CONSOLIDATED
CREDIT COUNSELING SERVICES, INC.
A Nationally Recognized Non-Profit Organization

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CREDIT CARDS:

WHAT YOU NEED TO KNOW

A free publication provided by
Consolidated Counseling Services, Inc.
A nonprofit educational credit counseling
and debt management organization.

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Credit Cards: What You Need to Know

Studies have shown that people generally keep their first credit card for 15 years. That's why creditors target young people as potential customers; the relationship lasts so long because younger consumers frequently don't know how to find better deals.

Some people claim that credit card companies aggressively recruit students in an effort to get them "hooked" on credit by luring them with T-shirts and other freebies when they apply for cards. This booklet is designed to give you the facts you need to become a wise consumer—and the tools you need to use credit wisely.

Don't let yourself be lured by the offers. A credit card is not an invitation to spend money you don't have. Let's say you run up $500 on a credit card that charges 15% interest and requires a 2% minimum payment each month. Even if you never charge another item and pay the minimum on your account, it will take 6 1/2 years to repay your debt. When you have finally paid your debt, you will have paid nearly $300 in interest on your $500 purchase, making your final cost $800.

You'll pay even more if you make late payments or go over your credit limit. Always pay on time, even if you just pay the minimum due. Late fees have skyrocketed; it's not uncommon to find a $30 late charge applied to your account for a payment that's only one day late. Issuers can also increase your interest rate if you're late—without notifying you.

Today, your credit report affects more than your ability to get a loan; it can also affect your ability to get a job or get into college. Many employers and colleges review credit reports to judge an applicant's character. Late payments, over-the-limit charges, and heavy debt can affect you adversely. Hopefully, the tools you gain from this booklet will help you avoid future credit problems.

Pros & Cons of Using Credit

Advantages:

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

Disadvantages:

- Interest (higher cost of items)
- May pay additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur

How do lenders choose whom to give credit to? How do they decide what a person's credit limits should be?

They use the Three Cs

Character - will you repay the debt?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?

- From your credit history, does it look like you possess the honesty and reliability to pay credit debts?
- How long have you lived at your present address?

Capital - what if you don't repay the debt?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

Capacity - can you repay the debt?

- How long have you been at your present job?
- Do you have a steady job?
- What is your salary?
- How many other loan payments do you have?
- What are your current living expenses?
- What are your current debts?
- How many dependents do you have?

Your Credit Responsibilities

Borrow only what you can repay.

- Read and understand the credit contract.
- Pay debts promptly.
- Notify creditor if you cannot meet payments.
- Avoid buying on impulse.
- Report lost or stolen credit cards promptly.
- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.

Building Your Credit History

- Establish a steady work record.
- Pay all bills promptly.
- Open a checking account and don't bounce checks.
- Open a savings account and make regular deposits.
- Apply for a local store credit card and make regular monthly payments.
- Apply for a small loan using your savings account as collateral.
- Get a cosigner on a loan and pay back the loan as agreed.

Types & Sources of Credit

Single-payment credit

This is when items and services paid for in one payment, within a stated time period. Interest is usually not charged.

Examples:

- Utility companies
- Medical services
- Some retail businesses

Installment credit

This is when merchandise and services are paid for in two or more regularly scheduled payments of a set amount. The interest is included. Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments.

Examples:

- Some retail businesses, such as car and appliance dealers
- Commercial banks
- Consumer finance companies
- Savings and loans
- Credit unions

Revolving credit

Many goods and services can be bought using revolving credit as long as the total amount does not go over the consumer credit limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

Examples:

- Retail stores
- Gas stations
- Financial institutions that issue credit cards

How Much Credit Can You Afford

Never borrow more than 15% of your yearly net income.

Example:

If you earn $500 a month after taxes, then your net income year is:

12 x $500= $6,000

Calculate 15% of your annual net income to find your safe debt load. $6,000 x 15% = $900. So, you should never have more than $900 of debt outstanding.

Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 15%.

