Credit

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Choosing a credit card: Read the fine print

By Brenda Procter, M.S., state specialist and instructor, MU Personal Financial Planning Extension

A credit card lets you buy things and pay for them over time. Using a credit card is like any borrowing — you have to pay the money back.

Credit card features vary from card to card and there are several types of cards to choose from. To get the best deal, compare fees, charges, interest rates and benefits. Some credit cards look like a great deal, but turn out to be a bad deal once you’ve read the terms and conditions of use.

Terms

Important terms of use must be disclosed in any credit card application or for cards that don’t require an application. Here are the most important terms to ask about when you consider credit offers.

Fees – Many credit cards charge membership or participation fees.

These fees can be called a variety of things, including annual, activation, acceptance, participation and monthly maintenance fees. Fees may appear monthly, periodically or as one-time charges. Identify all fees — they can range from $6 to $150 and may have an immediate effect on your available credit. For example, a card with a $250 credit limit and $150 in fees leaves you with $100 in available credit.

Transaction fees and other charges – Some cards have added high fees if you use them to get a cash advance or make a late payment, or if you go over your credit limit.

Annual percentage rate (APR) – The APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before your account can be activated and it must appear on your account statements.

The card issuer must also disclose the periodic rate. That’s the rate the issuer applies to your outstanding balance to determine the finance charge for each billing period. Some credit card plans let the issuer change the APR when interest rates or other economic indicators — called indexes — change. Because the rate change is linked to the index’s performance and varies, these plans are called variable rate programs. Rate changes can also raise or lower the finance charge on your account. If you’re considering a variable rate card, the issuer must tell you that the rate may change and how the rate is determined.

Before your account is activated, you must also be given information about any limits on how much and how often your rate may change.

Grace period – A grace period, also called a free period, lets you
avoid finance charges if you pay your balance in full before the due date. Knowing whether a card gives you a grace period is important if you plan to pay your account in full each month. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

Balance computation method for the finance charge – If you don’t have a grace period — or if you plan to pay for your purchases over time — it’s important to know how the issuer calculates your finance charge. Which balance computation method is used can make a big difference in how much of a finance charge you’ll pay — even if the APR and your buying patterns pretty much stay the same.

Balance transfer offers – Many credit card companies offer incentives for balance transfers — moving your debt from one credit card (card A) to another (card B). All offers are not the same and their terms can be complicated. For example, many credit card issuers offer transfers with low introductory rates. Some issuers also charge balance transfer fees. If card B charges 4 percent to transfer $5,000 from card A, your fee would be $200. In addition, if you pay late or fail to pay off your transferred balance before the introductory period ends, card B may raise the introductory rate and/or charge you interest retroactively. And if you use card B to make new purchases, any payments you make will go toward your balance with the lowest interest rate — and finance charges at the higher interest rate will be assessed on the portion of your balance that came from new purchases.

Balance computation methods

Average daily balance – This is the most common calculation method. It credits your account from the day the issuer receives your payment. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, cash advances are typically included. The resulting daily balances are added for the billing cycle. Then, the total is divided by the number of days in the billing period to get the average daily balance.

Adjusted balance – This usually is the most advantageous method for cardholders. The issuer determines your balance by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period aren’t included. This method gives you until the end of the billing period to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior unpaid finance charges from the previous balance.

Previous balance – This is the amount you owed at the end of the previous billing period. Payments, credits and purchases made during the current billing period are not included. Some creditors exclude unpaid finance charges.

Two-cycle or double-cycle balances – Issuers sometimes calculate your balance using your last two month’s account activity. This approach eliminates the interest-free period if you go from paying your balance in full each month to paying only a portion each month of what you owe. For example, if you have no previous balance, but you fail to pay the entire balance of new purchases by the payment due date, the issuer will compute the interest on the original balance that previously had been subject to an interest-free period. Read your agreement to find out if your issuer uses this approach and, if so, what specific two-cycle method is used.

