The Credit Card Guidebook

By
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To our children: Hamp and Jake Oldshue, and Brad, Sarah and Katie Hardekopf.

May you never fall into the credit card debt trap.

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About the Authors

In the spring of 2000, Lynn and John Oldshue were completely overwhelmed. They knew they needed a new credit card but they were confused with all the different offers that kept appearing in their mailbox each day.

They wished there was one resource that would compare all the credit card offers that were coming their way. After searching the Internet for such a site and not finding a satisfactory answer, they decided to embark on developing a consumer resource site that made shopping and comparing credit cards easy and simple. For the next four months, the Oldshues and their business partner, Bill Hardekopf, researched the credit card industry and developed a website.

In July of that year, LowCards.com was introduced and the popularity of the site has far exceeded their expectations. LowCards.com has been used by over one million people and mentioned by over 250 newspapers and magazines including The Wall Street Journal, USA Today, Kiplinger, The Washington Post and The New York Times.

The website simplifies the confusion of shopping for credit cards. It is a free, independent website that helps consumers easily compare credit cards in a variety of categories such as lowest rates, rewards, rebates, balance transfers and lowest introductory rates. It also gives an unbiased ranking and review for each card.

In addition, The LowCards.com Complete Credit Card Index is currently the only site on the Internet that compares the interest rates, grace periods and annual fees of all 1200+ credit cards offered online in the United States.

LowCards.com also provides advice about credit card and debt issues, news, and credit card updates.

Chapter 1:
Introduction to Credit Cards

Credit cards are now an indispensable part of the American way of life. According to the Federal Reserve, 74.9% of all U.S. households have a credit card, and 46.2% of all families carry a credit balance. In 2006, 666.3 million signature-based, general purpose cards were in circulation. The average household has $7,000 to $8,000 in credit card debt and pays 14.9% of disposable income in consumer debt payments. The average household with a 14.9% interest rate on a $5,100 balance pays $760 per year in interest payments. The median family income is now $43,200, and the typical family's credit card balance is now almost 5% of its annual income.

What are credit cards and why can't we live without them?

Credit cards are a convenient form of payment and are accepted everywhere. You present the credit card to the merchant, the merchant swipes your card to send the purchase information to your credit card issuer, then the issuer pays the merchant and adds this purchase to your credit balance. Instead of taking the money directly from your bank account or forcing you to pay it off each month, credit cards allow you to revolve your balance, which you pay for in the form of interest payments.

Making a purchase with a credit card represents taking a loan from credit card issuers. If you use a credit card to pay for a hamburger, airline tickets, or medical care, you are now in debt to the credit card issuer. The best way to use the card is to repay that loan by paying off your total balance every month.

Each month, the credit card issuer sends you a bill by mail or through email. The bill details the purchases that you made that month, the minimum payment due, the total balance due, and any fees if they apply. Reviewing each bill for any errors or for changes to the terms of your card is important. You must make at least the minimum payment each month (typically 1% to 5% of your balance); however, if you pay only the minimum, it will be many years before you pay off your balance and you will end up paying large amounts in interest. You have approximately 14 to 20 days to pay your bill. If you miss a payment or go over your credit limit, you are charged a fee and you may actually damage your credit score.

The dangers of credit card usage

Used correctly, credit cards provide a flexible, convenient method of payment, may boost your credit score, and may even offer rewards. Correct usage means paying off your card each and every month, and only charging things that you could afford to buy if you were using cash. If you must carry a balance, your goal should be to get your balance below 30% of your credit limit.

Credit usage comes with many damaging hazards. Credit cards make it too easy to purchase an item on impulse or to buy something that you actually can't afford.

Pay close attention to making your credit card payments. Making a late credit card payment is extremely easy, regardless of your income or credit score. A late payment will show up on your credit report and may result in a higher rate (as much as 30% higher) from not only your credit card issuer, but from your other creditors as well. A sudden increase in your balance or going over your credit limit may also trigger a lower credit score and higher interest rate.

Know yourself before shopping for a credit card

Credit cards are not one-size-fits-all, and one card is not right for everyone. Before you start, be honest about your payment plans—will you be able to pay off your balance each month, will you regularly carry a balance, or will you carry a balance during a few months of the year?

The following are a few tips to keep in mind when deciding on the type of credit card that is right for you:

1. Low Interest Credit Card—This is your only choice if you carry a balance. The lower your interest payment, the greater your ability to pay off your balance and the quicker you eliminate your credit card debt. Avoid low interest cards that charge an annual fee. Since you are only interested in the rate, not the rewards, there is no reason to get a card with an annual fee.

2. Low Introductory Rate Credit Card—Balance transfer cards give you a chance to transfer your existing credit card balance to a card that offers a lower introductory interest rate.

Calculate how much time you need to pay off your debt. If you pay the maximum amount that you can and pay off your balance in less than a year, take advantage of a card that offers a 0% introductory rate for 12 months. However, the trick is to avoid making additional purchases with the card during that time. New purchases will incur a much higher interest rate, which can wipe out the financial benefits of transferring your balance to the card.

If you need more than a year to pay off your balance, look for a card that offers a low fixed rate on balance transfers. Realize that one late payment can change your rate to a punitive default rate that can be as high as 30%.

Many cards allow you to apply first to see what your offer will actually be and then transfer your balance within a few months to a year. Keep in mind that the median credit limit is $13,500. You may not be able to transfer your total balance and may end up with a remaining balance on your old card. Most cards also charge a balance transfer fee of at least 3%.

3. Rewards Credit Card—Reward cards are a good choice only if you pay off your balance every month. If you carry a balance several times during the year, look for a lower interest card, not a reward card. If you are considering a reward card, decide whether you would like a rebate or some type of reward for an interest or hobby that you may have—travel, hotel deals, discounts at bookstores, home improvement centers, merchandise, etc.

Next, look at your annual credit card usage. If you charge less than $5,000 per year, your best option is a general reward card, such as Blue from American Express. You can select rewards on lower levels like gift cards to restaurants and retail stores that you frequent, or that may be useful to you. You can earn these gift cards during the first year. If you have an airline reward card and charge $5,000 or less each year, you may take five years to earn a free ticket (most cards offer a free, domestic airline ticket for 25,000 points). If your usage is more than $50,000 per year, look for a card with unlimited rewards. Some cards cap rewards starting at $50,000. Alternatively, you can have two different reward cards to get both cash and a free airline ticket.

Finding the best reward card is difficult because the offers are hard to compare. For comparison, assume that the average reward percentage is 1%. Plug your credit usage into the reward formula to determine if that card offers you more or less than 1%. If the card offers you more than 1.5% of what you spend, it may be a good deal for you.

Hotel reward cards have the most generous point distribution for everyday purchases, general purchases, and bonus points. Some hotel cards, like Choice Privileges Visa and Starwood American Express, allow you to redeem points for airline tickets or retailer gift cards.

How many credit cards are too many?

U.S. consumers have an average of four credit cards. Fourteen percent of the population has more than 10 cards (statistics from Experian). A typical consumer does not need more than two credit cards. If you have more than five, start paying them off and close the newest accounts. Keep the oldest ones to help build your credit history. If you carry a balance on these cards, keep the balance below 30% of the credit limit for that card.

If you have department/retail store cards, get rid of those first. Store cards are tempting with their initial discount offers and easy approvals, but they carry very high interest rates.

How do credit cards affect your credit score?

The types of credit you use make up 10% of your credit score. Ideally, you want to have a good mix of credit, including a mortgage, credit cards, an auto loan, and others. However, you do not need a loan for each of these. To help your credit score, have a revolving debt instrument such as a credit card, and an installment loan such as a mortgage, auto loan, or personal loan.

Major credit cards like American Express, Visa, MasterCard, or Discover are better for your score than a department store card or a card from a finance company.

The credit score formula looks at the number of accounts you have, the age of your oldest accounts, and the age of your youngest account.

Be careful about closing credit card accounts because this can actually lower your credit score. Closing accounts reduces your available credit, making your balances a larger percentage of your credit limit, giving the appearance that you are maxing out on your debt.

Since age of accounts is a factor in your credit score, keep your oldest accounts active. If you close these accounts, your credit history may appear younger than it really is, which may result in a lower credit score. Occasionally using these older accounts is a good idea, even if you only charge something small each month and immediately pay it off.

No matter how good the offer, the discount, or the rewards sound, do not apply for credit cards or other loans you do not need. Your first few accounts build your score; after that, they are a red flag that you have too much available credit, which may lower your score.

Do we spend more when shopping with a credit card?
According to a Dun & Bradstreet survey, consumers spend 12% to 18% more when using their credit cards instead of cash. Buying things you can't afford develops a habit of buying today and worrying about the payment tomorrow. Before you know it, years from now, you will still be making minimum payments and paying 15% to 30% interest on items that have been long forgotten. Be careful with each credit card purchase. Make sure that you really need it. If you carry a balance, remind yourself that you are paying interest on that purchase, making it more expensive.

Statistics on the average household credit card usage

* 74.9% of all families now carry a credit card. (Federal Reserve Survey of Consumer Finances)
* 46.2% of all families now carry a credit card balance, an increase from 44.4% in 2001. (Federal Reserve Survey of Consumer Finances)
* The mean credit card balance is now $5,100, up from $4,400 in 2001, and the median balance is $2,200, up from $2,000 in 2001. (2004 Federal Reserve Survey of Consumer Finances)
* The average household with a 14.9% interest rate on a $5,100 balance pays $760 per year in interest.
* The current median family income is $43,200 and the typical family's credit card balance is almost 5% of its annual income. (Federal Reserve Survey of Consumer Finances)
* The median number of bank cards per family is two. (2004 Federal Reserve Survey of Consumer Finances)
* The median credit limit per family is $13,500. (2004 Federal Reserve Survey of Consumer Finances)
* The average monthly spending on a credit card without a rewards program is $465. With rewards, that spending increases to $890. (Nilson Report)
* U.S. consumers have an average of four credit cards. (Experian)
* Approximately 14% of the U.S. population has more than 10 credit cards. (Experian)
* Approximately 51% of the U.S. population has at least two credit cards. (Experian)

* About 14% of the U.S. population uses at least 50% of their available credit. (Experian)
* U.S. consumers who use at least 50% of their available credit have on average 6.6 credit cards. (Experian)
* The national average credit score for those with credit card utilization of at least 50% is 645, compared with the overall national average of 674. (Experian)
* Of those surveyed, 37% pay the entire balance on their credit card bill(s) each month. (Experian-Gallup survey)
* Of those surveyed, 24% pay as much as they can but usually leave a balance. (Experian-Gallup survey)
* Of those surveyed, 11% usually pay the minimum amount due on their cards but not much more. (Experian-Gallup survey)
* Of those surveyed, 13% do not have any credit cards. (Experian-Gallup survey)
* Less than half of all consumers have ever been reported as 30 or more days late on a payment. Only three out of 10 have ever been 60 or more days overdue on any credit obligation. (myFico.com)
* Of all consumers, 77% have never had a loan or account 90+ days overdue and less than 20% have had a loan or account closed by a lender because of default. (myFico.com)
* The typical consumer has access to approximately $19,000 combined from credit cards. More than half the people with credit cards use less than 30% of their total card limits. Just over one in seven uses 80% or more of his credit card limit.

* On average, today's consumer has 13 credit obligations on record at a credit bureau. Of these, nine are likely credit cards and four are likely installment loans. (myFico.com)

Evaluating credit card offers

If you receive a credit card offer in the mail, do not start with the big print in the promotional description or the invitation letter. Instead, look at the fine print at the bottom or back of the offer. It is also a good idea to find the card online for complete terms and conditions.

When analyzing a credit card offer, ask these questions:

* What rate will I receive? Realizing that you may not receive the advertised rate, look at the rate tiers in the Summary of Annual Percentage Rates for other rates that you may receive.
* How long is your grace period? The grace period is the interest-free period that a lender gives to credit card holders. It extends from the transaction date to the billing date, if no balance is carried over from the previous billing cycle. The longer the grace period, the longer you have a 0% interest loan. Generally, the grace period is between 20 to 30 days. If your card includes a grace period, the issuer must mail your bill at least 14 days before the due date to give you enough time to pay. People who carry a balance on their cards do not receive a grace period and finance charges begin on the date a purchase is made with the credit card.

* Are your finance charges calculated on an average daily balance or two-cycle billing basis? Two-cycle billing uses the last two months of account activity, eliminating the grace period, and usually resulting in higher finance charges. The interest on a balance is retroactive to the date on which the purchases were posted to the account.
* If you are transferring a balance, how much will you be charged for the balance transfer fee? A few cards (like Simmons and Capital One) do not charge a fee for balance transfers. Some charge 3% of the transfer, with no maximum.
* Is there an annual fee? In most cases, you do not need a card that charges an annual fee. There is no extra benefit from paying an additional $50 to $100 per year for a credit card.
* How is APR a factor? APR (Annual Percentage Rate) is a yearly fixed or variable interest rate that measures the cost of credit. It reflects the total yearly cost of the interest on a loan, expressed as a percentage rate. Getting a cash loan from your credit card company is very expensive and should be avoided. The cash advance APR varies by card and ranges from 20% to 24%. If you get cash with your purchase (even $20), most issuers consider this a cash advance. The exception is Discover, which offers cardholders up to $100 in cash above the amount of their purchases at select merchants without charging the cash advance fee.

How do issuers determine the offer that they give to you?

According to the Federal Reserve, credit card issuers have become sophisticated in forecasting the ability and willingness of borrowers to repay their debts. Using detailed information from credit reporting agencies and proprietary databases, issuers use quantitative modeling to help them decide to whom they will extend credit and at what price. Potential borrowers are ranked based on historical information about borrowers with similar quantifiable characteristics. The Federal Reserve says these scoring models can "enable an efficient review of large numbers of customers and form the basis of most credit decisions in the credit card industry."

The variety of card offers gives consumers choices and allows the creditor to create products and incentives for specific market segments and to price them to reflect the underlying risk of each segment.

While credit card issuers seem to send offers to anyone with a mailbox, they actually prescreen potential customers. They establish specific criteria such as credit score or account usage (number of credit cards already held and outstanding balances). Credit scoring agencies provide information on customers in their database who meet such criteria. Prescreening allows creditors to avoid the cost of sending solicitations to large numbers of consumers who would not qualify for the products offered.

Issuers review a number of factors during the application process, including credit history, debt burden, employment and income status, length of employment, and mortgage or rental history. They use this information to calculate the debt-to-income ratio and to predict the consumer's ability to pay.

How do I cancel a credit card?

Only cancel cards with empty credit lines. If you have a balance, pay off the card before you close the account. Inform the issuer in writing sent by certified mail. Get them to acknowledge that you are the one closing the account. Keep a copy of the letter and the "closed by customer" acknowledgment in your personal records. If you pay off your balance, keep a copy of the check. After the account has been closed, cut up the credit card to prevent yourself from accidentally using it. After you cancel the account, your issuer will send you a written notice that the account was closed. Keep this for your records. In 45 days, double-check to make sure the account was closed.

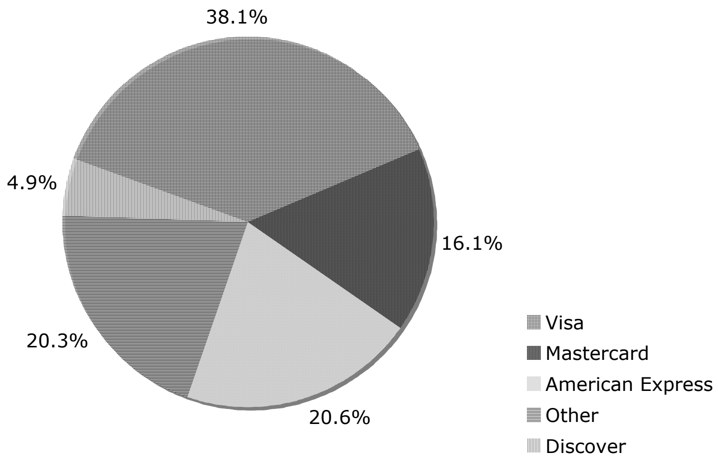
Visa, MasterCard, American Express, Discover: Is there a difference? Does it matter?

Visa and MasterCard are accepted almost everywhere in the U.S. and in over 150 countries. Visa and MasterCard are just methods of payment; banks such as Bank of America, Chase or Citibank issue the actual credit cards. Banks determine credit card rates, terms and conditions, and rewards.

American Express and Discover are not as universally accepted as Visa and MasterCard; if American Express is the only card in your wallet, you may find yourself in a situation in which you have to use cash, or cannot make a purchase because the merchant will not accept your card. Although not as widely accepted, American Express and Discover have attractive reward cards. If you have one of these as a primary card, it is a good idea to have a Visa or MasterCard as a backup.

Discover has the smallest acceptance, but is trying to increase its share. According to the Nilson Report, Discover has penetrated nearly 75% of the merchants that accept Visa and MasterCard. The following chart illustrates the percentage of cards in circulation, by brand.