Monthly payments shouldn't exceed 10% of your monthly net income.

Example:

If your take home pay is $500 a month: $500 x 10% = $50.

Your total monthly debt payments shouldn't total more than $50 per month.

Comparing Credit Cards

Cost of Credit

- Know the penalties for missed payments.
- Annual Percentage Rate (APR), interest rates can vary greatly. One card issuer could offer you a 5.99% rate while another could offer you a 21% rate. The difference in what items will end up costing can be astounding.
- Annual fees, some cards have no annual fee while others can be up to $75.00.
- Transaction fees, if you do a balance transfer – what will it cost you?
- Grace period, how many days after the due date do you have to pay your debt before you are assessed a late fee? Most cards don't have grace periods any longer.

Credit Card Features:

- What's your credit limit?
- How widely the card is accepted? Think about the advantages of a major credit card verses a store credit card.
- What services are available?

Before You Sign Up for a Card

- Shop around for the best terms. Bankrate.com is a great resource for finding the best available deals.
- Read and understand the contract.
- Don't rush into signing anything.
- Once a contract is signed, get a copy of it.
- Know what the penalties are if you miss a payment.
- Figure out total price when paying with credit.
- Make the largest payments possible.

Your Credit Rights

Wade Jessup was being hounded by debt collectors about several past due debts. They called him so often at home and at work that he didn't want to answer his phone for fear a debt collector would be on the other end of the line. One debt collector had warned Wade that he could end up in jail if he did not pay what he owed. That comment really scared Wade because he did not have the money to pay the debt collectors and they just wouldn't take "no" for an answer. Wade did not want to ask his parents for help because he was embarrassed that he had gotten himself into so much financial trouble. His only option Wade thought was to pay off the debts using some of the cash advance checks two of his credit card companies sent him every month even though he knew that the last thing he needed was more debt. However, he just wanted to get the debt collectors off his back!

It's too bad that Wade did not know about a federal law called the Fair Debt Collection Practices Act. If he did, Wade would have known that the debt collector that threatened him with jail time was breaking the law and that he was entitled to tell all of the debt collectors to stop calling him. However, like most consumers, Wade was unaware of the laws that have been passed to protect consumers when they apply for and use credit, find problems in their credit records or fall behind on their bills. Yet, knowing about those laws and understanding how to use them is an important part of avoiding problems when you use credit, and maintaining a problem-free credit record.

Since 1968, credit protections have multiplied rapidly. The concepts of "fair" and "equal" credit have been written into laws that outlaw unfair discrimination in credit transactions; require that consumers be told the reason when credit is denied; let borrowers find out about their credit records; and set up a way to settle billing disputes.

Each law was meant to reduce the problems and confusion surrounding consumer credit, which, as it became more widely used in our economy, also grew more complex. Together, these laws set a standard for how individuals are to be treated in their financial dealings. Here is a summary of the laws:

Truth In Lending Act (1968)
Ensures consumers are fully informed about cost and conditions of borrowing. This landmark piece of legislation guarantees that creditors have to state the cost of borrowing in a common language so that you -- the customer -- could figure out exactly what the charges would be, compare costs, and shop around for the credit deal best for you.

Fair Credit Reporting Act (1970)
Protects the privacy and accuracy of information in a credit check. Under the federal Fair Credit Reporting Act, credit reporting agencies are not allowed to report any information that is too old, incomplete, or wrong. While positive or neutral information can be reported indefinitely, negative information can only be reported for the following length of time:

Bankruptcy Filings: Ten years from date filed, not discharged. The three major credit bureaus, and many smaller ones, have agreed voluntarily to remove Chapter 13 bankruptcies -- a bankruptcy where debts are paid back over several years -- seven years from the date of filing. If that doesn't happen automatically you'll have to ask.

Civil suits, civil judgments, records of arrest: No longer than seven years from the date of entry, or the current governing statute of limitations*, whichever is longer.

Paid tax liens: Seven years from the date satisfied (paid).

