

## Using Credit Cards

One of the most important aspects of personal financial management is the use of credit cards. This is true for people of all ages, demographics and financial circumstances. The Office of State Treasurer has gathered information from a number of sources that may be helpful; the information is divided into the following sections:

- How to Get Credit
- Now That You Have Credit, How to Use it Wisely
- How to Use Your Credit Card
- Key Terms
- Tips to Protect Your Credit Card
- Additional Information

You may also wish to consult other sections of this web site, or utilize the links listed as part of our financial education section. Remember, "It's Your Money. Know Your Rights."

## How to Get Credit

On your first try to get a credit card you might be frustrated. If you have never used credit before, some creditors may turn you down. You need to prove you are "credit-worthy." Here's how to become credit-worthy:

- Open a checking account or a savings account in your name. This will show how you manage your money.
- Apply for a department store credit card. Repaying credit card bills on time helps you get a good credit history.
- If you do not qualify on your own, ask someone to "co-sign" your application (this means they will be responsible if you do not pay back the money you owe).

### How Creditors Make Decisions About You

Creditors will look at you and your finances and decide whether, or not, to give you a credit card. Today, creditors assess the creditworthiness of potential credit card customers much more thoroughly than they have in the past, evaluating household income, debt levels, number of credit cards now held by the consumer and how much credit is available on them. It is important to note that the Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicants' income is derived from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law for the creditor is the Federal Trade Commission, Office of Equal Credit Opportunity, Washington, DC 20580.

## Your Credit Report

A potential creditor may look at your "credit history." This is information they get from a "credit reporting agency" or "credit bureau." This information is called your "credit report" or "credit history." It is a file with computerized information about the payments you have made on credit cards, car loans or other types of credit.

Federal law gives you the right to know what your credit report says. The credit bureau must help you understand your credit report. There is no fee for this help if you contact the credit bureau within 30 days after you are turned down for credit, employment, or insurance because of information in your credit report.

Accurate negative information generally can be reported for seven years, but there are exceptions:

- Bankruptcy information can be reported for 10 years; however, a bankruptcy filing could effect your credit for a lifetime;
- Information reported because of an application for a job with a salary of more than \$20,000 has no time limitation;
- Information reported because of an application for more than \$50,000 worth of credit or life insurance has no time limitation;
- Information concerning a lawsuit or a judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer; and
- Default information concerning U.S. Government insured or guaranteed student loans can be reported for seven years after certain guarantor actions.

Be sure your credit record is complete and correct. Mistakes on your credit record can hurt you. If you find wrong information, you can ask to have it corrected. If you find a mistake, write to the credit bureau and explain to them the problem. The credit bureau will investigate your complaint and report back to you. The credit bureau should not charge a fee for this service. If you are not satisfied with the results of the investigation, you may send a brief letter to the credit bureau to keep in your file. In the letter, explain why you think the record is wrong. The credit bureau must include your letter with your report in the future.

## How to Get Your Credit Report

If you would like to see your credit report, contact one of the three national credit reporting agencies listed below. Each of these credit bureaus may keep a credit file on you. Your request will need to include your name, address, previous address, and Social Security number. Remember, you are entitled to receive the report free if you were turned down for credit because of the report. There may be a fee charged if a credit report is requested and there has not been a denial of credit.

Experian  
P.O. Box 2002  
Allen, TX 75013  
(888) 397-3742

Trans Union  
P.O. Box 1000  
Chester, PA 19022  
(800) 916-8800

Equifax  
P.O. Box 740241  
Atlanta, GA 30374  
(800) 685-1111

## If You Are Turned Down for Credit

The law says you must be told whether you are approved for credit or not. A creditor has 30 days to tell you, in writing, if you are denied credit. If you are denied credit, find out why.

## Now That You Have Credit, How to Use It Wisely

Consumers should accept only as much credit as they can comfortably handle and should use it sparingly. Some personal financial experts recommend that monthly consumer debt payments – including credit cards and auto loans, but excluding rent or mortgage payments – should not exceed 12 percent of the consumer's monthly take-home pay.