Share of Purchase Volume on Credit Cards (October 2007 Nilson Report)



According to the January 2007 Nilson Report, the top 10 general purpose cards issuers with the highest volume are:

1. American Express
2. J.P. Morgan Chase
3. Bank of America
4. Citigroup
5. Capital One
6. Discover
7. U.S. Bancorp
8. HSBC
9. Wells Fargo
10. USAA Savings

Chapter 2:
Credit Card APR

Definition
APR (Annual Percentage Rate) is a yearly fixed or variable interest rate that measures the cost of credit. It reflects the total yearly cost of the interest on a loan, expressed as a percentage rate.

Fixed vs. variable
Your credit card rate is either fixed or variable. According to a Federal Reserve credit card survey, approximately 58% of credit cards have variable rates while 42% have fixed rates.

F (Fixed): If the letter "F" follows the annual percentage rate (APR), the rate is fixed and not adjustable. However, this does not mean that the rate is fixed forever. The issuer need simply provide you with a 30-day written notice that your interest rate will change. You will receive such a notice by mail or as an insert in your bill.

V (Variable): The credit card interest rate is variable and subject to change if the letter "V" appears after the annual percentage rate (APR).

What are good rates?
According to the Federal Reserve, the average APR on all credit cards is 14.9% (this rate fluctuates; check with LowCards.com for current rates). Aim for an APR of 10% or less. The better your credit score, the lower your rate. If your rate is higher than 12% and you have a good credit score and good payment history, contact your credit card issuer and ask for a lower rate.

Applying for a new card: what rate will you receive?
Since credit cards advertise their lowest rate, estimating your actual rate takes a bit of searching and guessing. Since your credit score and application will determine your interest rate, obtain a copy of your credit report before you apply for a card.

FICO scores range between 300 and 850. The following table outlines the general credit score tiers and what they mean:

Score	Grade	Comment
Over 750	Excellent	Should have an easy time getting loans with the best rates
720 or higher	Very good	Should have an easy time getting loans with good rates
660 to 720	Acceptable	Lender will take a closer look at you
620 to 660	Uncertain	Higher risk and higher rates
Less than 620	Risky	Credit options will be limited or not available

Credit cards are required to list the range of interest rates and fees in their terms and conditions—the fine print. Each card's description page or application contains a link to this information. With typically three or four rate tiers, you can guess the interest rate you are most likely to receive based on your credit score.

If this is your first credit card and you have a limited credit history, or you have multiple loans and are close to your limits with other cards, you can expect to receive one of the higher rates.

Unfortunately, you will not know your rate until after you apply and receive your offer in the mail. If the rate is higher than what you expected, contact the credit card company and ask for an explanation or reconsideration. You may also cancel the card.

If you cancel the card to search for another, don't apply for more than three or four cards in a six-month period. Multiple credit card inquiries will post a red flag on your credit report.

How do I ask for a lower rate?
In its October 2007 issue, Consumer Reports surveyed thousands of readers and found that people who call to negotiate a lower interest rate succeed more than half the time. In addition, 79% are successful at having a penalty fee removed.

When should you ask for a lower rate?

* If you have a good payment history and your APR is over 12%. The average APR is 14.9%.
* If you received a high rate for your first credit card, have made your payments on time, and have stayed under your credit limit for six to twelve months.

* If your card started out with a low rate, but your issuer has increased it several times.
* If you have had the same card for several years and your balance is less than 30% of your credit limit.

Requesting a lower rate is simple, even if negotiating seems out of your comfort zone. Call the number on the back of your credit card or bill. Tell them you have been a good customer but you would like a lower rate. Mention that you have received several offers with lower rates in the mail and have done online research for cards with lower rates. Inform them that you want a lower rate on your card or you will switch to another card with a lower rate. Ask what they can do to help you.

If the first person tells you that he can't lower your rate, call back in a month. This is one area where persistence may pay off. If that person tells you he can't lower your rate, remind him that there are other cards available.

Reducing your interest rate by four points (from 18% to 14%) will save you $200 a year on a $5,000 balance. Apply these savings to pay down your balance.

When can issuers increase your rate?

Basically, issuers may change your rate at any time for any reason. All issuers state this in their terms and conditions. For example, the following comes from the fine print of a Chase credit card:

"We reserve the right to change the account terms (including the APRs) at any time for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account. For example, we may change the terms based on information in your credit report, such as the number of other credit card accounts you have and their balances. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. Any changes will be in accordance with your account agreement."

Under the Universal Default policy, issuers may increase your rate if you have made a late payment or have missed a payment with any of your other creditors. Issuers may also increase your rate if your credit score drops because they perceive this as an increase in the risk that you will default. Under Congressional pressure, some issuers have stopped using Universal Default.

How do I challenge a rate increase?

Rate increases, especially unreasonable ones, can be irritating and frustrating. There are two ways to approach a rate increase: one is with honey and the other is with vinegar. In most instances, honey works best.

Call in a pleasant manner and explain that you are a good customer, then ask your issuer to drop the rate to something more suitable. If this doesn't work, ask for a manager. If that doesn't work, call back in a few days.

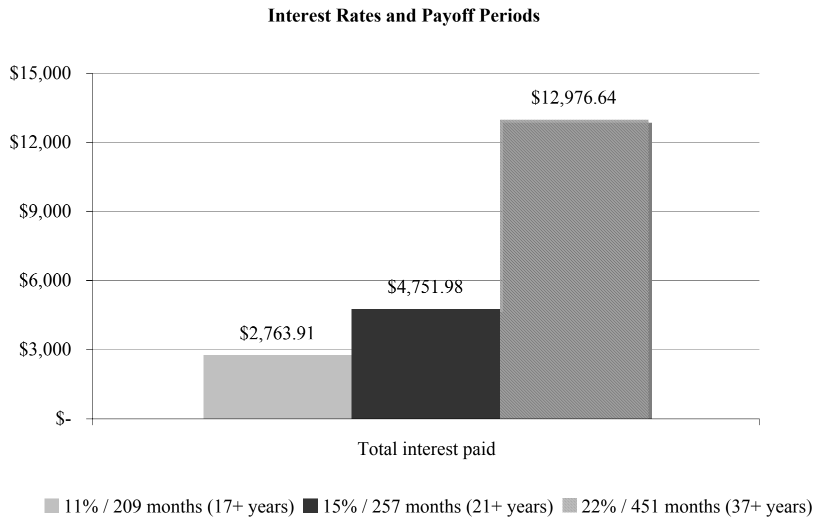
The other option is to accept it and move on. If you can't get yourself to call and deal with your issuer, then find another credit card company and transfer your balance. Some cards have a balance transfer of 0% for 12 months or longer.

Low rate vs. rewards—which is best for you?
This is simple. If you carry a balance, get the lowest interest rate possible and forget about rewards. Since reward cards typically have higher interest rates, the few points/miles/dollars that you earn do not offset the higher rate and the additional money you make in interest payments. Your only goal with your credit card should be to pay off your balance.

Paying off your balance each month opens up the world of rewards. Now, you will be able to get "something for nothing."

How does your credit score affect your interest rate?
The higher your score, the lower your interest rate. The lower your score, the higher your interest rate. To get the best rates, your credit score should be 720 or higher (FICO).

The following example using tiered credit card rates illustrates the difference that the interest rate makes in the amount you make in interest payments and the time it takes you to pay off your balance. The credit card balance is $5,000 and the minimum payment is 2.5% ($125 per month).



As you can see, with a lower interest rate of 11%, your total payment is $2,763.91, compared with total payments of over $12,000 at an interest rate of 22%. You pay an additional $10,212 in interest payments, ***twice as much as the original debt.*** Moreover, with a low credit score and the highest interest rate, it will take you an additional 242 months (20 years) to pay off your balance.

Default rates

Default rates are another way—an often unfair and punitive practice—that issuers use to increase your rate, sometimes up to over 30%. Often, if one issuer gives you the default rate, others will follow. Here is how the Chase terms and conditions describe the default rate. Most cards state something similar.

"Your APRs may increase if you default under any Cardmember Agreement you have with us for any of the following reasons: We do not receive, for any payment that is owed on this Account or any other account or loan with us, at least the minimum payment due by the date and time due; you exceed your credit line on this Account, if applicable; or you make a payment to us that is not honored by your bank. Your APRs may increase as of the first day of the billing cycle in which the default occurs. We may consider the following factors to determine the default rate: the length of time your Account has been open; the existence, seriousness and timing of defaults; other indications of your Account usage and performance; and information about your other relationships with us, any of our related companies or from consumer credit reports."

Cash advance/balance transfer rates

Some credit cards offer you the ability to take out a cash advance loan against your credit limit. Avoid these cash advances, as they are the most expensive loans you can get. Fees for such loans are typically 3% and the APR is over 22%. Cash advances have no grace period—you start paying the 22% on the day you take the advance. If you are currently paying off a cash advance, transfer that balance to a credit card with a low introductory rate for balance transfers.

Avoid using your credit card to get quick cash at a grocery store or retailer, as this also counts as a cash advance. Only use your debit card to get extra cash.

Store cards have higher interest rates

Discounts and special offers from store credit cards, such as 10% off all purchases, sound good. However, for the average cardholder, retail cards are among the most expensive cards to use. They typically have the highest interest rates, around 20% to 25% for cards from retailers like Sears and Best Buy.

Store cards may also have unfavorable cardholder terms, and the typical 20-day grace period is one of the shortest. Store credit cards also have low limits, so consumers easily spend up to their limit on their first purchases. Being close to your credit limit with any card is a red flag, increases your debt utilization ratio, and can lower your credit score. Some retail cards also have a minimum payment of 1%, which is terribly low. At this rate, you will never pay off your balance—a good deal for retailers because it keeps you paying a 25% interest rate on your account forever.

Effects of rate changes by the Federal Reserve

Aggressive rate cuts by the Federal Reserve do not create substantial savings for consumers with credit card debt. The rate cuts only affect cardholders with variable rates and lead to minimal reductions in the interest that cardholders pay. Meanwhile, issuers continue to find ways to increase rates and fees. Despite the Fed's desire to cut rates and relieve consumers' credit issues, issuers clearly state in the terms and conditions that they can increase your interest rate at any time for any reason.

Although rates may be reduced by small increments, the best way to get a lower rate is to talk with your credit card company. If you carry a balance, your issuer will often lower the rate because it wants to keep your debt and continue receiving your interest payments.

Chapter 3:
Credit Card Terms and Conditions

How often should you read the terms and conditions?

Although the terms and conditions are difficult and tedious to read, we recommend that you glance through them at least twice a year. The issuer has the right to change your rate and terms at any time. Although issuers are supposed to mail you notices, they may come in plain, white envelopes that are easily missed.

You are responsible for staying current with the terms of your card. Any changes to the billing period, minimum payment or grace period can result in missed or higher payments, and your credit card company will gladly take these extra fees and interest.

Credit limit

Your credit limit is the amount of credit available to you on your credit card. It usually grows according to your payment history, the type of credit card you have, and the issuer's policy. Gold and platinum cards typically have the highest credit limits.

The typical consumer has access to $19,000 on all credit cards combined, and more than half of all consumers use less than 30% of their total credit limit. However, one in seven uses 80% or more of his or her credit limit (statistics from myFico.com). Therefore, almost 15% of cardholders are close to their credit limit and may be on the verge of having credit problems. If you are at 75% of your limit, immediately stop making purchases with your cards and pay down your balance.

Your credit score is an important reason to pay attention to your credit limit. A declining credit score is a sign to creditors of increased risk and may lead to an increase your interest rates. The amount of debt that you owe is one of the most important variables in the credit score—it is 30% of your score. This debt utilization variable calculates the amount you owe compared with the amount of credit available to you. The lower this percentage, the better your score. You can also raise your score by using less than 50% of your available credit for each account, as using more than 50% indicates that you are a high risk.

The following are several tips to help you stay under your credit limit:

* **Your credit limit is not your spending limit.** Set your spending limit to less than 30% of your credit limit.
* **Monitor your credit card usage and spending.** Sign up for email alerts that will notify you when you are close to your limit. This is extremely important if your limit is low ($1,000 or less).
* **Have a large cushion in case you have to use a credit card to pay for an emergency.** If you are close to the limit with all of your cards, you are one emergency away from financial problems.
* **Ask your issuer to decline purchases that will put you over your credit limit.**
* **If you have gone over your limit and reducing your balance will take time, contact your issuer to work out a payment plan.** Also ask your issuer to waive the over-the-limit fees. If the first person you talk with says no, be persistent and try again. Over-

the-limit fees are not a one-time charge; you are charged $39 for each month that you are over your limit.

* **To help your credit score, have smaller balances on a few cards rather than having larger balances near your credit limit on one or two cards.**

If you are near your credit limit, you are in danger of falling into an expensive debt trap. One issuer could raise your interest rates because of perceived default and another could lower your credit limit for the same reason. Either situation can easily add fees that you already can't afford, which will hurt your credit score and the rates you have for other loans. The only way to protect yourself is to pay down your balance and stay well below your limit.

The credit limit you receive with your credit card is not fixed forever. The issuer regularly monitors your account; if you build a good credit history and pay on time, either you may request a higher credit limit or the issuer may automatically increase your credit limit. To request a higher limit, contact your issuer. You will have to provide income information and employment details, as well as information on assets and liabilities, loans, and other credit cards. They should be able to do this without pulling your credit report. If they have to pull your report, they should inform you first.

Increased or decreased credit limits

However, if the issuer automatically increases your credit limit, this does not mean that you can afford it. Receiving a higher credit limit is not like receiving a raise, and it doesn't mean you should spend more. If you already carry a balance, a higher credit limit gives you the unwanted opportunity of increasing your debt balance and the amount you owe.

Credit card companies positively promote credit limit increases as a way to give you the freedom to buy what you want, when you want. However, if you already carry a high balance, you don't need more debt; instead, you need to pay down the debt you have. Contact the issuer to decline any credit limit increases.

Issuers may decrease your credit limit. They monitor both the accounts you have with them and the accounts you have with other creditors. If you are late with payments, bounce a check or take out a large loan, your issuer may lower the limit on your card. They should notify you about the new limit, but reviewing your credit limit and balance each month to make sure nothing has changed and that you remain well under the limit is a good idea.

Leaving plenty of room on your card is a good idea. Credit utilization, important to creditors, is about 30% of your credit score. The formula for calculating credit utilization is: total debt incurred on credit cards and revolving accounts divided by the total debt available on those cards. The lower the fraction, the better your score. For example, if you have $3,000 in debt and $10,000 in credit lines, you are using 1/3 of your available credit. Keeping your debt at about 30% of your credit limit is a good goal. If this fraction equals 1, you have maxed out your credit cards.

Don't assume that your card will be declined when making purchases if you are over your credit limit. Many issuers allow you to make purchases beyond your credit limit, and you pay a higher fee for doing this. Many issuers now offer email updates to let you know when you are nearing your credit limit. Sign up for this, as it is a good way to help you monitor your activity.

Credit score determines your credit limit

Your credit score also determines your credit limit. The lower your score, the lower your limit. Unfortunately, you can't predict exactly what your credit limit will be; the limit you receive may vary by issuer. If your score is less than 650, expect your credit limit to be less than $1,000. If it is between 500 and 600, expect a low credit limit of $200 to $300 (if you are approved).

Minimum payment

The minimum payment is one of the most poorly explained and misunderstood credit card principles. In 2005, new regulations forced issuers to increase the minimum payment percentage to allow at least a small portion of the monthly payment to apply to the balance. Unfortunately, this percentage is difficult to find and is not listed in most terms and conditions. Call your issuer to learn the percentage used for your account, and then use a rate calculator to figure out how long it will take you to pay off your balance. Most consumers are shocked to find how long it will take them to pay off their existing balance if they just pay the minimum. While Congress is focused on the credit card industry, they should require credit card companies to provide this calculation on the cardholder's monthly statement.

According to the latest Experian-Gallup Personal Credit Index Survey, 11% of consumers usually make the minimum payment on their credit card, but not much more.

If you pay only the minimum and your rate is over 24%, you may be paying more in interest each month than you are toward your balance. The only way to pay off your debt is to pay more than the minimum. To help you do this, call your credit card company and request a higher minimum. If your minimum payment is 2%, contact your issuer and ask that it be raised to at least 3% or 4%. Calculate the largest amount that you can pay and continue to pay that amount and not just the minimum. If you pay just the minimum, as your balance decreases, this minimum amount also decreases, which then lengthens the period you need to make payments.

Credit card companies love consumers who pay only the minimum. Issuers earn tremendous profit on these consumers because of the sizeable interest payments they make for years.

However, consumers need to pay much more per month to pull themselves out of their horrible credit hole. A cardholder with a balance of $5,000 with a 15% APR and paying a monthly minimum of 2.5% each month will pay $4,757.98 per year in interest, and needs 257 months (21 years) to pay off the balance. Double the minimum payment to 5% and you pay only $1,631.61 in interest and need just nine years to pay off the balance.

If you have a retail card, look at your terms and conditions or call and ask about your minimum payment. Some retailers, such as Best Buy, only charge 1% as a minimum payment. At that rate, your TV will be extinct by the time you pay off your purchase.

