

Ready, Set...Credit

A credit card is a great financial tool. It can be more convenient to use and carry than cash and it offers valuable consumer protections under federal law.

At the same time, it's a big responsibility. If you don't use it carefully, you may owe more than you can repay, damage your credit rating, and create credit problems for yourself that can be difficult to undo.

Chances are your mail is full of solicitations from credit card issuers. How do you know if the time is right for a credit card? Here's some important information that may help you determine whether you're ready for plastic, what to look for when you select a company to do business with, and how to use your credit card responsibly.

Qualifying for a Credit Card

If you're at least 18 years old and have a regular source of income, you're well on your way to qualifying for a card. But despite the invitations from card issuers, you'll still have to demonstrate that you're a good risk before they grant you credit. The proof is in your credit record. If you've financed a car loan or other purchase, you probably have a record at a credit reporting bureau. This credit history shows how responsible you've been in paying your bills and helps the credit card issuer decide how much credit to extend.

Before you submit a credit application, get a copy of your report to make sure it's accurate. It's available from the three major credit bureaus:

EQUIFAX PO Box 105873, Atlanta, GA 30348; (800) 685-1111 (up to \$8 fee)

EXPERIAN (formerly TRW), PO Box 8030, Layton, UT 84041; (800) 392-1122 (No charge)

TRANS UNION PO Box 390, Springfield, PA 19064; (216) 779-7200 (up to \$8 fee)

Establishing A Credit History

Suppose you haven't financed a car loan, a computer, or some other

major purchase. How do you begin to establish credit? First, consider applying for a credit card at a local store and use it responsibly. Ask if they report to a credit bureau. If they do - and if you pay your bills on time - you'll establish a good credit history.

Second, consider a secured credit card. It requires that you open and maintain a bank account or other asset account at a financial institution as security for your line of credit. Your credit line will be a percentage of your deposit, typically from 50 to 100 percent. Application and processing fees are not uncommon for secured credit cards. In addition, secured credit cards usually carry higher interest rates than traditional non-secured cards.

Third, consider asking someone with an established credit history - perhaps a relative - to co-sign the account if you don't qualify for credit on your own. The co-signer promises to pay your debts if you don't. You'll want to repay any debt promptly so you can build a credit history and apply for credit in the future on your own.

A positive credit history is an asset, not only when you apply for a credit card, but also when you apply for a job or insurance, or when you want to finance a car or home.

If Your Application is Denied

If you're turned down for a card, ask why. It may be that you haven't been at your current address or job long enough. Or that your income doesn't meet the issuer's criteria. Different credit card companies have different standards. But if you are turned down by several companies, it may indicate that you are not ready for a credit card.

If you've been denied credit because of information supplied by a credit bureau, federal law requires the creditor to give you the name and address of the bureau that supplied the information. If you contact that bureau within 30 days of receiving the denial, you are entitled to a free copy of your report. If your file contains accurate negative information, only time and good credit habits will restore your credit-worthiness. If you find an error in your report, you are entitled to have it investigated by the credit bureau and corrected at no charge.

Getting the Best Deal

Fees, charges, and benefits vary among credit card issuers. When you're choosing a credit card, shop around. Compare these important features:

Annual Percentage Rate (APR). The APR is a measure of the cost of credit, expressed as a yearly interest rate. Check out the "periodic rate," too. That's the rate the issuer applies to your outstanding balance to figure the finance charge for each billing period. For example, if you have an outstanding balance of \$2,000, with 18.5 % interest and a minimum monthly payment, it would take over 11 years to pay off the debt and cost you an additional \$1,934 just for interest, which almost doubles the total cost of your original purchase.

Grace Period. This is the time between the date of a purchase and the date interest starts being charged on that purchase. If your card has a standard grace period you have an opportunity to avoid finance charges by paying your current balance in full. Some issuers allow a grace period for new purchases even if you do not pay your balance in full every month. If there is no grace period, the issuer imposes a finance charge from the date you use your card or from the date each transaction is posted to your account.

Annual Fees. Many credit card issuers charge an annual fee for granting you credit, typically \$15 to \$55. Some issuers charge no annual fee.

Transaction Fees and Other Charges. Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.

Customer Service. Many issuers have 24-hour toll-free telephone numbers.

Other Benefits. Issuers may offer additional benefits, some with a cost, such as: insurance, credit card protection, discounts, rebates, and special merchandise offers.

Credi-Quette

Once you get a card, sign it immediately so no one else can use it. Note that the accompanying papers have important information, like customer service telephone numbers, in case your card is lost or stolen. File this information in a safe place.

Call the card issuer to activate the card. Many issuers require this step to minimize fraud and to give you additional information.

Keep your account information to yourself. Never give out your credit

card number or expiration date over the phone unless you know who you're dealing with. A criminal can use this information to steal money from you, or even assume your credit identity.

Keep copies of sales slips and compare charges when your bill arrives. Promptly report in writing any questionable charges to the card issuer.

Don't lend your card to anyone, even to a friend. Your credit privilege and history are too precious to risk.

You're Responsible

While a credit card makes it easy to buy something now and pay for it later, you can lose track of how much you've spent by the time the bill arrives if you're not careful. And if you don't pay your bill in full, you'll probably have to pay finance charges on the unpaid balance. What's more, if you continue to charge while carrying an outstanding balance, your debt can snowball. Before you know it, your minimum payment is only covering the interest. If you start having trouble repaying the debt, you could tarnish your credit report. And that can have a sizable impact on your life. A negative report can make it more difficult to finance a car or home, get insurance, and even get a job.

Federal Protections. Federal law offers the following protections when you use credit cards.

Errors on Your Bill.

You must notify the card issuer in writing within 60 days after the first bill containing the error was mailed to you. In your letter, include your name; account number; the type, date, and amount of the error; and the reason why you believe the bill contains an error. In return, the card issuer must investigate the problem and either correct the error or explain to you why the bill is correct. This must occur within two billing cycles and not later than 90 days after the issuer receives your billing error notice. You do not have to pay the amount in question during the investigation.

Unauthorized Charges.

If your credit card is used without your authorization, you can be held liable for up to \$50 per card. If you report the loss of a card before it is used, the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you will owe for unauthorized charges is \$50. You should be prompt in

reporting the loss or theft of your card to limit your liability.

Kinds of Credit Accounts

Credit grantors generally use three types of accounts:

Revolving Agreement. A consumer pays in full each month or chooses to make a partial payment based on the outstanding balance. Department stores, gas and oil companies, and banks typically issue credit cards based on a revolving credit plan.

Charge Agreement. A consumer promises to pay the full balance each month, so the borrower does not have to pay interest charges. Charge cards, not credit cards, and charge accounts with local businesses often require repayment on this basis.

Installment Agreement. A consumer signs a contract to repay a fixed amount of credit in equal payments over a specific period of time. Automobiles, furniture, and major appliances often are financed this way. Personal loans usually are paid back in installments, too.

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