Unpaid tax liens: Indefinite until the lien is paid (see above).

Collection or charge-off accounts: Seven years unless a US Government insured or guaranteed student loan, or National Direct Student Loan (NDSL). If those types of student loans are in default and you bring them current for an entire year, your previous late payments will be deleted.

Any other adverse information (including late payments): Seven years. Adverse information is any data that may cause an unfavorable action result for the consumer, for example being turned down for credit, employment or insurance; or being charged a higher rate than applied for in the case of credit or insurance.

Warning: Beware of collection agencies that tell you they have ways of reporting the collection account "forever" to the credit bureaus if you don't pay. That's simply not true.

Equal Opportunity Act (1974)

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance. This law applies to any business that grants credit to consumers, including banks, finance companies, retail and department stores, credit card companies, and credit unions.

Fair Credit Billing Act (1974)

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts. When you purchase goods or services with a bankcard or a retail store charge card and you discover an error on your account billing statement, you have the right to have the problem resolved through the dispute resolution process established by the federal Fair Credit Billing Act (FCBA). The FCBA applies to such errors as:

- Your account is not properly credited for a payment you made or for a refund you are entitled to.
- Charges that you did not authorize appear on your statement. The law limits your responsibility for these charges to $50.
- You are charged the wrong amount for a purchase.
- There are mathematical errors on your account statement.
- You are billed for goods or services you did not accept or that were never delivered as agreed.
- Your account billing statement arrives late because it was sent to your former address even though you provided the creditor with written notice of your change of address at least 20 days before the end of the period you were billed for.
- Your account statement reflects charges for insurance or for another type of service or product sold by a credit card company but you did not authorize the charges.

Fair Debt Collection Practices Act (1977)

Prevents abuse by professional debt collectors, and applies to anyone employed to collect debts owed to others; does not apply to banks or other businesses collecting their own accounts.

Here is a summary of what debt collectors covered by the FDCPA cannot do when they are trying to collect from you:

- Call you at an inconvenient time or place such as before 8AM or after 9PM unless you give them permission to do so.
- Call you at work if they know that your employer does not want you to be called there. Also, they cannot contact your employer about your debt.
- Contact you by postcard or use an envelope that makes it clear that a debt collector sent it.
- Try to scare you into paying a debt by sending you a letter that appears to have come from a government agency or a court of law.
- Call you repeatedly within a short period of time—every hour during an afternoon, or day after day for example.
- Contact, your neighbors, relatives, friends or other people to get information that can help them collect the money that you owe.
- Use profanity when communicating with you.
- Threaten to ruin your reputation, harm you or your property, or throw you in jail unless you pay your debt. However, debt collectors can threaten to sue you assuming they are willing to follow through on their threat.
- Order you to accept their collect calls or pay for their telegrams.
- Collect more than the amount that you owe, unless it is allowed under your state's law.
- Deposit a post-dated check before its date.
- Take your property or threaten to take it unless they are legally entitled to.

About the author and Consolidated Credit Counseling Services, Inc.
Consolidated Credit Counseling Services, Inc. is a consumer-oriented, nonprofit, tax exempt, public education organization. We are an industry leader in providing credit counseling and debt management services throughout the United States. Our mission is to help families end financial crisis and solve money management problems through education and professional counseling.

Gerri Detweiler is Consolidated's educational director. She has written numerous books including The Ultimate Credit Handbook, which was featured in Money magazine as one of the five best new personal finance books of the year when it was released. Ms. Detweiler has been quoted in thousands of publications including The New York Times and The Wall Street Journal. She co-hosted an award-winning syndicated financial radio program, and has been a guest on The Today Show, Dateline NBC, the CBS Evening News, and CNN. She has testified before Congress and lobbied on behalf of consumers protection measures. She is the former executive director of Bankcard Holders of America, as well as a policy director for the National Council of Individual Investors. She has also served on the Board of Directors for the National Coalition for Consumer Education as well as Experian's Consumer Advisory Council.

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