Two-cycle billing

Two-cycle billing is one of the most costly ways your finance charge can be calculated. Under two-cycle billing, your issuer calculates your finance charge by using your average daily balance for the current and previous billing cycles. This eliminates the grace period and usually creates higher finance charges. The interest rate is retroactive to the date that purchases were posted.

If you pay off your credit card balance most months, you may be a candidate for a high finance charge if your credit card uses two-cycle billing. Thanks to pressure from Congress and consumer groups, many cards have now eliminated the use of two-cycle billing.

Average daily balance is the standard for computing interest charges. If you pay off your balance, you have a 20- to 25-day grace period after making a purchase before interest is charged. If only a partial payment is made, interest kicks in at the end of the grace period.

Carrying a balance wipes out the grace period on new purchases. Interest starts the day of a purchase. Two-cycle billing makes this much more expensive because interest is charged starting on the date of purchase, retroactively wiping out the grace period.

To find out if your issuer uses two-cycle billing, read the “finance charges” paragraph of the Terms and Conditions of your credit card. This will explain how your finance charge is calculated.

Grace period

The grace period is the time between the end of your billing cycle and when your payment is due. The goal is to pay your full balance off every month during your grace period to avoid paying finance charges or fees. If you carry a balance, you do not have a grace period—you are charged interest from the day you make a purchase.

According to the Federal Reserve, the average grace period is 25 days, but it can be as short as 20 days. Look for a card that has at least a three-week grace period. To make sure your payment is in on time, mail it five business days before it is due. If you pay online, pay at least two business days before it is due.

Avoiding fee and rate increases

If you pay your bills ahead of time and pay at least your minimum payment, you can avoid the credit card fee trap. Losing a credit card bill and being forced to make a late payment is too easy. Either pay the bill the moment it arrives, or set up an online payment. You can schedule email reminders to yourself about when your payment is due.

The credit card issuers say in the terms and conditions that they can basically increase your rate at any time for any reason. The best way to prevent this is to build a good payment history with them and other creditors (since they monitor your credit report, which includes your payments to other creditors). If you take the steps to build and maintain a good credit score, they are less likely to raise your rates.

Keep an eye on your mail for notices of changes in terms or fees

Issuers are required to give you 15 days' advance notice about changes in terms or rates related to your credit card. These notices can come in small, white envelopes that are easy to overlook. If you miss the changes, you may find yourself paying more for a balance transfer or a cash advance, making a late payment because of a change in the due date, or paying less or more on your monthly bill because of a change in the minimum payment percentage.

Average credit card fees

Credit card issuers have turned to credit card fees as an important source of revenue. Each year they seem to find new ways to increase or tweak the fee to get a few more dollars from their cardholders. Penalty fees alone cost consumers $17.1 billion in 2006—up from $12.8 billion in 2003, adjusted for inflation (R. K. Hammer, a bank card advisory firm).

The following are typical credit card fees, according to the Federal Reserve:

* Average transaction fee for cash advances is 3%.
* Average balance-transfer fee is 3%.

* Average late-payment fee is $25 and as high as $39.
* Average over-credit-limit fee is $25 and as high as $39.

Organize your bill payments to guarantee that you pay on time each month. Thirty-nine dollars is a lot to pay for being a day or two late with your payment. If you carry a balance, this payment rolls into your balance and you pay interest on it, costing you even more. Since some issuers say that your payment is late if it arrives after 2 p.m. on the day it is due, the best way to protect yourself is to pay the bill the day that it arrives in the mail.

Chapter 4:
Finding the Right Card

If you have very good credit and can pay in full each month

Reward cards are a good choice if you pay your balance every month and give you the opportunity to get a little something for nothing. Several years ago, credit card companies started aggressively using reward programs to compete to be the card that consumers pull out of their wallets. Rewards have grown beyond airline miles and cash backs. Issuers now offer high-end rewards, such as exclusive access to movie premiere events and luxury resorts and create-your-own rewards. Capital One recently introduced an online service that lets consumers create their own card by choosing from a menu of terms, including repayment rates, cash-back options and other features.

When choosing a reward card, look first at your annual credit card usage. If you charge less than $5,000 a year, your best option is a general reward card, such as Blue from American Express. You can select rewards on lower levels like gift cards to restaurants and retail stores that you frequent or that may be useful to you. You can earn these gift cards during the first year. If you have an airline reward card and charge $5,000 or less each year, you may need five years to earn a free ticket (most cards offer a free, domestic airline ticket for 25,000 points). If your usage is more than $50,000 per year, look for a card with unlimited rewards. Some cards cap rewards at $50,000. If your reward card has a cap, you may want to secure a second reward card.

Finding the best reward card can be difficult because the offers are often hard to compare. For comparison, assume that the average reward percentage is 1%. Plug your credit usage into the reward formula to determine if that card offers you more or less than 1%. If the card offers you more than 1.5% of what you spend, it may be a good deal for you.

Hotel reward cards have the most generous point distribution for everyday purchases, general purchases, and bonus points. Some hotel cards, like Choice Privileges Visa and Starwood American Express, let you redeem points for airline tickets or retailer gift cards.

If you carry a balance

If you carry a balance, the only thing you need to consider is finding the lowest interest rate that you can. The lower your rate, the faster you pay off your balance and the faster you eliminate your credit card debt.

The lowest advertised rates are for consumers with the highest credit scores (FICO of 720 or above). If you have less than great credit, review the card issuer's terms and conditions for rates that may apply to you.

If you are applying for a card for the first time

Credit cards and pre-approved credit card offers are everywhere, but approval may be difficult for first-time applicants. Apply for a card with realistic expectations—new applicants with a limited credit history rarely receive the lowest rates.

If you do not have a credit history, apply for a lower rate card to see if you receive an offer. If you get a credit card, keep it even if the rate is high. Pay off the balance each month, and then call the issuer in six to 12 months to ask for a lower rate. If you do not receive a credit card, do not apply for others hoping that one of the issuers will give you a chance. Multiple applications over a short period have a negative effect on your credit report.

Lenders and credit card issuers look closely at credit reports to determine if the applicant is responsible with current debt. Unfortunately for households without some type of debt, most consumer payments such as rent, student loans, insurance, and utilities are not reported to credit bureaus unless a problem exists. Good payment history for a credit card, auto loan, or mortgage helps build your credit score.

Since credit reports influence the direction of credit, examine your credit report for your score and to make sure that all of your information is correct before applying for a card.

Credit bureaus have recently released a new, uniform scoring system called VantageScore that you might see if your order your own credit report. This new scoring system is a little different from the FICO scoring system. Here is how to use your VantageScore credit score to predict the credit card offer that you may receive:

Score Range	Grade/Rating	Comment
901–990	Grade A/Excellent rating	Should have an easy time getting loans with the best rates.
801–900	Grade B/Good rating	Should also have an easy time getting loans with good rates.
701–800	Grade C/Moderate risk	Lender will take a closer look at the credit report and history.
601–700	Grade D/Higher risk	Likely to receive higher rates.
501–600	Grade F/Highest risk	Credit options will be limited or not available.

Don’t just apply for the first card you see. Study each card’s terms and conditions and find the APR tiers. Depending on which type of credit score you have access to, Vantage Score or FICO, you can find the proper table and reasonably guess the tier you fall into and the rate you will receive, which gives you a place to start for comparing rates.

If your application is not approved, the issuer is required to explain why. If it is a result of your credit report, the issuer must tell you how to get a copy of the report from the company that provided it. The report is free if requested within 60 days of receiving the notice that your application was denied.

Other options for applying for your first card
You may also pursue the following options when applying for a credit card for the first time.

* Ask your bank or credit union about available credit cards. If you have a checking account, then you already have a history with your bank and it may be more likely to offer you a credit card.
* Apply for a department store card or oil company card. These are easier to get than a Visa or MasterCard. Many times, applications are processed instantly. Keep in mind the interest rates for these are higher, so pay off the balance each month.
* Apply for a secured card. Secured cards are easier to get because there is no risk to the issuer. An upfront security deposit for the secured card determines the credit limit. The secured card requires that you are a United States resident with a valid social security number and a home telephone. Look for a secured card that offers an upgrade to an unsecured card after a history of on-time payments.
* Before applying for a department store card or a secured card, verify that the issuer reports payment activity to the credit bureau. These cards will not help you build your credit score if they do not report to the credit bureaus. If you use a department store or secured card correctly, you can build a good payment history in six to twelve months. Responsible usage also increases your odds of qualifying for a major credit card.

* Apply for a credit card while you are in college. While this recommendation may seem illogical, the best time to get the first credit card is during college. Credit card companies want to establish early loyalty so they target students. This is a good risk because they realize that parents will usually bail their children out of any debt problems. However, get a card while in college only if you use the card responsibly and pay it off each month.

If you have no credit or bad credit

Secured cards are for those who have no credit or a bad credit history and can't get a traditional credit card. This card may also be an option for those who have a completed bankruptcy. Consider a secured card as a short-term band-aid to repair your credit. If used correctly, a good payment history with the secured card should improve your credit score enough to allow you to qualify for a standard card in 12 months to two years.

The secured card looks like a traditional credit card—a merchant will not know it is a secured card. The difference between the secured and unsecured card is the higher rate and fees for the secured card.

The deposit for a secured card determines the credit limit. If your deposit is $300, you will receive a Visa or MasterCard with a credit limit up to $300. The security deposit is not used to pay for charges but to cover the balance if the account is closed. The deposit is held until the account is closed. You must make the monthly payments on the card or the bank will turn the account over to collections, further damaging your credit score.

The bank is willing to offer this form of credit because it receives a security deposit and keeps it as long as the card remains open. The bank is safe because it does not lose any money, as it just keeps the deposit if the bill is not paid.

A secured card has fewer requirements than an unsecured card. You must have a telephone in your home, reside in the U.S., and have a valid social security number. While many applications are accepted, you are not guaranteed to receive a card. Unpaid tax liens or undischarged bankruptcies may prevent you from getting the card. Some issuers will not offer you a card if you have declared bankruptcy in the past.

Paying your bill on time will typically result in you being upgraded to an unsecured card in about 18 months. Some cards may also increase the credit limit to more than the amount of your deposit. After 12 months of good payment history, contact the issuer about converting your secured card to an unsecured card with a lower rate and a deposit refund. After two years of good payment history, you should qualify for traditional credit cards.

From time to time, your available credit may also be limited if you give your account number or card to a merchant that processes advance authorizations, such as a hotel, motel or car rental office. Such authorizations may limit your ability to make purchases and take cash advances on your account until the merchant cancels the authorization and the issuer releases the available credit.

Make sure that the issuer of the secured card you are applying for reports to the credit bureaus. This is necessary to rebuilding your credit history. If the issuer doesn't report your history, a good payment record will not affect your credit score. Some cards require an additional fee for this. Save yourself some money and choose a card that doesn't require this fee but still reports to credit bureaus.

Since every payment is reported to the credit bureau, use this card to build up your credit. Make your payments in full and on time.

Orchard Bank MasterCard Classic is a good choice if you plan to pay off your balance each month. The opening fee is a little high compared with other cards, but it reports to all three credit bureaus.

Chapter 5:
Credit Card Rewards

Selecting the right card

Start with a strategy to select the right card. Will you use the card for every purchase, from gas to vacations, to get the most cash possible, or will you use the card sparingly and to have access to extra cash as a nice bonus?

Choose a card based on the amount that you charge each year. If you charge over $10,000 a year, then look for a card with no maximum spending limit or cap on the amount of cash you receive each year. Some cards offer tiered pricing that benefits heavy users. Blue Cash from American Express is one of the better offers for people charging $40,000 to $50,000 per year. If you charge less than $6,500 per year, the rebate is only 0.5% on general purchases and 1% on everyday purchases. Charge over $6,500 and the rebate increases to 1.5% on general purchases and 5% on everyday purchases. The spending limit is $50,000 but spending that much earns $685 in cash.

If you put all of your spending on your credit card and pay it off each month, you can take this to another level by maximizing your rebate on one card and then switching to a second cash reward card.

If you selectively use credit cards, look for a card with the highest rebate starting with your first purchase. However, if it takes you more than two years to earn a significant reward, then the card may not be a good choice. The chance always exists that the rewards program may change or end before you redeem any points.

Moreover, select a card with no annual fee. Some cards waive the annual fee during the first year then charge a fee that is typically $35 to $40. Avoid cards with annual fees because you will have to spend $3,500 each year to just cover the fee.

Even though rewards are exciting, many consumers don't use them. A national GMAC Mortgage survey concluded that while over 50% of respondents in a recent national survey of American consumers reported having at least one or two credit cards that offer rewards, more than 41% of such reward cardholders either rarely or never bother to use their rewards. The results also indicate that traditional rewards programs, such as airline miles, are losing steam, as only 13% of all respondents in the survey ranked airline miles as valuable. If left unused and inactive, some points and miles can expire after 18 months.

Cash-back reward cards

Receiving cash back for purchases sounds like a good idea, but the trick is finding the card that will provide the most cash for specific credit card usage. Cash back cards are a nice perk for cardholders with very good credit who pay off their balances each month. Cardholders who carry a balance at least several times a year should focus on cards with the lowest rates, not cards with rewards.

Other rewards may sound more exciting, but beating a cash-back card is difficult. The rewards are straightforward and you may use the cash you earn for anything, including paying down other debt. You can redeem cash rewards in smaller increments instead of waiting two years to earn enough points for a free airline ticket.

A variety of cash-back cards are available, but the rebate for most cards is 1% for general purchases and 5% on purchases made at standalone grocery stores, drugstores, and gas stations. Some card issuers will increase your reward if you redeem them for gift cards with their retail/restaurant partners or for purchases made through their online shopping site.

Redeeming cash rewards varies by company. Most disclose reward distributions in their terms and conditions. Do not assume that they automatically send you a check each time you reach a point level. Some companies require that you pay attention to your statement and request your rewards. Some apply the cash you earn as a credit to your account balance. If you don’t pay attention and don’t request cash rewards, they may eventually expire or you may forfeit them if you close the account.

Although cash-back cards seem like easy money for users, credit card companies profit from them as well. Their goal is to convert consumers to use cards for every purchase. Even if they do not make money from cardholder fees or interest, they make money on the merchant fees. The merchants pay a fee to the credit card company for each swipe of a card.

Airline rewards cards

Before you consider an airline reward card, understand that these have some of the highest rates. Even if you have good credit, a low rate is around 13%. Most rates for many airline cards starts at 16% to 18%. If you do not pay off your balance each month, do not even consider an airline reward card.

Some airline reward cards charge an annual fee, somewhere between $39 and $125. If you don't charge a significant amount on your card, this annual fee can wipe out any rewards that you earn since most airlines require 25,000 points for a free ticket.

There are two types of airline rewards: those affiliated with a specific airline and general airline reward cards with miles that you can redeem on most carriers. The cards with the most generous airline rewards and bonuses, like Citi PremierePass and Capital One No Hassle Miles, are not tied to a specific airline and give you flexibility because you can use the miles for other rewards. Some cards, like Capital One and Discover, do not charge an annual fee. The problem is that you can't combine the miles earned from these cards with the miles in your frequent flier account.

Maximizing your points

Specific airline cards, such as Citi AAdvantage, Worldperks Visa/Mastercard, and Jetblue from American Express, are good choices for people who frequently fly these airlines. Combine them with your frequent flier account to quickly increase your earned mileage and free tickets. Many airline cards offer generous bonus miles with the first purchase, bonus miles if you purchase a ticket with your card, and large discounts for companion tickets.

If you are a heavy credit card user, also consider the maximum awards per year. Annual limits start as low as 60,000 miles. If your annual mileage limit is 60,000, but you charge 75,000 miles on your card, you are not earning as many miles as possible.

There are a few ways to accelerate point accumulation. If you typically travel exclusively on one airline, join its frequent flier program and get the credit card affiliated with that airline to add the reward points to your frequent flier account. Since most frequent flier programs offer promotions and discounted flights to their members, regularly check the airline's Web site. Also look at their partner programs such as rental cars and hotels. Using these regularly can provide you with a significant boost in miles earned.

Are airline miles a good choice?
While free airline tickets are more exciting than other rewards, they are also harder to earn. Typically, 25,000 points earns one plane ticket. Since airlines are providing fewer flights and fewer available seats, booking your flights six months to 330 days before you travel is a good idea. If you are just starting with an airline card, you may wait long to earn and actually use your miles. However, as ticket prices increase, a free ticket can save a great deal of money.

If you typically take short flights, focus on a card with hotel or entertainment rewards. If your airport has several competitors or you only take short flights, chances are you will save money shopping for a cheap flight and using your rewards for a nice hotel.

Watch your miles and rewards offers

If you have several frequent flier accounts but no idea how many miles you have accumulated, it is time to review your accounts. Many airlines are shortening expiration periods for inactive frequent flier accounts; if you don't use your miles, you may lose them. For example, in January 2007, US Airways cut their activity period from 36 months to 18 months.