### Using Credit Cards

- Shop around for cards. By referencing the chart on this site, you may be able to determine the best card to suit your needs, depending on how you use your credit card. For instance, if you pay off your balance every month, you may settle for a low annual fee and high interest rate. If you carry a balance, you may want to exchange a high annual fee for a low interest rate. If you choose to use credit, try to pay it off each month. That way, you're getting an interest-free loan.
- Don't be swayed by impulse buying and don't charge more than you can afford. Go home and think about it before putting more debt on a credit card.
- Make a realistic budget and stick to it.
- Pay off creditors who can take the quickest action to hurt you, not those who are calling you the most often. First pay for necessities like utilities and rent or mortgage.

### Credit Warning Signs

- Paying only the minimum payment month after month.
- Being out of cash constantly.
- Being late making crucial payments, such as rent or mortgage.
- Borrowing from one lender or credit card to pay another.

### Be Smart With Credit Card Issuers

*(from an article by Linda Stern, personal finance writer for Reuters)*

The bottom line today for companies who issue credit cards to consumers is to make sure they profit from the use of their card. It's not on their agenda to keep you from spending more than you should, or to encourage you to pay low rates instead of high ones, or to teach you to avoid the behavior that will cause you to pay more than you have to. Learn to be similarly selfish, to ensure that you keep your good credit. Be especially aware of the following three "traps" that many credit card companies are setting for their cardholders today:

- The “you don’t have time to pay on time” trap. At one time, consumers had a month to make a payment. Not anymore. Some bills arrive a week or more after their closing date and within two weeks of their due dates. With stories of credit card issuers taking as long as a week to post a payment, you pretty much have to open the bill when it comes in, write your check and hustle over to the post office. And it’s worth hustling: In today’s environment, one late payment can cost you a \$30 late fee and push you into punitive interest rate territory, levying your annual interest rate over 20 percent. And, don’t expect your credit card issuer to waive the late fee; that’s happening with less frequency, too.
- The “punitive credit” trap. A national credit research company has reported that credit card issuers are checking credit reports monthly and slapping punitive rates on customers who fall behind on any of their cards. This research company found that several major card issuers have indicated they may bump interest rates as high as 23.9 percent for customers who are 30 days or more overdue on any card payments. By the way, fall behind on a department store card and you’ll pay more for your credit cards, too.
- The “convenience check” low balance trap. These are the checks that come to you in the mail and encourage you to transfer balances or put money in your pocket – “for anything you want” – by simply writing these checks against your credit. Their low temporary rates look tempting, but buried in the fine print is usually some separate “transaction” fee that runs as high as 3 percent of the amount of the check and is posted immediately. Not only does this double your annual interest rate, it may also compound it indefinitely if you carry a balance on the card.

What’s the moral of this story? Not that your credit card issuer is or should be your friend; it’s not their job to save you from yourself. That’s your job. And with the current, aggressive credit card marketing climate, your job is getting harder and harder. Trust no one, read all that annoying small print, don’t borrow more than you should, and pay your bills on time.

#### Help If You Can't Pay Your Bills

Finally, if you’ve become overwhelmed; if you’ve spent too much, lost your job or become sick, making it hard to pay your bills on time, you can get help. A case in point is a couple who owed \$25,000 in credit card debt – on a combined annual income of about \$30,000. Creditors were closing in, and the couple feared they would have to file for bankruptcy, which was not an option they wanted to take. But, there was another option available to them. They went to their local Consumer Credit Counseling Service, a nonprofit agency that helped them negotiate a repayment plan with their creditors. They are now paying \$500 a month and hope to be debt-free in 5 years. These organizations, which were formed to counsel consumers who are in debt, can also, as with the couple described above, talk to the companies where consumers owe money to arrange a payment plan. To find a credit or debt counselor, look in the yellow pages under “Credit & Debt Counseling.” Also, some schools, military bases, credit unions and housing authorities offer credit counseling too. Some, but not all, will charge a fee for this service.

## How to Use Your Credit Card

Use the chart below for suggestions in determining how to use your credit card. Look at the far left column and decide which combination best describes your credit card practices. The columns to the right show which characteristics are most important to you: interest rate, grace period or annual fees. Please Note: The lowest interest rates are not always the most desirable. High fees can be offset by low interest rates if your unpaid balances are high. Grace periods help only if you pay your balance on time and in full each month.