How do these methods of calculating finance charges affect the cost of credit? Suppose your monthly interest rate is 1.5 percent, your APR is 18 percent, and your previous balance is $400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of $300. On the 18th day, you make a $50 purchase. Using the:

- Average daily balance method (including new purchases), your finance charge would be $4.05.
- Average daily balance method (excluding new purchases), your finance charge would be $3.75.
- Average daily balance double-cycle method (including new purchase and the previous month’s balance), your finance charge would be $6.53.
- Adjusted balance, your finance charge would be $1.50.
If you don’t understand how your balance is calculated, ask your card issuer. An explanation also must appear on your monthly billing statements.

Other costs and features

Credit terms vary among issuers. When considering a credit card, think about how you plan to use it:

• If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, or whether there is a grace period for purchases.

• If you use the cash advance feature, many cards do not permit a grace period for the amounts due — even if they have a grace period for purchases. That makes considering the APR and balance computation method a good idea.

• If you plan to pay for purchases over time, the APR and the balance computation method are definitely major considerations.

You’ll also want to consider if the credit limit is high enough, how widely the card is accepted, and the plan’s services and features. For example, you may be interested in affinity cards — all-purpose credit cards sponsored by professional organizations, alumni associations and some members of the travel industry. An affinity card issuer often donates a portion of the annual fees or charges to the sponsoring organization, or qualifies you for free travel or other bonuses.

Default and universal default –

Your credit card agreement explains what may happen if you default on your account. For example, if you are one day late with your payment, your issuer may be able to take certain actions, including raising the interest rate on your card. Some issuer agreements even state that if you are in default on any financial account — even one with another company — those issuers will consider you in default for them as well. This is known as universal default.

Special delinquency rates – Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. This can exceed 20 percent. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

For help and information

Questions about a particular issuer should be sent to the agency with jurisdiction.

Office of the Comptroller of the Currency: Regulates banks with “national” in the name or “N.A.” after the name:
Office of the Ombudsman Customer Assistance Group
1301 McKinney St., Suite 3450
Houston, TX 77010
800-613-6743 toll-free
occ.treas.gov

Board of Governors of the Federal Reserve System:
Regulates state-chartered banks that are members of the Federal Reserve System, bank holding companies and branches of foreign banks:
Federal Reserve Consumer Help
PO Box 1200
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Minneapolis, MN 55480
888-851-1920 (TTY: 877-766-8533)
toll-free
ConsumerHelp@FederalReserve.gov

Federal Deposit Insurance Corporation: Regulates state-chartered banks that are not members of the Federal Reserve System:
Division of Supervision and Consumer Protection
550 17th St., NW
Washington, DC 20429
877-ASK-FDIC (877-275-3342)
fdic.gov

National Credit Union Administration: Regulates federally chartered credit unions:
Office of Public and Congressional Affairs
1775 Duke St.
Alexandria, VA 22314-3428
703-518-6330
ncua.gov

Office of Thrift Supervision:
Regulates federal savings and loan associations and federal savings banks:
Consumer Programs
1700 G St., NW
Washington, DC 20552
800-842-6929 toll-free
ots.treas.gov

Federal Trade Commission:
Regulates non-bank lenders:
Consumer Response Center
600 Pennsylvania Ave., NW
Washington, DC 20580
877-FTC-HELP (877-382-4357)
ftc.gov

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace, and helps consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 877-FTC-HELP (877-382-4357); TTY: 866-653-4261. The FTC enters consumer complaints into a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S.
How to tell if you have a credit emergency

By Sandra McKinnon, M.S. and Cynthia E. Crawford, Ph.D., specialists, MU Family Financial Education Extension

You may be facing a credit emergency if you answer “yes” to any of the following questions. Have you:

• Argued with your significant other or spouse over bills?

• Been using so much of your income to pay off debts that you don’t have enough money to live between paychecks?

• Approached or reached your credit limits?

• Been paying only the minimum on charge accounts?