These changes in frequent flier mileage programs further underscores the decrease in overall rewards programs taking place in a number of industries. From 2006 to 2007, credit card companies found ways to make subtle cutbacks in reward policies, making it more difficult for consumers to reap the benefits they once enjoyed. Hotels require more points to qualify for a free room, American Express cut its reward points in half for everyday purchases, and Citi reduced the cash-back rewards on one of its cards. Consumers need to be aware that many reward programs are tightening up their terms and redeeming these benefits may get more difficult.

If you are close to losing your miles or points, here are some ways to show activity in your account:

* Fly on the airline or one of its partners.
* Purchase something from one of its retail partners. You can find items to purchase on the airline's Web site (make sure you purchase through the Web site to get the credit).
* If you aren't realistically close to 25,000 miles for a free ticket, use the miles for a hotel room or merchandise.
* Transfer your miles to another frequent flier member.

The airlines may allow you to reactivate your account for a fee. Most charge you by the mile plus a transaction fee. Unless you are very close to a free ticket, this is not worth it.

What is a mile worth?

Before you get excited about a "free" ticket, do a little math to determine the true mileage needed for an award and whether you should use cash or miles for that ticket. Industry experts generally value each frequent flier mile at between 1.5 and 2 cents. If you cash in your miles for low-priced tickets, your frequent flier miles may be worth just a fraction of a penny.

Before using your miles, read the fine print for additional fees. Just because you use your miles for a ticket, you still may have to pay fees. Chase charges a service fee of up to $25 for the use of its reward headquarters services for redemption of air travel.

Here's how to calculate whether this flight is worth your frequent flier miles:
Determine the number of miles you will actually fly then add this to the number of miles needed to claim an award. One mile is worth approximately one cent.

For example, if you are flying from Chicago to Nashville direct on American, you will fly approximately 1,000 air miles, round trip. You will receive 1,000 frequent flier miles by purchasing the ticket. Factor in the frequent flier miles lost and the true award cost for that ticket would be 26,000 miles.

26,000 miles x .01 (1 cent per mile) = ticket value of $260

The air miles are a good deal if the ticket you purchase costs $260 or more.

Comparing Airline Mileage Rewards
The following tables compare the mileage awards for several popular airlines.

American Airlines

Standard Award Levels	**Miles Needed**
Domestic round-trip, economy class	25,000
Hawaii Mile SAAver	35,000–70,000
Europe Mile SAAver	40,000–60,000

Link to full awards chart: http://www.aa.com/apps/AAdvantage/ViewMileageProgramsPartnerDetail.jhtml?fileName=americanAirlines.xml&repositoryName=AAdvantagePartnersContentRepository&repositoryId=100014&itemDescriptor=AAdvantagePartnersContent

United Airlines

Standard Award Levels	Miles Needed
Domestic round-trip, economy class	50,000
Hawaii	70,000
Europe	100,000

Link to Standard Awards chart:
http://www.united.com/page/article/0,,59,00.html

Continental OnePass

Standard Award Levels	Miles Needed
Domestic round trip, Saturday night stay economy class	25,000
Domestic round trip, economy class	50,000
Hawaii standard round trip	35,000
Europe standard round trip	50,000

Link to OnePass awards chart:
http://www.continental.com/web/en-US/content/onepass/rewards/travel/charts/default.aspx

Delta Skymiles

Standard Award Levels	Miles Needed
SkySaver Domestic round trip, economy class	25,000–45,000
SkySaver Hawaii, economy class	35,000–75,000
SkySaver Europe	50,000–90,000

Link to airline awards mileage chart:
http://images.delta.com.edgesuite.net/delta/pdfs/skymiles/multi_airline_awards.pdf

Look at flights on partner airlines

If you are having trouble getting seats using frequent flier miles with your designated airline, check out your options with its airline partners. Code-share agreements allow airlines to sell tickets on flights operated by a partner airline. These airline partners typically have reciprocal frequent flier agreements, allowing travelers to earn and redeem miles on each other's flights and to still use those miles for travel on a code-share partner. Since airlines may not volunteer this information, you have to do the research for this on your own.

Hidden fees for redeeming miles

Dig into the terms and conditions to find these "hidden fees." This is from American Express:

"For each conversion of points into the Frequent Flier program of a U.S. airline, a fee of $0.0004 per point, with a maximum fee of $50, will be charged to your Card account. We charge this fee to offset the federal excise tax we must pay on such conversions. The fee may be more or less than the actual amount of the excise tax we pay on any individual conversion. We may offer you the option to redeem points to pay this fee."

Chase charges a $25 service fee to redeem points for travel.

Hotel vs. airline rewards

Hotel cards may actually be a better choice than airline rewards, and they offer more flexibility. Using your frequent flier miles to get the exact flight that you want has become more difficult, but using your points to book a free hotel room has become much easier.

Hotel reward cards are the fastest way to get a free hotel stay. They are more generous with bonus points and points for hotel-related purchases. The Hilton HHonors card offers 10,000 bonus points after you make your first purchase, which is almost two free nights. The Starwood card from American Express also offers 10,000 bonus points after the first purchase, as well as free nights in its lowest tier for 2,000 points per night. The Starwood Starpoints also offers the fifth night free for upper-tier hotels like the Walt Disney World Swan and Dolphins hotels, the Sheraton Waikiki, and the Sheraton Manhattan Hotel.

Another advantage of hotel cards is flexibility. Hotel chains offering loyalty cards have standard to upscale hotels everywhere. Using your points on the hotel that fits your travel plans is usually easier than finding the flight that fits your schedule. If you want to use your points to book a flight, most hotel reward cards can transfer your points into your frequent flier account (before you do this, find out the exchange rate).

You can save just as much money using your rewards for hotel rooms instead of a plane ticket, especially if you stay at a nicer hotel. While you may have to use 25,000 miles to get one airline ticket, that same number of points can get your family a free room for several nights at a nice hotel. You may also use these points for room upgrades, spa time, etc.

Hotel reward cards may be your best reward choice if you are a frequent traveler. Think about where you want to go, and make sure your hotel or one of its partners operates in that location. The rewards will not help you if they don’t have property at your destination.

If you can't narrow your choice down to one hotel chain, an American Express Membership Rewards card may be good for you. You can redeem points for travel certificates for Hyatt Hotels, Marriott International, Omni Hotels, Fairmont Hotels and Resorts, Preferred Hotel Group, Loews Hotels, and Radisson Hotels and Resorts. Program hotel partners currently include *Priority Club Rewards* (InterContinental Hotels and Resorts, Crowne Plaza Hotels and Resorts, Holiday Inn Hotels and Resorts, Holiday Inn Express, Staybridge Suites, Candlewood Suites, and Hotel Indigo) and *Hilton HHonors Program* (the Hilton Family of Hotels: Hilton, Conrad Hotels and Resorts, Doubletree, Embassy Suites Hotels, Hampton Inn, Hampton Inn & Suites, Hilton Garden Inn, Homewood Suites by Hilton, Scandic, and the Waldorf Astoria Collection).

Problems with reward cards

If used correctly, you can get nice perks for using a reward card. However, issuers are not like Santa Claus and they do not give rewards out of kindness. The credit card industry is a business and offering rewards is another part of the strategy to obtain as many cardholders as possible and to make as much money as possible from each cardholder.

Reward cards may have high annual fees. In some cases, the better the rewards, the higher the fees. For example, the exclusive American Express Centurian card carries an annual fee of $2,500. Most of us do not need a card with an annual fee because many good reward cards exist that do not charge an annual fee.

Just because you earn the reward does not mean that it automatically comes to you. Redemption terms may also be complicated, making redeeming your reward difficult. Issuers also have the right to change the terms at any time, making claiming your reward more difficult, even if it is just a credit on your bill. Often, you have to call and ask for your reward. Rewards my expire if there is no account activity in as little as 18 months. Rewards may be frozen or canceled if you go over the credit limit or pay your bill late.

You will probably spend more with a reward card. The average monthly spending on a credit card with no rewards program is $465. That figure increases to $890 (Nilson Report) for a rewards card. We get caught up using our reward cards for purchases to accumulate more points, and we end up purchasing items that we may not have purchased with cash. According to Dun & Bradstreet, consumers spend 12% to 18% more when using credit cards than when using cash.

The advertised rate in the promotion may not be exactly what you get. Credit card companies offering 5% cash back on purchases usually have restrictions. Cards such as Blue Cash from American Express offer 5% cash back, but you must spend over $6,500 to get this. The Chase Business Cash Rewards card advertises up to 5% cash back, but this is limited to only a small percentage of spending.

Issuers are turning away from the straight 1% or 5% rewards that were easy to understand and calculate. Many cards now have tiers and conditions, and some cards, such as Chase Freedom, now determine rewards based on an individual's spending habits. The goal here is to encourage consumers to use the card to pay for a wider variety of purchases, ranging from dry cleaning and utilities to cell phone bills.

In 2006, GMAC Mortgage announced the results of a national survey of 3,000 Americans conduction by Harris Interactive, a market research firm acting on behalf of GMAC Mortgage. Over 50% of the respondents reported having at least one or two rewards credit cards, but 41% of these reward cardholders either rarely or never bother to use their rewards. The results also indicated that traditional rewards programs, such as airline miles, were less popular, as only 13% of all respondents in the survey ranked airline miles as valuable.

The GMAC Mortgage survey also revealed that nearly one in four rewards cardholders said that they would use the rewards more often if redeeming points was easier. Seven percent of rewards cardholders categorized the value of their credit card rewards as worthless and did not even bother with them.

Chapter 6:
Credit Card Benefits

Credit cards come with helpful benefits, but if you do not read the terms and conditions, you probably do not know the benefits that are actually available to you. If you are ever caught in an emergency, especially in a foreign country, it is good to know that these benefits are available to you.

Carriers have scaled back benefits for standard, and even some platinum level, cards. However, the higher your card level, the better the benefits. The following is a list of standard benefits. Credit card companies are not required to offer them, and some cards offer only a few of these benefits.

* ***Auto Rental Insurance***—Higher card levels such as Platinum and Gold offer larger amounts of auto rental insurance. This insurance usually covers theft of most rental vehicles and provides coverage beyond other types of insurance. It typically applies for the first 30 days of an auto rental if you rent a vehicle from a commercial car rental company.

* ***Purchase Protection***—This protects eligible purchases that you make with your credit card. The purchased item must have been working when you received or bought it, then stopped working or was damaged. This feature protects you against theft or accidental damage for up to 90 days from the time of purchase. Some purchases may be excluded and coverage may be limited by occurrence and card member account. For example, Visa will replace, repair, or reimburse you up to $500 per claim and $50,000 per cardholder. MasterCard insures you for 90 days for

theft, damage, or loss of a purchase if made with its card, limited to the cost of the item up to $1,000.

* ***Security from Unauthorized Purchases***—All card companies provide emergency assistance for lost or stolen cards. Under federal law, your maximum liability for unauthorized use of your credit card is $50. If you report the loss before the card is used, the issuer can't hold you responsible for unauthorized charges. If the card is used before you report it missing, you may have to pay up to $50 per card for unauthorized charges. If the thief uses your credit card number, but not the card itself, you will not be responsible for the unauthorized use.

Continue to review your billing statements. If they show additional unauthorized charges, send a letter to the issuer describing each charge. Include the date your card was lost or stolen, when you first noticed the problem, and when you first reported it. Send it to the address for billing errors. Do not send it to the address where you send your payments and do not include the letter with a billing statement.

All cards have dispute resolution. If you see a charge on your bill and it's not familiar to you, or you think you've been overcharged, you can call the credit card company and dispute that charge.

* ***Extended Warranties***—These typically double the manufacturer's warranty for up to a year. There are limits to coverage. For example, with Blue from American Express, the coverage is good for the lesser of

the amount charged to your card or $10,000. Save your manufacturer's warranties and receipts for any purchases that may be covered. If you file a claim, you will need them.

* ***Travel Accident Insurance***—Provides insurance benefits if you lose limbs or are killed in an accident on a common carrier such as an airplane, ship, or train (when you charge the total amount to your credit card), or during transportation to the carrier. Coverage ends when you arrive at the place designated on your ticket. Platinum cards typically offer $250,000 to $1,000,000 in travel accident insurance.

* ***Trip Cancellation Insurance***—If you die, become ill, or a carrier goes under, MasterCard or Visa will pay up to $1,500 in nonrefundable expenses.

* ***Lost Luggage Insurance***—If your baggage is delayed for 12 hours or more, some cards will give you up to $300 to buy essential items such as toothpaste, a change of clothes, etc. If the luggage was lost by theft or misdirection by the carrier, you may be eligible to receive reimbursement for your checked luggage, carry-on luggage, and their contents for the difference between the "value of the amount claimed" and the airline/train/ship payment (up to $3,000 per trip). If you are going on an extended trip or are taking expensive items, it may be a good idea to book the trip with the card that offers the best insurance for lost luggage.

Be prepared to wait for your reimbursement because the airline has to process your claim first. You must provide receipts, and terms and conditions apply. This reimbursement is supplemental to and in excess of any valid and collectible insurance and/or possible reimbursement from any other source.

* ***Travel Emergency Assistance***—Most cards offer some type of travel assistance. All American Express cards offer global assistance, an emergency hotline that helps you find a doctor, assistance with lost prescriptions, and that tells you the shots you need before you travel. MasterCard provides you with medical assistance while traveling and helps you find dentists, doctors, or pharmacies, even overseas. Certain cards cover medical evacuations. Visa offers similar benefits.

Visa offers an emergency message service to record and relay emergency messages for travelers, immediate family members, or business associates. Visa also helps you make all the necessary arrangements for emergency transportation home or to the nearest medical facility. This includes arranging to bring your young children home and staying in contact with your family members or employers.

* ***Emergency Assistance***—Most cards provide emergency customer service anytime, anywhere, and in any language. Emergency services include reporting lost or stolen cards, emergency card replacement, and emergency cash advances. If you need emergency cash or an emergency replacement card, contact your issuer to arrange a convenient pickup location for your new card or for direct delivery, usually within 24 hours.

* ***Roadside Assistance***—Most cards will arrange and pay for your car to be towed. There may be conditions, such as with American Express' assistance that applies if you are 50 miles or more from home. Other services include tire changing, jump-starting, lockout service, and fuel delivery. Visa charges $59.95 for a service call, and you are responsible for the cost of goods and services.

* ***Your Protection***—Many cards have zero liability for you if you report unauthorized charges, and all cards have emergency assistance if your card is lost or stolen. All cards have dispute resolution, meaning that if you see a charge on your bill and it's unfamiliar or you think you've been overcharged, you can call the credit card company and dispute it. These are the perks with which most people are familiar.

Using your card for car rental insurance

Car rental insurance can be expensive, from $5 to $20 per day depending on your coverage. To help save money from this cost, know the coverage you have from your auto insurance and your credit cards. However, don't assume that your credit card provides the coverage you need because not all of them carry the same benefits.

Besides your personal car insurance, some credit cards cover damage or theft to your rental car. While this may replace the need for CDW (Collision Damage Waiver) and LDW (Loss Damage Waiver) offered at the car rental counter, check with your credit card company for the types of vehicles covered and whether the insurance is primary or secondary. For some credit card companies, the insurance becomes primary only in the absence of personal collision insurance.

Since credit card companies do not provide coverage for more expensive rentals, call your credit card company for a list of the rental vehicles that it covers.

Obviously, the credit card company provides coverage only if you use its card to rent the vehicle. To activate coverage, complete the rental transaction with your covered card and decline the rental company's CDW coverage.

If you depend on your credit card for coverage, read your credit card agreement carefully to fully understand the type of coverage it offers. Ask to have current written copies of the card's policies sent to you, so that you can read them yourself.

If you are in an accident, call your personal insurance agent and report the incident. If your credit card company does not pay, you'll still be eligible for coverage under your own auto policy.

The following are questions to ask about your credit card's rental coverage:

* If you use the credit card to rent a car, what kind of insurance does the company offer? Does it offer collision and liability?

* How much liability does your credit card issuer offer and what is the deductible? Are there exceptions?
* What is the process for reporting an accident? Get a name and a phone number to contact if you are in an accident.
* How much collision coverage does your card offer and what is the deductible? Are there exceptions? Does it cover the vehicle you are planning to rent? Usually, coverage for cars is provided, while more expensive rentals such as sport utility vehicles (SUVs), luxury cars, exotic cars, and vans are excluded from coverage.
* Under what circumstances can the issuer refuse to pay in the event of an accident?
* Is the coverage still in force if you drive into another country? Are there time limits or exceptions? When abroad, you may not receive coverage, so you must buy the rental company's coverage or go without.
* Does purchasing collision insurance from the rental car company invalidate your credit card policy? For many credit card companies, the answer is yes. What about liability insurance?
* Who is covered to drive the car? Does the insurance cover just the credit card holder or does it include a spouse, adult child, or friend?

After checking with your agent and card issuer, you can then make an informed decision about coverage while renting a vehicle. Weigh the cost of the rental company's damage waiver and/or accident insurance against the cost of your deductible, possible rate increase, legal costs, and the hassles of making a claim.