How Do You Use Your Credit Card		Interest Rate (APR)	Grace Period	Annual Fees
Monthly Payments:	Paid in Full	Not as Important (No interest paid if there is a grace period)	Long as Possible (to avoid interest)	Low as Possible
Amount Charged:	High, Medium or Low			
Monthly Payments:	Usually, but not always paid in full	Somewhat Important	Very Important	Very Important
Amount Charged:	Low			
Monthly Payments:	Usually, but not always paid in full	Very Important	Somewhat Important	Somewhat Important
Amount Charged:	High with occasional high balances			
Monthly Payments:	Usually not paid in full	Very Important	Not as Important	Somewhat Important
Amount Charged:	Low			
Monthly Payments:	Usually not paid in full	Most Important	Not as Important	Not as Important
Amount Charged:	High with high balances			

## Key Terms

### A.P.R.

Annual Percentage Rate. The rate of interest charged by a creditor on an annual basis. Divide the A.P.R. by 12 to find out how much interest is charged each month. For example, if the A.P.R. is 18% and if your unpaid balance is \$1,000 then you will pay 1.5% interest (\$15.00) per month. No interest is added during a grace period.

### NSF

Non-Sufficient Funds. Some creditors allow you to use your credit card to obtain cash from a cash machine. If you use this feature without having sufficient funds in your bank account to cover the withdrawal you must pay an additional NSF Charge.

### Variable Interest Rate

A variable rate is pegged to a certain percentage above the prime rate or some other rate and adjusted either monthly or quarterly as that rate moves. (Indicated by a "V" following the APR, eg., 10.90V.)

### Grace Period

The grace period is the time between the statement date and the payment due date when no finance charge accrues, provided no previous balance exists. Once your account begins to revolve, you generally start paying interest immediately on each additional purchase.

For additional financial terms, visit the [Money Glossary](#).

## Tips to Protect Your Credit Card

- Do not give your credit card number or expiration date over the phone unless you have placed the call.
- Credit card numbers are never needed for "Identification" purposes. If you hear that line - hang up.
- Rip up or retain credit card transaction carbons.
- Never leave your credit cards or receipts lying around.
- Make a list of everything you carry in your wallet, including your credit card numbers. Keep this list in a safe place, separate from your wallet or purse.
- If your card is lost or stolen, report it immediately.
- Save your receipts and check them against your monthly statement. This is an easy way to discover if someone is using your card number or if there is a billing error.
- Do not reveal personal information when using your credit card. Minnesota law prohibits merchants from requiring personal information such as an address or phone number when you use your credit card.

- Make sure that you understand the terms of a credit card plan before you accept the card.
- As always, be wary of credit card deals that sound too good to be true.

Source: Office of the Minnesota Attorney General.

## **Additional Information**

The Board of Governors of the Federal Reserve System have two free publications entitled: “Consumer Handbook to Credit Protection Laws” and “SHOP...The Card You Pick Could Save You Money.” Request your free copy(s) from the Board of Governors Publication Services, MS-127, Washington, DC 20551.

The Consumer Information Center, organized under the U.S. General Services Administration publishes The Consumer Information Catalog listing titles, descriptions, and ordering information for the more than 200 free and low-cost publications. Revised and published quarterly, the Catalog brings together publications from more than 40 agencies, providing the public with one convenient source for federal consumer information. Consumers can get a free catalog by requesting one online at [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov) or, call toll-free 1 (888) 8 PUEBLO (that's 1 (888) 878-3256).

The Federal Trade Commission publishes many excellent fact sheets on consumer credit rights. To request publications, write to them at 6th and Pennsylvania Avenue NW, Washington, DC 20580, or visit their site on the Internet at [www.ftc.gov](http://www.ftc.gov).

The Better Business Bureau provides instant access to business and consumer information. Contact the Council of Better Business Bureaus, Inc. for access to the BBB system of over 150 Bureaus located in the United States and Canada: 4200 Wilson Boulevard, Suite 800, Arlington, VA 22203-1804; (703) 276-0100, or visit their website at [www.bbb.org](http://www.bbb.org).

The National Foundation for Consumer Credit (NFCC) is a national non-profit network of 1,450 Member Financial Wellness Centers designed to provide assistance to people dealing with stressful financial situations; and is committed to promoting financial literacy through money management education. You can visit their website at [www.nfcc.org](http://www.nfcc.org) or call them toll free at 1-800-388-2227.

If you have access to the Internet and want to surf, literally thousands of sites are available by searching on keywords such as “credit card,” “consumer protection,” “credit reports,” etc.

Tired of Credit Card Offers? – You can remove your name from lists that credit-reporting agencies provide to credit card issuers by calling toll free (888) 5-OPT-OUT (888-567-8688) for instructions.