• Had trouble paying bills on time?

• Borrowed for items you used to pay cash for?

• Put off medical or dental visits because you can’t afford them?

• Reached a point where losing your job would push you into a financial crisis?

• Been threatened with repossession or other legal action of your car or credit cards?

• Become afraid to add up your total debt?

If you answered “yes” to one or more questions, contact a nonprofit credit counseling organization in your area. Be careful, dishonest credit counseling agencies can trick you. For more information and to find a legitimate credit counselor, go to the Web site for the National Foundation for Credit Counseling at nfcc.org.
Protecting yourself against identity theft

Identity theft isn’t a big problem — until it happens to you! Increased use of the Internet and the number of scams seeking personal information make protecting your identity more important than ever. The consequences of identity theft are serious. It can cause damage to your credit and reputation that could take years to erase.

What is identity theft?

Identity theft happens when someone uses a piece of your personal information, like your name, Social Security or credit card number to commit fraud against you.

How can I protect myself?

There are several things you can do to protect yourself against identity theft:

- Know the person you’re dealing with. Check with the Better Business Bureau or local consumer groups before buying something from someone you don’t know.
- Protect your privacy. Don’t give out personal information to just anyone. Don’t be afraid to question someone who is asking for personal information. Find out who they are and exactly why they need the information before giving it out. If you feel unsure, refuse.
- Don’t cave in to high pressure sales tactics. Take time to do research and check out a company before making any purchases.
- Get a complete description of what you are buying. Ask about shipping and handling fees and return policies.
- Pay with a credit card if you can. Most cards offer some protection for the items you buy with them.
- Don’t carry every piece of personal information you have. You usually don’t need to carry your Social Security card, extra credit cards, passport or birth certificate. Carry only what you need at any one time.
- Remove your name from mailing lists by calling 888-567-8688 for the national opt-out center for direct mailing and telemarketing. Register for the no-call list at the Missouri attorney general’s office at ago.state.mo.us or call the attorney general at 800-392-8222. You can contact companies directly and ask them to take you off their mailing lists.
- If buying online, check for a padlock in the lower corner of your screen or a URL that starts with “https” to be sure you are on a secure site.
- Be on the lookout for scams. If it sounds too good to be true, it probably is!
- Check your credit report at least once a year to be sure that all the information is correct. Investigate any suspicious activity immediately. Once you prove you are a victim of identity theft, credit reporting agencies have to stop reporting fraudulent account information. You can also report accounts that have been affected by fraud directly to creditors you owe.
Protecting yourself against identity theft

- Report lost or stolen checks right away.

- If you receive a suspicious phone call or e-mail asking for your bank account information, notify your bank and report it to the Missouri attorney general at 800-392-8222.

- Don’t share your PIN (personal identification number) for your ATM card with other people.

- Shred personal information, bank statements and financial offers before throwing them away.

- If you don’t receive bills you normally would get, contact the company to find out why.

- Investigate irregular or questionable items on any bill.

What to do if you’re an identity theft victim

If you have been the victim of identity fraud, do the following:

- Contact the three main credit reporting bureaus and ask that a fraud alert be placed on your account. This will stop a lender from issuing credit to anyone with your information until you give approval.

- Close accounts that you feel might be affected. Many companies have fraud representatives or managers you can speak to.

- Put passwords on your account. Choose a combination of numbers and letters that would be difficult to guess, not something like your mother’s maiden name.

- File a report with the local police department and keep a copy of the report for your records.

- File a complaint with the Federal Trade Commission at ftc.gov.

- Call the ID Theft Clearinghouse at 877-438-4338 or go online to consumer.gov/idtheft and ask about the ID Theft affidavit. Visit the Missouri attorney general’s office Web site or call the consumer protection hot line at 800-392-8222.

Sources:


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Adapted from “Protecting Yourself Against Identity Theft” by Suzanne McGarvey, M.S., extension associate, MU Personal Financial Planning