To use the coverage, you must reserve and pay for the auto rental with your credit card. Do not get the collision damage waiver or a similar option.

Some types of cards are excluded and coverage may not apply outside of the U.S.

Use for international travel
The average foreign transaction fee is now 3%. Capital One and Simmons are two of the few cards that does not charge a foreign transaction fee. Some cards like American Express and Pulaski charge 2%. While no one wants to pay this fee, using a credit card may be the cheapest option for making payments while in another country.

Here are six tips for using a credit or debit card overseas:

1. Charge larger purchases. Credit cards typically provide good exchange rates. However, most cards also charge a 3% foreign transaction fee.

2. Use ATMs for cash. ATM cards offer good exchange rates but come with fees. The typical surcharge is $2 per transaction. Some also add foreign transaction fees. Ask your bank if it has banking partners that waive the fees. Also ask your bank what you should do if the ATM only recognizes four-digit PINs.

3. Do not use your credit card at an ATM to get a cash advance. Cash advances charge exorbitant transaction fees and surcharges. Unlike regular purchases, cash advances command a steeper interest rate that begins accruing immediately.

4. Know the exchange rate. Local banks and some hotels are the best places to exchange currency.

5. Keep some local currency and traveler's checks for emergencies. It is a good idea to have some of the local currency with you when you get off the plane.

6. Notify your bank and credit card issuer that you are leaving the country. Otherwise, they may view the transactions as suspicious activity and freeze your account.

Find an ATM that is part of the Global ATM Alliance; they do not charge transaction fees. Before your trip, contact your bank to obtain the fees, including conversion fees, for overseas transactions and whether they waive such fees if you submit a receipt. Ask if your bank is part of an ATM alliance that waives fees, and which international banks are part of the agreement.

Exchanging currency may be the most costly transaction, depending on where you exchange your dollars. Doing this is particularly expensive at airports and hotels.

Whether you use a credit card or a debit card, contact the issuer and let it know you are going overseas. This will help avoid the possibility that they deny your transactions because of fraud detection procedures.

Chapter 7:
Credit Card Debt

Debt is like an infection—the longer you put off taking action against it, the larger it grows and the worse the situation becomes. Unfortunately, you can't just apply an ointment or take a pill to get rid of debt. The only way to get rid of debt is to spend less than you earn.

Even though debt has become a part of our culture and everyone seems to be in debt, securing your financial future or getting ahead by borrowing money and paying interest is impossible. The average household pays 14.5% of its budget to debt obligations. Among families with debt of any kind, including mortgages, other loans, and credit cards, the median amount of debt is $55,300.

Debt is not just a problem for people earning average or below average incomes. Households with large incomes create debt problems for themselves by buying a lifestyle they can't afford. As the paycheck increases, ways to spend also increase. Some people live in a big house but cross their fingers to make their monthly payments.

Unfortunately, credit cards make it easier to give into instant gratification and buy more "wants" than we actually need. With a credit card, you do not feel or see the money leave your bank account when making a purchase, and before you know it, you are in debt. If you only pay the minimum balance, years from now you will still be paying for purchases that have been long forgotten.

Help for getting rid of credit card debt

If you have credit card debt, you are not alone. According to the Federal Reserve, 46.2% of all families now carry a credit card balance. The mean credit card balance is $5,100 and the median balance is $2,200. The average household with a 14.9% interest rate on a $5,100 balance pays $760 per year in interest payments.

The following are suggestions for getting out of debt.

1. Confront your financial problems. Too many people deny that debt exists. They purposely do not open letters from creditors, thinking that such action will ease the pain. However, denial only leads to more debt. The only way to start climbing out of debt is to admit the problem and start tackling it.

2. If you have debt, realize that it took time to get into debt, and it will probably take you longer to get out of debt. Do not get discouraged, no matter how little you are able to pay off each month or how long it takes you to becoming debt-free. Being debt-free is worth the effort.

3. Get a clear picture of your debt. Simply paying the minimum balance on each bill without knowing exactly how much you owe is easy. To get a clear picture of your debt, collect all of your bills with outstanding debts, including all credit cards, mortgages, student loans, auto loans, personal loans, and bank loans. Create a summary sheet that lists the creditor, monthly payment, balance, interest rate, and credit limit for each.

List the status of each account, whether any bills are past due, and verify the payment due dates.

4. Prioritize the bills to pay first. If money is tight and you have to make choices about what to pay, first pay the bills that are a necessity for health, shelter, basic groceries, and basic transportation. Then pay the secured loans, such as your car loan. Since credit cards are unsecured, pay them last.

5. Contact your creditors to negotiate lower rates. The less money you pay in interest, the more money you have to pay off your bills. Start with your lenders and ask for a lower rate. If that doesn't work, shop around for a mortgage or credit card with a lower rate.

If you are in danger of missing a payment, contact your creditors as soon as you realize you have a problem. They may be able to help you work out a payment plan, lower your rate, or lower your monthly payment. It is better business for them if you keep making your interest payments and avoid bankruptcy and foreclosure.

If the first person you speak with can't lower your rate or make adjustments to your account, ask to speak with a supervisor or someone who can. You may need to be persistent in finding the person who can or will help you. Explain that you are in debt, the steps you are taking to repay your obligations, and what you can pay today. Document all conversations, including whom you spoke with, the date and time, and the results.

6. If you are struggling to make a payment, contact your creditor to work out a payment plan.

7. If you have a high interest rate, transfer your balance to a card with a lower interest rate. If your rate is above 12%, transfer the balance for that card to one that offers 0% for 12 months for balance transfers. Getting 0% for 12 months is a great opportunity to pay down your balance. To take full advantage of this 0% interest, pay as much as you can over the monthly minimum.

You must be diligent about making your payments on time. A late payment may immediately increase your rate to the default rate. Most cards charge a balance transfer fee of 3%; pick one that has a cap on the balance transfer fee. The amount you save on interest payments should more than offset the fee. Since the purchase APR may be higher, do not even put the card in your wallet; simply use it to pay off your balance. Continue to pay the minimum on your other cards until you have paid off the one with the highest rate, and then focus your effort on the card next in line.

If you have a card with a lower rate that is almost at its credit limit, you may want to start with this card. Reducing your debt/credit limit ratio helps your credit score. Get your balance down to 30% of your credit limit, and then focus on other cards that have balances close to their limits.

8. If you have balances on multiple cards, focus on the debt with the highest rate. Pay it off, then move on to the debt with the next highest rate. Pay as much as you can over the minimum.

9. If you have a credit card balance, stop using it for anything other than necessities. Use cash instead. Credit cards are convenient, but if you carry a balance, you are still paying interest for dinners, clothing, entertainment, and things that are long gone. If you use cash, you will not only save money on interest, but you will also reduce the amount you spend.

10. Pay more than the minimum amount for your loans, especially credit cards. Credit card issuers set the minimum payment at approximately 2% of your balance. This reduces the payment smaller but makes paying off the balance almost impossible, so try to add at least $10 to your minimum payment. Look for areas where you can cut back on spending like entertainment, eating out or clothing. Use this money to accelerate your debt payments. Doubling or tripling your payment will help you pay off your debt much faster. The following example illustrates the benefits of paying more than your minimum balance.

Assume that you have a credit card balance of $8,000 and your interest rate is 12%. If you pay just the minimum amount of 2% each month, it will take 346 months to pay off the balance and will cost $7,696 in interest. If you pay 5% of your balance each month, it will take 109 months to pay off and will cost you $1,579 in interest.

11. If you are surprised by your current rates, check your credit report. Your report may contain an error that is creating a higher credit score and higher interest rates for you. If you find an error on your credit report, contact the credit bureau to report it. The bureau must respond to your claim within 30 days or remove the incorrect or unverifiable information. You can make your dispute by mail, telephone, or online. If the corrected error results in a higher credit score, contact your creditors to make sure they know about your improved score, and ask for a lower interest rate.

12. If you need more than three years to pay down most of your debt and if cutting expenses won't realistically help you pay off your debt, contact a reputable debt counselor. The National Foundation of Credit Counseling (nfcc.org)is a good place to start.

Know your debt-to-income ratio

Paying off your credit card debt is important for two reasons. Doing so eliminates the amount you owe and frees up money to start saving and investing, and it improves your credit score. Available credit (debt-to-income ratio) is one of the largest factors in your credit score. You are a risk if you use almost all of your available credit. The lower your balance is compared with your credit limit, the lower your risk and the better your score. Paying off your balance shows that you are responsible with your debt. You goal should be to have your balance at less than 20% of your credit limit (and then pay it off).

Your debt-to-income ratio indicates how much of your income you use to pay debts like credit cards, loans, and mortgages. If you apply for a loan or a credit card, lenders look at this ratio to determine whether you can afford the new debt and whether you present a risk for not paying it off. If you are close to the credit limit with any loan balance, lenders are likely to charge you a much higher interest rate to compensate for their risk. If a lender denies you credit, then you have the right to obtain a free copy of your credit report from the credit bureau used by the lender to make its decision.

Here's how to calculate your debt-to-income-ratio:

1. Add up all of your monthly debt payments. Include car loans, student loans, medical bills, etc. While you are at it, also add the total owed so you know where you stand with your total debt. Do not include utilities.

2. Add up all of your sources of income. Include payroll checks, child support, and additional monthly income. If you are paid hourly or receive regular overtime pay, use an average week and then multiply by four.

3. Divide monthly debt payments by monthly income to determine your debt-to-income ratio. If you calculate your overall debt-to-income ratio, including your mortgage, revolving, and unsecured debts, and it is under 36%, most lenders will consider you to have a healthy debt load. Try to keep your debt-to-income level related to your unsecured (credit cards, car loans) debt below 20%. Maintaining this ratio under 15% will help you qualify for the lowest rates.

The dangers of a high debt-to-income ratio

According to myFico.com, the typical consumer has access to approximately $19,000 on all credit cards combined. The majority of credit card consumers use less than 30% of their total credit card limit. However, over 15% of consumers use 80% or more of their credit card limit.

If your debt-to-income ratio is over 35%, you may have trouble getting a conventional mortgage, but you can still get a credit card. This is a good time to pay down your credit card balances to reduce your ratio.

If you are anywhere close to using half of your income to make debt payments, chances are that financial trouble is coming. You are probably paying high rates with no real hope for lowering them. You may also be in danger of being hit with devastating default rates. Get serious about paying down your debt before an emergency hits.

A good place to begin reducing your debt-to-income ratio is to pay down your credit cards. Creditors view balances close to the credit limit on any card as problematic. If you must carry a balance, try to get it below 20% of your credit limit.

The good news is that reducing your debt ratio is one of the fastest ways to boost your credit score. Make paying down your balances a priority. Cut spending where you can or start selling things and use that money to pay down your balances.

Credit repair/credit counselors—genuine assistance versus scams

Credit repair companies are big advertisers and they make climbing out of debt look easy, as if they can just use a magic eraser to wipe away all of your debt issues. Their claims of "credit problems, no problem," are too good to be true. The only way to repair your credit is to create a personal debt repayment plan, dedicate yourself to it, and give the process some time. Only time, work, and a personal debt repayment plan will improve your credit report.

Credible help is available to assist you in putting together a debt management plan. The National Foundation for Credit Counseling (NFCC) is a good place to go for counseling and debt advice. The NFCC provides education on debt and budgeting. The link to their Web site is http://www.nfcc.org. You may call them at 1-800-388-2227 and they will refer you to an accredited NFCC member in your area.

Avoid these additional debt opportunities from your credit card company

Credit card issuers are not content with just making money on the interest payments and fees from your credit card charge. They also promote additional opportunities to increase your debt. Unless you have an extreme emergency, such as someone in your family is about to die if you don't have cash, avoid both of the following credit card features.

Cash advances

According to the Nilson Report, 22.5% of total transaction volume in 2005 for Visa and MasterCard was cash transactions—ATMs, counter payments, paper checks, or electronic interbank payments. Cash advances, with their 3% fees, are expensive. The interest rate for your cash advance loan can be between 20% and 24%, depending on your credit card. If your cash advance is $500, you pay a $60 fee and $120 in interest during the first year. Since issuers apply your monthly payment first to the balance with the lowest rate, if you have a $5,000 balance, you have to pay that off before your payments are applied to your $500 cash advance. Moreover, you are charged interest as soon as you get the cash advance.

You can get cash advances at ATMs or as additional cash back at a grocery store. If you must get cash with a purchase, use your debit card instead.

Convenience checks

Issuers send out convenience checks, typically in sets of three, to their cardholders. Convenience checks are tied to your account and allow you to borrow from your line of credit for purchases or balance transfers. Although they sound good in the promotional letter, there is absolutely no reason to use a convenience check. Using them usually comes with a steep fee—anywhere from 2% to 5% of the amount of the check. Some issuers levy a minimum fee of $3 per convenience check. Since these don't require a signature for activation, they are also an easy target for theft or abuse. Shred these checks as soon as you get them.

Your issuer may advertise a low rate, but it may not be the rate you receive, which is based on your creditworthiness. You could receive a higher rate than what is advertised.

Since you can deposit the money into your account, convenience checks also require discipline on your part. If you intend to use the checks for balance transfers, avoid using the money to purchase new furniture, which will only add new debt.

Unlike credit cards, convenience checks do not offer purchase protection or extended warranties for purchases. Some offer deferred payments, or no payments for three months. Do not fall for this trap, as the issuer still charges interest during the months that you are not making payments.

Difference between bad debt and good debt

Bad debt is typically for purchases that you can consume quickly or that lose value the moment you buy them. Spending money on them reduces the amount you are worth and your opportunity for savings. Examples of bad debt include credit card loans, auto loans, and loans for furniture, parties and vacations. Do you really want to borrow money to buy clothes, groceries, or lunch at McDonalds?

Not all debt is bad debt. Good debt has the potential to increase your net worth or your cash flow. For example, debt for a mortgage (that you can safely afford), a loan to invest in your business, or an educational loan may be considered good debt. Your home or business may appreciate in value and one day be worth more than the loan. Just don't borrow more than you can afford.

Paying off credit card debt with a home equity loan
According to a recent Nilson Report, household debt has grown by 147% in the past 10 years while credit card debt has increased by 69%. One of the factors in credit card debt slowing to less than half of household debt is that consumers have borrowed against equity in their homes to pay down credit card balances. The 2005 Census statistics show that almost 20% of all owner-occupied housing units have a home equity loan or a home equity line of credit. However, the mortgage industry crisis in 2007 has made it more difficult for consumers with average or poor credit to get such loans.

In the right situation, a home equity line of credit (HELOC) can be a good option for reducing credit card debt. The first thing you should do is review your past experiences with debt. If you chronically have problems paying down your credit card balance, such as going over the limit, being unable to manage your debt, or continuing to add to your balance, then a HELOC may do much more harm than good for you.

However, if you have made progress paying down your balance and have a plan to control your spending, then the HELOC may be a good option. The principle behind a HELOC and a home equity loan are the same—get the lowest rate you can, pay it off as soon as the terms allow, and get yourself out of debt to allow yourself to pay cash and avoid using your credit cards again.

A HELOC allows you to borrow money using the equity in your house as collateral. It is still a revolving loan, but the advantage is that home equity loans have much lower rates than credit cards. You are still liable for the debt from your credit cards but you are moving it and paying a lower interest rate on it. The best use of a HELOC is to save money on interest payments and then applying that saved money to pay off more of your balance, significantly speeding up the process of paying off debt.

Advantages of a HELOC:

* Converts your loan from a high interest credit card loan to a loan with a much lower interest rate. If used correctly, it can help you pay down your debt much faster.
* Shows fewer outstanding loans on your credit report.
* Depending on your specific situation, you may be allowed to deduct the interest for tax purposes because the debt is secured by your home.

Risks of using a HELOC:

* A HELOC is debt that you have to pay off. Treat this as a one-time, get-out-of-debt event. If you even suspect that you don't have the discipline to put away the credit cards, don't use a HELOC. If you get into deeper financial trouble, or run up more debt, you are putting your home at risk.

* The loan is based on the value of your home, which is variable. Don't assume that the value of your home will never decline. The value of equity is just a number on paper until you actually sell your home. If the value of your home drops, so does your equity.
* Just like a mortgage, a HELOC comes with fees and paperwork. Fees include property appraisal fees, application fees, and closing costs such as attorney fees, title search fees, and mortgage preparation fees.
* Do not tap into a HELOC to live beyond your means or to purchase travel or leisure products. Use it only for expenses with long-lasting benefits like education, home improvements, or debt reduction.
* In most cases, there are penalties for paying off the loan early. If you think you will move from your house in less than five years, a HELOC is probably not a good option for you.

Depending on your creditworthiness, you may borrow between 75% and 85% of the appraised value of your home through a HELOC, minus the amount you still owe on your first mortgage.

For example, assume that the market value of your home is $100,000 and your outstanding mortgage is $30,000. Eighty percent of your home's value ($100,000 x 80%) is $80,000. Subtract the $30,000 you owe, and $50,000 is the maximum amount you may be able to borrow under a HELOC.

