same time, using credit without knowing how can turn into a crisis. Almost 65 percent of college students have at least one credit card; 15 percent have four or more. Twenty-five percent have at least \$10,000 in credit card debt.

Web sites to check for credit cards

Here are some Web sites to compare credit card fees and interest rate. (Remember that Web sites that end in .com are commercial sites and will usually have something to sell.)

- www.consumer-action.org
- www.icredit-search.com
- www.lendingtree.com
- www.cardweb.com

Lost or Stolen Credit and Debit Cards

Notify the credit card issuer immediately if your credit card is lost or stolen. You will be charged up to a maximum of \$50 of unauthorized purchases that occurs per card before the card company is notified of the loss. If you lose five credit cards, you may be responsible for up to five times \$50 or \$250. (Some homeowners insurance policies cover up to \$500 in charges on stolen credit cards.) As soon as the credit card issuer has been informed that a card has been lost or stolen, the credit card holder is no longer responsible for even \$50 of unauthorized purchases. You should be informed about your \$50 liability for unauthorized use of credit cards when you receive requested cards. Prepare for the possibility of lost cards by listing credit card account and phone numbers, and addresses for notification. Keep this information separate from your cards and leave it with a relative or friend.

Lost or stolen debit cards can cost more to their owners than lost or stolen credit cards. Debit card holders are liable for the first \$50 of charges even if the loss is reported before the card is used. If the loss is not reported, the debit card holder is liable for up to \$500 of unauthorized use.

You should also contact the Fraud Units for the credit reporting agencies if cards are lost or stolen.

Equifax	1-888-766-0008
Experian	1-888-397-3742
Trans Union	1-800-680-7289

Credit Card Billing Problems

Credit account users encounter two types of problems: 1) insufficient notice before a bill is due, and 2) errors on the bill.

Insufficient notice. If your account allows you to avoid a finance charge by paying your account in full by a certain date, the company must mail its statement at least 14 days before the due date. Check the postmark if you are receiving your statements shortly before payment is due and complain to the card issuer.

Your payments should be credited the day they are received. Delays may cost you money in finance charges. If you note a consistent and unreasonable time lag, check with the company to see whether the problem lies with the mail, the company posting procedure, or other reasons. You can also pay your credit card bill by debiting your checking account and sending funds electronically to your credit card company.

Errors. The Fair Credit Billing Act provides specific protection for consumers who have billing problems. It defines billing errors as:

1. Charges made by someone not authorized to use your credit card.
2. Purchases that you question.
3. An incorrect amount charged for a service or an item or a charge for something that you did not accept.
4. Failure to credit a payment to your account (or the correct amount).
5. Other mistakes made by the company's credit department.
6. Finance charges added to your bill for late payment when your bill was not sent to your current address (provided you notify the company of your change of address at least ten days prior to the end of the billing period).

Paying Only the Minimum Monthly Payment

Many cards require that you make only a minimum payment on your credit card balance each month. This puts profit into the card issuers coffers and commits you for a long time. For example, you charge \$50 worth of flowers on your card. When your bill comes, if you pay the minimum required (often about 2 percent, which would be a \$1 payment), it will take you 82 months to pay for those flowers.

What Should You Do if You Find an Error?

- Send a letter to the creditor within 60 days of finding the error. Give your name, account number, problem and the amount involved.
- Pay the part of the bill that is not disputed. You will not have to

Defective or Undelivered Goods

If you have charged merchandise or a service that turns out to be defective or of poor quality, you may withhold payment on your credit card bill. Try to resolve the problem with the merchant. If you are unsuccessful in your good faith attempts to solve the problem, notify the credit card company and do not pay that portion of your credit card bill. You must, however, pay in full any amount that is not in question. Enclose a letter explaining why you are withholding payment and what steps you have taken to try to resolve the problem.

In order to withhold a credit card payment, the purchase must meet the following requirements: the amount must be more than \$50, and the purchase must be made in Colorado or within 100 miles of your home. These limitations do not apply if the retail store and the creditor are the same, such as a department store. Nor do the limitations apply if the creditor mailed you an advertisement for the merchandise or services.

Because of the number of consumer complaints about shoddy auto repair, some consumers use their credit cards to charge repair work. If you find that repair work has not been done or has been done poorly or incorrectly, you can withhold payment. You must always try first to resolve the problem before withholding payment. Keep a record detailing who you talked to, when, what the problem was and what you asked to have done. Notify the credit card company of the dispute, or the company may notify the credit bureau that your account is delinquent. You also should check your file at the credit bureau. (See fact sheet 9.141, Credit Reports for more detail about credit bureaus.) Credit bureaus and phone numbers are Equifax: 1-800-685-1111, Experian: 1-888-397-3742, and/or TransUnion: 1-800-888-4213.

pay finance charges on the amount in dispute unless it is discovered that the bill was truly yours. If you are responsible for the amount, you must pay the finance charges that accumulated during the time the complaint was being resolved.

- A creditor must respond to your letter within 30 days or correct the bill. Your bill must be corrected within two billing periods or 90 days or you should receive a statement saying why the bill is correct.
- If the bill is still disputed after the negotiation period is over, the creditor may report your delinquency to the credit bureau. Check your credit file. You have the right to add your statement to your file, which will be included in response to all future inquiries.
- Most credit card companies have toll-free numbers, others accept collect calls. Always note the name of the person you talk to. Follow up your call with a letter to document your case to preserve your billing rights. You may wish to send a certified letter with a return receipt requested, which will show you have fulfilled your side of the credit agreement. Keep copies or records of all correspondence, documents and calls.
- If you have taken the above steps in the complaint process and the creditor does not follow the rules, you will not be required to pay the amount in question (up to \$50 and finance charges), even if the bill turns out to be correct. You also may sue for actual damages plus twice the amount of finance charges, not less than \$100 or more than \$1,000 and reasonable attorney fees.

Strategies for Using Plastic Credit

If you consider the use of a credit card a very short commitment that allows you to buy something you don't have money in savings to cover, you will be using credit in a way that will be a benefit to you. On the other hand, if you make purchases and then pay only the minimum payment, you will have locked yourself into debt for a long time.

Finding a card with a lower interest rate also affects the total you will pay for the items that you purchase. The impact of higher interest rates can be dramatic. If you finance an \$8,000 car and pay 12 percent interest rather than 19.8 percent, you could save the difference of \$30 each month. At 6 percent interest, you could have \$968 in your own savings account at the end of 2 1/2 years.

Table 1. Making minimum monthly payments.

Cost of Item	Interest Rate	Payoff Time	Total Cost
\$500 television	19.8%	2 ½ years	\$650
\$500 television	12%	2 ½ years	\$578

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