Keep in mind that a HELOC is still debt; it just costs you a little less in interest. The goal continues to be to pay down your debt as soon as possible. The less debt you have, the better off you will be.

High balance on one card vs. smaller balances on several cards

If you have two credit cards, combining the balances onto one card and closing the other seems logical, especially if one card has a lower rate. However, this may actually be a negative action for your credit score. Since debt allocation and debt ratio are major components of your credit score, it is better to have small balances on several cards than a large balance on one card. Your goal should be to have a balance that is less than 20% of your credit limit and pay that off as soon as you can.

How to protect yourself during a credit crisis

If there is one thing we learned from the mortgage crisis of 2007, it is that debt has consequences. If used incorrectly, debt can be painful for both the lender and the person with the loan. If you have debt, especially credit card debt, then you have the potential for a credit crisis. The following are ten ways to protect yourself during a credit crisis.

1. Make increasing your credit score a priority.

Currently, higher credit scores are needed to get a loan. In 2007, consumers with a FICO credit score of 720 points or higher could expect lower interest rates. The higher your credit score, the lower your interest rate, and the less money you pay for interest payments, so increasing your credit score is very important. Start by getting your free yearly credit report at http://www.annualcreditreport.com. Your report tells you what is being reported about you and allows you to correct any errors and inaccuracies. Pay your bills on time. Keep your credit card balances low, under 20% of your limit for each card. Build a history with your accounts; get one or two good credit cards and keep them.

2. Prioritize your expenses. First pay expenses necessary for survival, such as food, housing, and utilities.

3. Call your creditors and ask for a lower rate. If your rate is over 12% and you have a good payment history, call and ask for a lower rate. The number is on the back of your credit card or bill. Tell your issuer that you have been a good customer and would like a lower rate. Make it clear that you have received several offers with lower rates in the mail, that you have researched cards with lower rates online, and that you want a lower rate on your card or you will switch to another card with a lower rate. Ask what they can do to help you.

4. Understand the status of your mortgage and ask for a lower rate. If you have an adjustable rate mortgage, know how it will readjust to protect yourself against a sudden rate increase. If you are in danger of foreclosure or have payment problems, contact your lender to ask for a lower rate. In 2007, after the start of the mortgage problems, Washington Mutual announced that it was refinancing sub-prime loans at discounted rates to help homeowners avoid foreclosure. Mortgage lenders don't want to end up with unsold homes. Even if you have a good payment history and are not in danger of foreclosure, this may be a good time to call your lender and refinance for a lower rate.

5. If you are in danger of missing a payment, contact your creditors as soon as you realize you have a problem. They may be able to help you work out a payment plan, lower your rate, or lower your monthly payment. It is better business for them to keep you paying your debt and interest payments and avoiding bankruptcy and foreclosure.

6. If you are in financial distress without a plan, contact a credit counselor. Credit counselors advise on general budgeting, foreclosure, bankruptcy, and credit card repayment. They walk you through your household spending budget and suggest ways to cut expenses and pay down your debt. To find a legitimate counselor, contact the National Foundation for Credit Counseling at http://www.nfcc.org, or call 1-800-388-2227.

7. Pay attention to the notices you receive in the mail from your lenders. Credit card issuers and other lenders have the right to change the terms and conditions of your loan; they simply have to mail you a notice. They can increase your interest rate or lower your credit limit. If you are unaware of the changes, you could find an expensive surprise in your monthly bill.

8. Avoid using your credit card for cash advances. Cash advances may be an easy way to get cash in a crunch, but they are extremely expensive. Interest rates on cash advances are between 20% and 25%, and the fee is 3%. If you are close to your credit limit and aren't paying attention, a cash advance may put you over your limit, which will generate a $39 fee and a red flag on your credit report.

9. If at all possible, avoid tapping into your retirement account. Besides losing the benefits of tax-free growth and providing money for retirement, you have to pay steep fees and taxes if you tap into your retirement fund prematurely.

10. Save for the down payment on your house. The days of 100% interest loans are over. To protect yourself, go back to the old rule of saving 10% for a down payment on a house. This is still a good idea because it is another protective measure to ensure that you can actually afford the house, and it reduces your monthly payment.

What happens if you don't pay your credit card bill?
If you do not pay anything on your credit card balance for several months, the credit card issuer will assume that you do not intend to pay at all and they will charge-off your account. A charge-off is an accounting entry that occurs if a credit card account has not been paid (delinquent) for a certain period, typically 180 days. The issuer will remove the account from its books as an asset. After the account is charged off, the outstanding balance is then classified as a loss. This means that the lender has given up hope of collecting on the debt. The lender then sells the debt to a third party, typically a collection agency, who will attempt to collect the debt. Since the collection agency gets to keep the money it

collects, it will be very persistent about collecting what is owed.

A charge-off is not a magic eraser that simply removes the debt, and it certainly does not free you from paying the debt. After the charge-off, you have to deal with the pressure from a collection agency. Unless you declare bankruptcy, you have to pay something for that debt, plus interest and fees. To make the situation worse, charge-offs are devastating to a credit score. It shows that you have a history of not paying your bills, which means that lenders will give you very high interest rates for any future loans that you apply for, whether a car loan, a home loan, or even a new credit card.

Chapter 8:
Getting Started with no Credit History

College students and credit cards

If it is time to help your son or daughter to apply for college, it is also time to talk with them about managing their finances, especially credit cards. Even if your teenagers have no source of income and no credit record, credit card issuers are going to find them. According to Nellie Mae, an incoming freshman with no debt in September will have approximately $1,500 in credit card debt by May. Parents must teach their teenagers about finances, including correctly using credit and selecting the right credit card. Staying out of debt and building a good credit score should be one of the most important lessons that you teach your child.

Authorized users on credit cards are not responsible for paying the balances but are approved to make purchases with the cards. Often, authorized users are family members of a cardholder, such as college students, who have little or no credit of their own.

Parents no longer have the option to just add their children as authorized users on their credit cards. Fair Isaac, the company that created the FICO credit score, no longer factors the scores of authorized users into its FICO accounts. This change means that college students should apply for a credit card in their own name while they are in college, because this is the easiest time in their lives to get a credit card. If they wait until after college, they will probably have to start with a secured card or a store card to begin building credit.

Credit card approval for college students is easier because credit card issuers evaluate each applicant based on risk and the likelihood of repayment. They know that college students are an acceptable risk because they have parents who will probably pay off their debt if there is a problem. However, unlike parents, credit card issuers are not compassionate, forgiving, and understanding if the cardholder gets into debt trouble. There are consequences, such as fees, rate increases, and, most importantly, damage to their new credit score.

Parents should start by sitting down with their children, discussing their own credit card bill, and explaining finance charges, grace periods, and minimum payments. Explain rotating balances and how much extra you pay each year in interest by making only the minimum payment. Show them a copy of your credit report and the effect of credit cards and other debt on their credit score and future financial options.

There are many credit cards available and the choices can be confusing. Help your student shop around for the best credit card. Studies show that most college students apply for a card based on a direct mail offer. The promotion often makes these cards sound good but hides the true terms and fees, making it easy for a first-time applicant to get the wrong card.

Parents can help set controls by making sure their new cardholder has a low credit limit of around $500 and by requesting that he or she not be allowed to charge anything over that limit. Moreover, make sure that your child signs up for payment reminder alerts that tell him or her when he or she is approaching the credit limit.

Suggestions for college students using credit cards:

* Get only one card and pay it off each month. Keep this card to build a long credit history.
* Only use credit cards for emergencies, not for gas, food/groceries, clothes, vending machines, or fast food restaurants. It is too easy to use the card for a quick meal or impulse purchase without considering the premium that the high interest rate adds.
* Pay off the balance each month. Forty-four percent of undergraduates say that they make more than the minimum payment but generally carry forward a balance (Nellie Mae). If, from freshman year, they only pay the minimum on a $1,500 balance, they will end up paying over $3,400 in interest and it will take them 26 years to pay off their balance (assuming an 18% interest rate and a 2% minimum payment).
* Avoid department store credit cards, especially at a time when it is easy to get a standard MasterCard, Visa, or American Express card. Although a discount to a favorite store is attractive, store cards have the highest rates available.
* Sign up for online alerts from the card issuer. They now notify you when you are close to your limit and before your payment is due.
* Avoid using credit cards for cash advances. The rates and fees are extremely high for such transactions.
* Know your credit limit and review it each month. The credit limit may be as low as $500.

* Pay your bill one week before the date it is due. Default rates also apply to college students. If you exceed the credit limit or have one late payment, the interest rate could jump to around 30%.

Teenagers and credit cards

Teenagers are coming into contact with credit cards at an earlier age, and prepaid cards are aimed directly at young teenagers. These cards are being advertised as an opportunity for parents to monitor spending and to set spending limits, while giving teenagers flexibility and spending independence. Parents are encouraged to load money onto the card for allowances and payment for chores. Teenagers are then able to use the card just like a credit card and to spend up to the pre-set limit. Is handing your child a prepaid credit card a good lesson in personal finances?

Even though the marketing makes them sound harmless and even helpful, do we need to be teaching our kids how to use credit cards this early in life? Credit cards issuers are smart; they realize that this is a good way to get kids hooked on credit cards at a very early age, and issuers hope to establish brand loyalty for a lifetime.

Early use of cash instead of credit cards is wise instruction for money management. Before we teach kids how to spend, we need to teach them how to save. They need to know how to designate a percentage of their money for spending, but more importantly, a larger percentage for savings. They need to learn how to save money in their own bank, watch it accumulate, and then take the cash to make a purchase.

We value our money much more if we actually spend cash instead of using our credit card. We are much more careful with our purchases if we realize that the money is actually gone after we make the purchase.

Of course, these cards come with fees. PAYjr charges a $4.95 enrollment fee, a $3.95 monthly maintenance fee, and a $0.50 load fee for each load. Payoneer charges a $9.95 activation fee, a $3.00 monthly fee, a $1.35 ATM withdrawal fee, $5.00 for the first load, and $2.00 for all other loads.

Money management tips for newlyweds
Even if you mastered money and credit issues while in college and are now working, these issues present a new challenge after you get married. Since finances cause the biggest strains on marriages, establishing a financial plan before your wedding day is important.

The following are a few money management tips for newlyweds:

1. In the same way that you have a wedding rehearsal to know where to stand at the ceremony, you should also have budget rehearsals to know where you stand financially as a couple. Don’t assume that because you are combining incomes that you will have twice as much money. Before you get married, calculate your combined income, debt, savings, assets, and expenses to know exactly what you have and what you will have to pay for.

2. List all of your debt: credit cards, student loans, car loans, wedding/honeymoon bills, engagement ring payments, mortgage, money owed to parents, etc. Your monthly debt, including your mortgage, should not exceed 35% of your gross income.

3. Get a copy of both of your credit reports. This will give you a clear picture of how both of you handle money and it will help avoid any future surprises. Aim to get your score over 750 to receive the lowest interest rates for your first mortgage and other loans.

4. Control your loans. Don’t apply at the same time for a mortgage, an auto loan, a credit card, and financing for new furniture, especially during the first year of your marriage. Each of these will be reported on your credit score. Multiple new loans are a red flag that you are a credit risk, which can reduce your credit score and increase the interest rates you pay. Just because you qualify for a credit card or a mortgage doesn’t mean that you can afford it.

5. Don’t use a credit card if you can’t pay for it with cash. If you currently carry a credit card balance, pay for everything in cash until the credit card balance has been paid off. When you have a credit card balance, every additional purchase you make with that card is a loan and will add interest to the original purchase price.

6. Keep major purchases, savings accounts, loans, and credit cards in both of your names so that you each have equal access and can build a good credit history.

7. Admit to being a spender or a saver. With a budget and compromise, these types of people can live in together harmony.

Protecting your credit during a divorce
Even after a divorce is in process or is final, your ex-spouse can ruin your credit. If you have a joint account and you are still registered as a co-owner of the account, you’re considered fully responsible for that debt. If you’re considering divorce or separation, pay special attention to the status of your credit accounts.

In most cases, you can avoid post-divorce credit problems by closing joint accounts and accounts in which your former spouse was an authorized user, or ask the creditor to convert these accounts to individual accounts. When you cancel joint accounts, cancel all of the cards that you had together. Both of you should get cards in your own names. As long as there’s an outstanding balance in a joint account, you and your spouse are both responsible for it. If you maintain joint accounts during your divorce, it’s important to make regular payments so your credit record won’t suffer.

Even if you have a divorce decree stating that you are not responsible for the other’s credit accounts, creditors can still come after you for payment because they were not parties to the decree. You may still be legally responsible for paying off your joint accounts.

By law, a creditor cannot close a joint account because of a change in marital status but can do so at the request of either spouse. A creditor, however, does not have to change joint accounts to individual accounts. The creditor can require you to reapply for credit on an individual basis and then, based on your new application, extend or deny you credit. In the case of a mortgage or home equity loan, a lender is likely to require refinancing to remove a spouse from the obligation.

Find tips from the FTC about divorce and credit at http://www.ftc.gov/bcp/conline/pubs/credit/divorce.shtm.

Chapter 9:
Credit Score

What is a credit score? Why is it important?
Your credit score is a representation of your credit report and payment history. Every time you apply for a loan, use a credit card, miss a payment, or go over your credit limit, that action generates a report to one of the credit bureaus. Your credit action is factored into a formula that generates your credit score.

Lenders use this credit score to help determine how likely you are to pay a loan when it is due. It is their way of planning for the risk they take when giving you a loan. The higher your score, the lower your perceived risk of default and the lower your interest rate. Your credit score is used not only for all types of loans (credit card, mortgage, auto, etc.); insurance companies and employers during the job interview process may also use it.

For a number that is so important to your financial well being, credit scoring is a bit of a mystery that varies with each agency. It is difficult to predict with complete certainty exactly what your score will be and how you can change it. There is no way to predict how every action will affect your score, or how quickly.

Using FICO scores as an example, a FICO score above 720 indicates very good to excellent credit and should be the score that you aim for. A high credit score saves you money through better loan offers with lower interest rates. If you have a low credit score, you will be charged high interest rates for all loans and credit cards. If your credit score drops, credit issuers may increase your interest rates, even if you still pay on time. A score of around 620 is the cutoff for lenders; if your score is below that, you fall into the difficult world of sub-prime lending.

Saving money or paying off debt is easy to talk about, but difficult to put into action if you don't have a realistic plan and goal. A good place to start is with your credit score. Households with a low credit score and high debt probably have high interest rates on credit cards, mortgages, and auto loans, and even higher insurance rates. If you make the effort to raise your credit score, these rates will come down and leave you with more money to either save or use to pay down your debt. If you ignore your credit score, you could pay thousands more in interest over the life of your loan.

Check your score? What does it mean?

Getting a copy of your credit report twice a year from all three credit bureaus is a good idea. The credit bureaus charge a fee (typically $5 to $10) for each report. Experian (888-397-3742), Equifax (800-685-1111), and TransUnion (800-888-4213) issues credit reports.

There are two types of credit scores: VantageScore and FICO. This table describes what your credit score means using VantageScore:

Score	Grade	Comment
901–990	Grade A	Excellent rating. Should have an easy time getting loans with the best rates.
801–900	Grade B	Good rating. Should have an easy time getting loans with good rates.
701–800	Grade C	Moderate risk. Lender will take a closer look at you.
601–700	Grade D	Higher risk and higher rates.
501–600	Grade F	Highest risk. Credit options will be limited or not available.

This next table describes the meaning of your FICO score:

Score	Grade	Comment
Over 750	Excellent	Should have an easy time getting loans with the best rates
720 or higher	Very good	Should have an easy time getting loans with good rates
660 to 720	Acceptable	Lender will take a closer look at you
620 to 660	Uncertain	Higher risk and higher rates
Less than 620	Risky	Credit options will be limited or not available

Understand the formula for your credit score

The credit score formula has several variables that affect its calculation. The following are such variables. Understanding these is important in helping you manage your credit score.

Variable	Weight in Formula	Comment
Payment History	35%	Do you pay all of your bills on time? Making late payments, having bills go to a collection agency, or declaring bankruptcy all adversely affect your credit report.
Amounts Owed	30%	If the amount you owe is close to the limit for any of your accounts, it will drag down your credit score. Keeping your debt at lower than 35% of your credit limit is a good idea.
Length of Credit History	15%	This variable measures the length of time you have had each account. A long credit history indicates stability and lower risk. Having paid your mortgage on time for years is a good boost for your credit score. On-time payments and consistently low balances can offset a short credit history.
New Credit	10%	Applying for multiple new accounts may drag down your credit score, as it reflects a higher possibility of overextending yourself, increasing your risk of default. The bureaus keep track of all inquiries into your accounts. The inquiries can hurt your score if you have a short credit history or few accounts.
Types of Credit Accounts	10%	This variable factors in the types of credit accounts that you have, including credit cards, auto loans, mortgages, student loans, business loans, etc. A mix of loans, such as credit cards and a mortgage, and a good payment history, may help your score. You score is reduced if the majority of your accounts are with credit card and finance companies.

Who uses your credit score?

Credit scores are a fast and easy way for all types of businesses to make a quick judgment about you. Creditors use the score to determine whether they will give you a loan and how much interest to charge you for that loan. Having bad credit costs you more in insurance premiums. Some employers review credit reports and factor that into their assessment of you as a possible employee.

According to a recent survey released by Visa USA, the majority of Americans do not know that a bad credit score can keep them from getting the job they want. In the survey, only 20% of Americans knew that it is legal for employers to refuse to hire job applicants with low credit scores. Credit score checks join drug testing and criminal background checks as part of the interview process.

Tips for maintaining a good credit score

* Pay your bills on time. Late payments, the most common piece of negative information appearing on credit reports, are often responsible for significant drops in credit scores. Make at least the minimum payments on your credit cards and loans on time each and every month.
* Pay down your credit cards and close newer accounts that you don't use and will not use in the future. It is a good idea to maintain your oldest accounts because longevity with these long-standing accounts looks good on a credit report. If these cards don't have a good rate, contact the issuer and request a lower rate.
* Keep your debt–equity ratio under 30%.
* Use your credit card regularly and pay it off each month.

* Keep your bank record clean; an insufficient funds problem with your bank could show up on your credit report.
* If you have a good credit card, keep it. Maintaining a card and building a good payment history helps build your credit score. Creditors want you to have a long, dependable credit history.
* If you are just getting started, don't open several new accounts all at once because they will lower your average account age. Opening too many accounts during a short period looks risky if you don't have an established history.
* Having a variety of loans that you pay on time each month, such as a mortgage or car loan, helps build your score. Get into the habit of paying all bills, including mortgage and utilities, before the due date.
* Pay off your balances; don't continue to transfer them to another card or loan. If you are having trouble paying your bills, contact your creditors to work out a payment plan or see a legitimate credit counselor. This will help you manage your credit and improve your score over time. A good place to start is the National Foundation for Credit Counseling, at http://www.nfcc.org.
* If you are closing a credit card account, write a letter to the issuer telling it to close your account. Tell the issuer to notify the credit bureaus that the account has been closed at your request. Keep copies of these letters. In 45 days, double-check to make sure that the account has been closed.
* Bankruptcy and late payments can quickly lower your credit score; however, improving your score

will take time. Although improving your credit score takes a plan, discipline, and organization, it is worth the effort and is the most important step to improving your finances and building a secure financial foundation.

The effect of credit scores

The following is an example from FICO showing the effect of credit scores on interest rates for a $216,000 30-year fixed mortgage. The lowest score pays $227 more per month than the highest score.

Score	Interest	Monthly Payment
760–850	5.86%	$1,275
700–759	6.08%	$1,306
680–699	6.26%	$1,331
660–679	6.47%	$1,361
640–659	6.90%	$1,423
620–639	7.45%	$1,502

Reasons for a bad credit score

There are several reasons why you may have a bad credit score.

* The amount you owe is too high. Carrying a lot of debt will pull your score down. Creditors view you as a risk of default if you are close to the limit on your credit cards.
* You have too many accounts with a balance. Limit your response to credit card offers. Each time you apply for a card or a loan, the credit card issuer pulls a copy of your credit report. Even if you don’t get the card, responding to the offer shows up on your

credit history, which is a red flag for creditors if you have more than four or five during a six-month period. However, making multiple inquiries for auto loans or mortgages during a short period does not affect your score, as these are usually treated as a single inquiry.

* Your ratio of balances to credit limits on revolving accounts is too high. A high debt ratio indicates a higher risk of default on one of your loans. Pay down your balances to reduce your debt ratio, or pay off your balances altogether. If paying down your debt will take a while, then try to increase your credit limits to reduce your debt ratio. Just be careful not to use this as an excuse to charge more and increase your debt.
* The length of time your accounts have been in existence is too short.
* You have too many delinquent accounts. Serious delinquencies stay on your record for seven years.
* Filing bankruptcy. Since doing so stays on your record for seven to ten years, avoid filing bankruptcy if possible.

Improving your credit score

Improving your credit score takes time and planning, but it is worth the effort because it works and will save you money.

Here are a few tips for raising your credit score:

1. Get a copy of your credit report from all three credit agencies. Getting a copy of your credit report should be at least an annual event because U.S. residents are entitled to one free copy of their credit report from each credit reporting agency once every 12 months. That means you can request a free credit report once every 4 months as long as you stagger your request so they go to a different agency each time. This information is found by calling 1-877-322-8228 or at http://www.annualcreditreport.com. If any of the information on a report is incorrect, contact the agency to correct it. Incorrect information should be corrected or removed within ten to thirty days, and doing so may give your score a quick boost. Your credit score is usually NOT shown on the free annual credit report. There are paid options that will allow you to see your credit score.

2. Pay your bills on time. This is the single most important factor in your credit score. Even if you only pay the minimum, pay your bills on time because late and missed payments are the easiest ways to lower your credit score. Even unpaid parking tickets and library fines may be reported to the credit agencies.

3. Pay off your debt. High balances and high debt ratios drag down credit scores. Your debt balance should be less than 35% of your available credit. If you have a good payment history, contact your creditors and ask for lower interest rates. Then use what you saved in interest to pay down your balances.

4. Build a long-term relationship with the accounts you have. A long history of good payments on a car loan, a mortgage, or credit cards increases your credit score. Keep older accounts or credit cards open, even if you are not using them, because you are rewarded for a long, positive credit history. If you review your credit report and discover that you have many accounts that you no longer use, close the newest ones first.

5. Limit your credit applications. Too many new accounts can lower your credit score. Each time you apply for a loan, the application shows up on your credit report. A significant increase in inquiries signals that you are desperate for money and are a credit risk. The exception is shopping for a mortgage or a car loan, as multiple inquiries for the same purpose in a reasonable period are considered a single inquiry.

6. Get a checking and a savings account.

7. Do not co-sign for a loan for someone else. This shows up on your credit report, and a missed payment or a maxed out credit card by the other person will affect your credit score.

Hard inquiries vs. soft inquiries
Hard inquiries are requests from vendors, banks, rental agencies, etc., for your credit history. You initiate them and they happen when you shop for a mortgage or a new credit card. Try to limit hard inquiries because if you have new or poor credit, too many hard inquiries in a short period can actually downgrade your overall credit rating. Certain situations, such as looking for a mortgage or an auto loan, may cause multiple lenders to request copies of your credit report. To compensate for this, the credit score counts multiple inquiries in any 14-

day period as a single inquiry. Don't allow anyone to pull your credit report unless you initiate it and want the loan or the offer.

Soft inquiries include personal credit checks, pre-approved credit offers, inquiries used in making employment decisions, and inquiries for tenant screening (done by a landlord when you apply for housing). Such inquiries are shown only on the credit report that you request directly from the credit bureaus, are not seen by potential creditors, and do not affect your credit rating.

How to get a free credit report

You are entitled to receive a free credit report each year. While many companies advertise free credit reports, the only place you can receive one is through http://www.annualcreditreport.com.

Despite the advertising, be aware that no one else can offer a free credit report. For example, http://www.freecreditreport.com advertises free credit reports and is named as such, but in the fine print you will find that *"When you order your free report here, you will begin your free trial membership in Triple Advantage Credit Monitoring. If you don't cancel your membership within the 30-day trial period, you will be billed $14.95 for each month that you continue your membership."*

Errors in your credit report

Checking your credit score with all three credit bureaus at least once a year is very important. It is possible that errors or closed accounts are on your report, which may hurt your score and cost you money. Your score is continually updated and may fluctuate by a few points each month. The credit bureaus charge a fee (typically between $5 and $10) for each report. You can call them: Experian (800-Experian), Equifax (800-686-1111), and TransUnion (800-916-8800).

Having an error on your credit report is not uncommon. It is up to you to monitor your report and dispute the errors. Errors in your credit report may result in a lower credit score, higher rates, and penalties and fees. Errors may also result in you being turned down for jobs or loans.

The following areas on your credit report may contain errors:

* Personal information that is misspelled or incorrect
* Information for someone else with a similar name or social security number
* Incorrect balances or incorrect amounts owed
* Closed credit accounts that are still listed as open
* Accounts that are not yours
* Balances owed or incorrect payments

If you find an error on your credit report, contact the credit bureau to report it. Tell the credit bureau in writing what you think is inaccurate. Include copies (not originals) of paperwork that support your position. Your letter should include details about each item you dispute and why you are disputing it, and request that it be corrected or removed. Circle your disputed items on the copy of your report. Send your dispute by certified mail with “return receipt requested” so that you have the date of receipt for your records. Make and keep a copy of all correspondence. If you talk with the credit bureau by phone, make notes of the date, the time, and the contents of the discussion.

The credit bureau must respond to your claim within 30 days or remove the information that is incorrect or can’t be verified. They will send information about the dispute to the company that provided the information. The information provider must review the dispute and report back to the credit bureau. If the information provider verifies that the information is incorrect, it must notify all three credit bureaus so they can correct your information.

After the investigation is over and the dispute results in a change, the credit bureau must give you your results in writing, along with a free copy of your updated credit report. You can ask the credit bureau to send notices of the corrections to anyone who had received your credit report during the last six months or to anyone who had received a copy of your report for employment reasons during the past two years.

If your dispute isn’t resolved, ask the agency to include a statement of dispute in your file and in future reports. The bureaus may charge a fee for this.

If the negative information is accurate, it can only be removed through time. Negative information can be reported for seven years and bankruptcies for ten.

Here is a sample dispute letter from the FTC:

Date

Your Name
Your Address
Your City, State, Zip Code

Complaint Department
Name of Company
Address
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items that I am disputing are circled on the attached copy of the report that I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please investigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List the items that you are enclosing)

Chapter 10:
Paying Your Taxes/Rent/Mortgage with a Credit Card

Taxes

While convenience and the rewards of using your credit card to make your tax payment are tempting, they are not free; taxpayers using a credit card to pay their taxes are assessed a fee of 2.49% of the payment amount. Just because the IRS allows you to use your credit card for your tax payments, and payment centers and credit issuers advertise doing so, this does not mean that paying with plastic is a good idea for consumers.

The estimated 2005 individual income tax paid per household was $8,045. Based on this figure, the average household paid $200 in extra fees by using a credit card to pay their taxes. Even though you may receive rewards for paying with a credit card, in many cases, such rewards are not enough to justify the cost of the fee.

You should pay in full any balance incurred by paying taxes with a credit card as soon as your statement arrives. Making a late payment or incurring the default interest rate on a larger balance like this can create a serious financial setback. If you charge the average tax of $8,045 to your credit card with a 13% APR and pay it off in one year, you end up paying an extra $1,040 in interest, plus $200 in fees. If you only pay the minimum balance each month, it will take 264 months (22 years) to pay off your taxes and you end up paying $5,973 in interest.

The issuer may even treat the payment as a cash advance and charge you a higher fee and interest rate. Before calling the IRS payment center with your credit card in your hand, call the issuer and verify how rewards are applied to tax payments. Make sure that your tax payments are handled as a purchase and not as a cash advance.

Paying with a credit card is appealing because making a phone call and paying the amount you owe is easy. Credit cards also offer protection against error. If you are making your tax payment by credit card, call one of the IRS payment centers; do not forward your credit card number to the IRS and do not write your credit card number on the tax form.

You make your credit card payment to an IRS payment center, not to the IRS. The fee you pay goes to the payment center. The following are links to IRS payment centers:

OfficialPayments
https://www.officialpayments.com

Pay1040
https://www.pay1040.com/

Instead of using credit cards to pay taxes, households should use tax refunds to pay off credit cards or other debt. For households with ever-increasing balances, cash from refunds is a great source to reduce your debt and the amount you pay in interest each month. This is the best way to involve your credit card at tax time.

During tax season, credit card companies mail out cash advance checks and encourage cardholders to use the checks to cover taxes. The letter says something like, “Tax season is here. If you owe the IRS or your state, you don’t have to worry. If you find yourself a little short on funds, just write a check for any amount up to your available credit line. Or, if you’re entitled to a tax refund, there’s no need to wait weeks or months. Just write yourself a check now.”

You may write the checks for any amount, up to your available credit line. The fee for this is 3% for each advance, with a $10 minimum. They leave out an important detail—the interest rate for cash advances is currently 23.49%.

We don’t recommend using these checks for any reason, but if you do, call the credit card company first to see if you have sufficient credit available. Remember any outstanding transactions and finance charges that have not yet been posted, including the new finance charges from using the checks, when noting your sufficient credit. If you exceed your credit limit, you may be subject to charges related to going over your limit.

Rent/Mortgage

Many cardholders can now pay their rent or mortgage with their credit cards. The obvious benefit is rapid accumulation of a large number of reward points to use to get cash back or for travel.

Even though this sounds like a good idea, only people who pay off their credit card bill each month and have no debt problems should do this. If you carry even a small balance, this is not for you. There are many potential credit problems that can spring from this; the recent credit and mortgage crisis reminds us of the dangers of credit. If you need to use your credit card just to make a house or rent payment, then you are on the verge of significant debt problems.

If you do not have credit problems, paying your mortgage with a credit card is similar to getting an interest-free loan. If you pay with your credit card by the due date, then you have a few weeks before you have to pay off your credit card.

Chapter 11:
Stolen Credit Cards and Identity Theft

Many Americans have a wallet, purse or personal information stolen during their lifetime. Since a quick response to such an occurrence is important, knowing what to do before something of yours is stolen is a good idea. Anyone may use a stolen or lost card until you notify the bank that it is missing. A thief can use the card until it is cancelled. If the card isn't reported quickly as stolen or lost, a thief may charge thousands of dollars of merchandise before the fraud is detected. If issuers notice unusual activity in your account, they will notify you. Federal law limits cardholder's liability to $50 if your credit card or credit card number has been stolen.

What to do if your wallet or personal information is stolen:

1. File a police report, then immediately contact all three credit reporting agencies (Equifax, Experian, and TransUnion) to place a fraud alert on your account. This forces companies issuing new credit accounts in your name to first call you to obtain permission. The alert is good for only 90 days. If you've been a victim of identity theft and can provide a police report, you can extend the alert to seven years.

Equifax 1-800-525-6285
Experian 1-888-397-3742
TransUnion 1-800-680-7289

2. Close any accounts, such as credit, debit, and ATM, which may have been compromised by the loss or theft. Get new accounts with new numbers. Ask each agency and your bank to put a fraud alert on your account.

3. Start monitoring your credit report. Since you can get a free credit report each year from the credit agencies, use them. The three nationwide consumer reporting companies have a central Web site, a toll-free telephone number, and a mailing address through which you can order your free annual report.

To order, visit http://www.annualcreditreport.com, call 1-877-322-8228, or complete the Annual Credit Report Request Form and mail it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You can print the form from http://www.ftc.gov/credit. Do not contact the three nationwide consumer reporting companies individually. They provide the free annual credit reports only through http://www.annualcreditreport.com.

4. Report your stolen license to your state's department of motor vehicles.

How to protect yourself from identity theft
According to the FTC, almost 10 million Americans are victims of identity theft each year. The average per victim is $4,800. Identity theft complaints to the FTC increased 18% from 215,177 in 2003 to 255,565 in 2005. Consumers can no longer assume that identity theft or fraud is unlikely to happen to them. It is very important to be aware of the dangers and take every precaution to protect yourself.

Tips for protecting your identity:

1. Every month, monitor your credit card band bank statements. If anything is incorrect, report it immediately.

2. Get a copy of your credit report. Each year, you can receive a free report from each of the three reporting agencies (http://www.annualcreditreport.com). Stagger these reports and get one every four months to stay current with what is going on with your accounts. According to TransUnion, 65% of consumers say they have never taken advantage of receiving a free credit report; an additional 16% check their credit reports less frequently than once a year.

3. Limit what you carry in your wallet to just the credit cards and identification that you must have. Clean the receipts out of your wallet and car several times a week.

4. Shred the following items you get in the mail: receipts, copies of credit applications, insurance forms, physician statements, bank checks and statements, expired charge cards, convenience checks, and credit offers.

5. Do not give out personal data for loyalty programs.

6. Mail anything with personal information or payment at the post office, not from your mailbox.

7. Don’t publicly post anything you may use as a password: your birth date, pet’s name, mother’s maiden

name, or your school. Identity thieves can use the information you post to guess your password.

8. If you use a wireless router, enable the encryption to scramble the data you send online.

9. Contact all three credit bureaus to put a freeze on your credit report to prevent your accounts from being opened without your knowledge. This may cost about $10 each.

Surprisingly, restaurants provide one of the greatest opportunities for credit card theft. Visa recently announced that 40% of all credit card theft occurs at dining locations. This is the one time that the card is taken away from you for processing. Restaurants are starting to take precautions because it is becoming a problem for their business. Even though credit card issuers lost over $994 million to credit card fraud last year, they write this off as the cost of doing business and will probably not put in stronger security measures as long as the cost remains manageable. Therefore, consumers must protect themselves.

Tips for keeping your credit cards safe:

* Review your statement immediately upon receiving it and report any concerns to the credit card company.
* Review your purchases online on a weekly basis.
* Do not give your credit card to anyone else.

* Do not make purchases over the telephone or on the Internet unless you are initiating the transaction.
* Question anything that is unusual and report suspicious findings to your financial institution.

Tips for keeping your debit cards safe:

* Change your password on a regular basis.
* Select an unusual password that is difficult to guess. Do not use anything with anyone's date of birth or phone number.
* Do not write down the password. If you forget your password, you can go to your bank and get a new one if you bring proper identification and password security.
* Do not tell anyone else your password. This breaches your debit card contract and leaves you open to fraud and theft.
* Review your bank statement each month and immediately report any concerns to your branch.
* If possible, review your account online on a weekly basis.
* Cover the PIN pad when entering your personal identification number.
* Do not give your debit card to anyone else.
* Immediately report missing, lost, or stolen debit cards to your financial institution.
* Report anything unusual to your financial institution, the restaurant or store that you are using, or contact your local police.

Your credit rights under the Fair Credit Reporting Act

Congress passed the Fair Debt Collection Practices Act to eliminate abusive debt collection practices by debt collectors and to promote consistent State action to protect consumers against abuse related to debt collection.

If you have debt that has gone to collection agencies, it is a good idea to look through this Act and understand your rights and the rules that debt collectors have to follow.

The full act is at http://www.ftc.gov/os/statutes/fdcpa/fdcpact.htm.

Appendix:
Credit Card Terminology

Acquiring Financial Institution
Merchants keep an account with an acquiring financial institution to receive credit for credit card transactions. Daily credit card receipts are deposited into the merchant's account, less any fees.

Adjusted Balance
Typically the most advantageous method for cardholders. Finance charges are based on account balance remaining after adjusting for payments and credits posted during the billing period. Interest charges under adjusted balance method are usually lower than using adjusted daily balance method.

Affinity Card
Offered by a nonlending institution and a nonfinancial group (such as nonprofit organizations, universities, airlines, or celebrities). Typically, the organization solicits all of its members and the affinity card gives holders special discount or deals from the nonfinancial group. The organization receives brand loyalty from card users and a small percentage or fee from the credit card company.

Air Miles
A popular reward program by co-branded cards. Air miles are earned with every use of the card and transferred to the cardholder's account with that airline.

APR (Annual Percentage Rate)
A yearly fixed or variable interest rate that measures the cost of credit. Reflects the total yearly cost of the interest on a loan, expressed as a percentage rate. The

credit card company must inform you about the APR before you sign on for a credit card. Often, the introductory APR is the first thing you see on the credit card offer, either on the envelope or at the very top of the first page. Read the back of the offer for the conditions and how this rate may change.

Some credit card companies offer a variable APR linked to an index performance. The rate change affects the finance charge on your account.

A low fixed rate is usually better that a low variable rate. A fixed rate card must give you 15 days notice of a rate change.

This is an example from the FTC (Federal Trade Commission) of how the APR affects your payment. If you have an outstanding balance of $2,000 with 18.5% APR and a low monthly minimum payment, it would take over 11 years to pay off the debt and will cost you $1,934 just in interest, almost doubling the original cost of purchase.

Annual Fees
An annual membership or participation fee charged for some credit cards. On average, the fee ranges from $15 to $55. Some issuers charge no annual fee.

Authorized User
A person given permission to use a credit card account.

Average Daily Balance
Most widely used balance calculation. Credits your account from the day payment is received by the credit card company. Calculated by adding each day's daily balance then dividing that total by the number of days in a billing cycle. The average daily balance is then multiplied by a card's monthly periodic rate (divide the annual percentage rate by 12). Depending on the details of your plan, new purchases may or may not be added to the balance; cash advances are usually included. The new daily balances are added to the billing cycle.

Balance Transfer
Moving an outstanding credit card balance from one issuer to another.

Balance Transfer Fees
Fee charged for transferring an outstanding balance from one credit card to another.

Bankruptcy
If you are absolutely unable to pay your debts, this is the last resort for financial protection. Each plan must be filed in federal bankruptcy court. Individuals who follow the bankruptcy rules receive a discharge—a court order stating that they do not have to repay certain debts.

There are two types of personal bankruptcy:

Chapter 7—Eliminates all debts except some taxes and possibly alimony payments. This plan liquidates all assets that are not exempt, such as cars, work-related tools, and basic household furnishings. A court-appointed official may sell the property or it may be turned over to creditors.

Chapter 13—Allows a borrower with a stable income and limited debt to pay off bills under a court-approved repayment plan over a 36- to 60-month period rather than surrender any property.

Both types of bankruptcy generally eliminate unsecured debts and stop foreclosures, repossessions, and debt collection activities. However, you are still liable for child support, alimony, fines, taxes, and some student loan obligations.

Bankruptcy is to be undertaken only with very serious consideration because it severely limits future access to credit, such as a home mortgage and car loan. Bankruptcy may be reported on your credit report for up to 10 years.

Billing Period
The number of days between the last statement date and the current statement date.

Billing Statement
The monthly bill you receive from the credit card company. Includes a summary of all account activity, including purchases, payments, credit limit, available credit, and finance charges. Monitor the reverse side of the credit card statement and the small-print fliers for important information on changes to your credit card account.

Cardholder Agreement
Required by the Federal Reserve. A written statement that provides the terms and conditions of a card account. It must include the annual fee, minimum payment formula, Annual Percentage Rate, and cardholder's rights in billing disputes.

Cash Advance Fee
Credit cards allow cash advances, but they comes with a fee. The checks attached to your monthly statement also create cash advance transactions when used. The fee may be per transaction or may be a percentage of the cash advance. The cash advance fee is costly because there is no grace period and interest accrues as soon as the money has been withdrawn, and is usually between 2% and 5% of the amount advanced.

Most issuers consider the cash you get with a purchase (even $20) a cash advance. The exception is Discover, which offers cardholders up to $100 in cash above the amount of their purchases at select merchants without charging the cash advance fee.

Cash Cards
Cards with a pre-established value and read by a special cash card reader. The card is drawn down until the value is zero. Beware that these cards are like cash, as they have no built-in security if lost or stolen.

Cash Rebates
This credit card allows the user to earn cash "rewards" with each purchase. Companies make money not only

through annual fees and finance charges but also from each purchase you make. They typically receive between 1% and 3% of your purchase. A cash rebate returns some of that fee to your pocket.

Chapter 7 Bankruptcy
Gets rid of all debts except some taxes and possibly alimony payments. Liquidates all assets that are not exempt (cars, work-related tools, and basic household furnishings). Some property may be sold by a court appointed official or turned over to creditors.

Chapter 13 Bankruptcy
Allows a borrower with a stable income and limited debt to pay off bills under a court-approved repayment plan over 36- to 60 months rather than surrender any property.

Charge Card
Requires a full payment of the charge by the due date. There is no carryover balance or interest rate charge. Charge accounts with local businesses often require payment on this basis.

Charge-off
An accounting entry for a credit card account that has not been paid (delinquent) for a certain period, typically 180 days. The issuer removes the account from its books as an asset. After the account is charged off, the outstanding balance is classified as a loss, meaning that the lender has given up hope on collecting the debt. The lender then sells the debt to a third party, typically a collection agency, that will attempt to collect the debt.

Closed-Account Fee
Fee for shutting down an account. Possibly charged if the account is closed before a minimum period has passed.

Co-branded Cards
Credit card issued in partnership between a bank and another retail company. Similar to an affinity card. Many departments offer co-branded cards with special deals or discounts on purchases at their store. Co-branded cards often come with a large annual fee.

Consumer Credit Counseling Service
Service that analyzes consumer debt and spending. Provides counseling and a plan for an achievable budget and debt repayment, and works with creditors. Helps the consumer pay back debts over time.

Co-signer
A joint signer with the principle applicant on a credit card application. If the principle applicant defaults on what he owes, the co-signer is responsible for paying the balance due.

Credit Reporting Agency
A company that compiles credit activity into a credit report. This report includes where you work and live and how you pay your bills. It even includes whether you have been sued, arrested, or filed for bankruptcy. These reports are available to individuals and lenders with a valid need for the information. The three major credit bureaus are Equifax, Experian, and TransUnion.

Credit Card
A plastic card with a coded magnetic stripe that entitles the holder to a line of credit. The borrower's income and credit history as reported by the credit report determines the amount of credit and the interest rate.

Credit Insurance
Insurance that pays off the credit card debt should the borrower lose his job, die or become disabled. The payoff is calculated monthly to only cover the debt recorded on the last billing cycle.

Credit Limit
The maximum amount of credit allowed on an account.

Credit Report
If you have ever applied for a credit card, a personal loan, or insurance, there is a file on you. This file includes where you work and live and how you pay your bills. It even includes whether you have been sued, arrested, or filed for bankruptcy.

Credit reporting agencies gather and sell this information to creditors, employers, insurers, and other businesses. Periodically check your credit report for accuracy to be aware of what has been reported and to correct any errors. To check your credit report, contact the three major national credit bureaus: Equifax, Experian, and TransUnion. Or you can access these reports at www.annualcreditreport.com.

Credit Scoring
A scoring system used by creditors to determine if you are a good risk for credit cards, auto loans, and home mortgages. Analyzes data from your credit application and credit report on your history of paying bills, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts. It treats all applicants objectively by comparing your credit information with the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay debt. The lower your score, the higher your interest rate.

Debit Card
Looks like a credit card but is issued by your bank. Charges are drawn directly from the cardholder's account, typically a checking or a savings account. The withdrawal of funds is immediate with online debit cards and delayed a day or two with offline debit cards. Debit cards with the MasterCard or Visa logo may be used at any location that takes MasterCard or Visa credit cards.

Default
Failure to make payments according to the terms of the cardholder agreement. This could be a late payment, no payment, or paying less than the minimum amount due. This gives the creditor the option to penalize you with a higher interest rate. Your account is charged as delinquent if you go 30 days without making a payment, and will possibly be noted on your credit report. Call the issuer and work out a plan before you fall behind.

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 during a specified period. Look at your credit card application for these special delinquency rates because these can sometimes exceed 20%.

F (Fixed)
If the letter "F" follows the annual percentage rate (APR), the rate is fixed and not adjustable.

Fair Credit Billing Act
Act passed by the Federal Trade Commission to help customers resolve billing disputes with card issuers and limit consumer liability for unauthorized credit card use. The act was written to promote accuracy and ensure the privacy of information used in consumer reports. You have the right to know everything in your report. Moreover, the credit reporting agency must give you a list of everyone who has requested your report in the past year or in the past two years if such an inquiry was for employment purposes.

Fair Credit Reporting Act (FCRA)
Act passed by the Federal Trade Commission that holds credit reporting agencies responsible for correcting inaccurate information in credit reporting. Entities that give information to the credit reporting agencies are required by the FCRA to provide accurate information. Also limits disclosure of consumer credit reports only to entities with specified purpose.

Finance Charge
The charge for using a credit card, including interest rates and other fees.

Foreign Currency Surcharge
Charge by some credit card dealers that adds an additional charge for purchases made in a foreign currency.

Free Period
Also called "grace period." An interest-free period that a lender allows for between the transaction date and billing date if no balance is carried over from the previous billing cycle. Generally, the free period is between 20 and 30 days. If your card includes a free period, the issuer must mail your bill at least 14 days before the due date, to give you enough time to pay. People who carry a balance on their cards do not receive a free period and finance charges begin the date a purchase is made with a credit card.

Gold Card
Offers a larger line of credit than a standard card. Credit line is usually between $2,000 and $5,000. Income requirements are higher, typically $35,000 at minimum. Gold card users receive extra perks and incentives such as travel service, rental card insurance, and insurance for purchases.

Grace Period
Also called "free period." The interest-free period of time a lender allows for between the transaction date and billing date if no balance is carried over from the

previous billing cycle. Generally, the grace period is between 20 and 30 days. If your card includes a grace period, the issuer must mail your bill at least 14 days before the due date, to give you enough time to pay. People who carry a balance on their cards do not receive a grace period and finance charges begin the date a purchase is made with a credit card.

Index
A published market-based figure used by creditors to establish a lending rate. The most common indices are the one-year Treasure Constant Maturity Yield; the Federal Home Loan Bank 11th District Cost of Funds; and the prime rate as listed in the Wall Street Journal.

Indexed Rate
Sum of the published index plus the margin. For example, if the index is 10% and the margin is 3.50%, the indexed rate is 13.50%.

Interest Rate
A charge for borrowed money that is generally a percentage of the amount borrowed. It is disclosed as an APR on the credit card form.

Introductory Rate
The "teaser" low rate charged by a lender for an initial, temporary period to encourage customers to switch cards. After the introductory period is over, the charged rate increases to the indexed rate or the interest rate.

Joint Credit
Credit offered to a couple based on both of their assets, incomes, and credit reports. The couple usually qualifies for a higher credit limit but both parties are liable for the debt.

Late Payment Fee
Penalty charged for not making the monthly payment by the due date or the published deadline of payment as printed on the billing statement (the creditor must receive payment by this date). The fee is usually a flat dollar amount.

Minimum Payment
The smallest payment that keeps the account from going into default. A minimum can be as low as 2% of the outstanding balance.

Monthly Periodic Rate
The interest rate factor used to determine the interest charges on a monthly basis. The yearly rate (APR) divided by 12.

National Foundation for Consumer Credit (NFCC)
Nonprofit group that educates consumers about using credit.

Offline Debit Card
A combination of an ATM and credit card. Contains the MasterCard or VISA logo and can be offered by a bank in place of or in addition to an ATM card. After a delay of 24 to 72 hours, charges are drawn directly from the cardholder's account, typically a checking or savings

account. Concluding a transaction by signing a slip of paper indicates the transaction was done offline.

Over the Limit Fee
Charged for using more than the credit limit on your card.

Penalty Rate
After one or two late payments (varies between credit cards), adds several percentage points to the current APR.

Periodic Rate
The interest rate described in relation to a specific period, either monthly or daily.

Personal Identification Number (PIN)
The personal security number required to be entered into a keypad at the point of sale to complete the transaction. The cardholder usually selects the number and can change it.

Platinum Card
Credit card with a higher limit and more perks than both a standard card and a gold card.

Point of Sale
Use an online debit card to get a cash return at the point of sale, such as a grocery store or convenience store. Avoids ATM surcharges.

Pre-Approved
The applicant has passed the first round of credit-information screening. However, this does not guarantee a credit card and the company can still turn the applicant down if the applicant's credit rating is unsatisfactory.

Previous Balance
System used by card issuer that bases finance charges on the amount owed at the end of the previous billing cycle. Does not include payments, credits, and new purchases made during the current billing period.

Prime Rate
The interest rate a bank charges its top customers. Many issuers use the prime rates established by large financial institutions, such as Citibank or Chase Manhattan, or the Wall Street Journal's prime rate average. Credit card rates are often the prime rate plus a certain percentage to cover its risk in lending and its profit margin.

Rebate Card
The card allows the customer to accumulate "rewards," such as merchandise, cash, or services based on card usage. Rewards are usually airline tickets, discounts on future purchases, or cash refunds.

Secured Card
Credit card used by people trying to rebuild their poor credit or by beginners establishing their credit. The cardholder's savings deposit or bank account guarantees payment of the outstanding balance if he defaults on payments. Credit line represents 50% to 100% of the

security deposit. Many have application and processing fees.

Standard Card
The basic card offered by credit card companies.

T (tiered)
Tiered pricing is indicated by the letter “T” after the APR. With tiered pricing, different levels of outstanding balances have different periodic rates. The rate shown is for the lowest of the balance tiers and is based on the outstanding balance, cumulative charges made, or the cardholder’s credit and risk rating.

Teaser Rate
The introductory rate. Usually a temporary lower rate to encourage customers to switch credit cards. After the teaser rate expires, the charged rate increases to the indexed rate or the interest rate.

Transaction Fees and Other Charges
As if annual fees aren’t enough, credit card companies may charge a fee if you make a late payment, exceed your credit limit, or get a cash advance. Some even charge a monthly fee whether or not you use the card.

Transaction Date
The purchase date of goods or services or the date of the cash advance.

Truth in Lending Act
Federal law that protects consumers by requiring lenders to publish specific information to allow

borrowers to compare cost and terms of credit offered by lenders. Lenders must publicize finance charges in dollars and as an annual percentage rate (APR); the length of the grace period, if any; annual fees; minimum payment required; and the company providing the credit line and the credit limit.

Two-Cycle Balance
Uses the account's last two months of activity. This eliminates the grace period and the finance charges are usually higher. The interest on a balance is retroactive to the date the purchases were posted to the account. Several different two-cycle methods exist.

Unsecured Debt
Debt that is not backed by the promise of any collateral, such as a savings deposit. Most credit cards are unsecured debt. To compensate for this additional risk, credit card issuers charge higher interest rates than other forms of lending, such as a home mortgage.

V (Variable)
The credit card interest rate is variable and subject to change if the letter "V" appears after the annual percentage rate (APR).

Zero Balance
The outstanding balance has been paid and no new charges have been added during the billing cycle.