



Credit Cards: What You Need To Know

A free publication provided by
CreditGUARD of America, Inc.
a non-profit educational credit counseling and
debt management organization.

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Credit Card: What You Need to Know

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

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

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

You'll pay even more if you make late payments or go over your credit limit. Always pay on time, even if you just pay the minimum due. Late fees



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have skyrocketed; it's not uncommon to find a \$30 late charge applied to your account for a payment that's only one day late. Issuers can also increase your interest rate if you're late — without notifying you.

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

The Pros and Cons of Using Credit

Pros:

- The ability to buy items when you need them.
- No need to carry cash.
- You receive a handy record of your purchases.
- It's quicker and easier than writing checks.

Cons:

- Interest adds to your cost.
- Additional fees, like late charges, may apply.
- Financial difficulties can arise if you spend more than you earn.
- You can buy on impulse.

Your Credit Responsibilities

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

What do creditors look for when they decide who to give credit to?

They look at the "Three Cs"

Character - Do you intend to repay your debts?

- Have you used credit before?
- Did you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- From your credit history, does it look like you possess the honesty and reliability to pay credit card debt?
- How long have you lived at your present address?

Capital - What are your resources for repaying the debt?

- What property do you own?
- Do you have a savings account?
- Do you have investments to use as collateral?

Capacity - Can you repay the debt?

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

Building Your Credit History

- Establish a steady work record.
- Pay all bills promptly.
- Open a checking account, and avoid bouncing checks or overdrawing your account.
- Open a savings account and make regular deposits.
- Apply for a local store credit card, and make regular monthly payments.
- Apply for a small loan using your savings account as collateral.
- Get a co-signer on a loan, and pay back the loan on schedule.

Before You Sign Up for a Card

- Shop around for the best terms. Check out www.BankRate.com for the best credit card deals.
- Read and understand the contract.
- Don't rush into signing anything.
- Once a contract is signed, get a copy of it.
- Figure out the total price of an item when paying with credit.
- Make the largest payments possible.
- Know the penalties for missed payments.

Your Credit Rights

The Truth In Lending Act

(enacted in 1968)

Ensures that consumers are fully informed about cost and terms of borrowing. Sets standards for disclosing interest rates and fees.

The Fair Credit Reporting Act

(enacted in 1970)

Protects the privacy and accuracy of the information in your credit report.

The Equal Opportunity Act

(enacted 1974)

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or the receipt of public assistance.

The Fair Credit Billing Act

(enacted in 1974)

Set up a procedure for the quick correction of errors that appear on consumer credit accounts.

The Fair Debt Collection Practices Act

(enacted in 1977)

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

Types & Sources of Credit

Single-payment credit: When items and services are paid for in one payment, within an agreed-upon time period, interest is usually not charged.

Examples:

- Utility bills
- Medical services
- Some retail businesses

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

Examples:

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

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

Examples:

- Retail stores
- Gas stations
- Bank-issued credit cards

How Much Credit Can You Afford?

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

Example:

If you earn \$1,500 a month after taxes, then your yearly net income is \$18,000. (12 x \$1,500). You should never have more than \$2,700 in outstanding debt (15% of your annual net income).

Note: Don't count housing debt, such as rent or mortgage payments, in the 15%.

Monthly payments should never exceed 10% of your monthly net income.

Example:

If you earn \$1,500 a month after taxes, then your payments should never exceed \$150 per month (\$1,500 x 10%).

Comparing Credit Cards

Cost of Credit

- Annual fees
- Annual Percentage Rate (APR)
- Finance charge computation
- Grace period
- Know the penalties for missed or late payments
- Transaction fees

Credit Card Questions

- What would be your credit limit?
- How widely is the card accepted?
- What services are available?

Credit Card Facts

- Total credit and debt in the U.S. is now a record \$700 billion...and growing.
Source: CardTrak Online
- The average American household has 13 to 14 cards, including bank cards, travel and entertainment cards, department store cards, gasoline cards, and debit cards. They add up to 1.4 billion pieces of plastic scattered throughout the nation.
- The Federal Reserve's Survey of Consumer Finance found the largest expansion of consumer credit has been among the poor. Debt is falling for families with incomes above \$50,000 and rising for families with incomes below \$10,000.

- An increase in outstanding consumer debt, particularly credit card debt, has been cited as a significant contributor to the increased rate of bankruptcy filings.

Source: Federal Deposit Insurance Corporation (FDIC)

CreditGUARD of America, Inc. is a consumer-oriented, non-profit, tax exempt, public education organization. We are an industry leader in providing credit counseling and debt management services throughout the United States.

Our mission is to assist individuals and families end financial crises and to help solve money management problems through education, motivation, and professional counseling.

CreditGUARD of America, Inc. is dedicated to empowering consumers through educational programs that will influence them to refrain from overspending and abusing credit cards as well as to encourage them to save and invest. We sponsor local free seminars that are also available to any group or organization that requests our educational services.

Our Certified Credit Counselors have assisted thousands of families across the United States. Regardless of whether your financial problems are due to the purchase of a new home, birth of a child, major illness, or any other circumstance, we can help.

Our organization is funded primarily through voluntary contributions from participating creditors. Our programs are designed to save our clients money and liquidate debt at an accelerated rate.

CreditGUARD of America, Inc. is a member of the Palm Beach Better Business Bureau, the Boca Raton Chamber of Commerce, the Association of Independent Consumer Credit Counseling Agencies, and certified by the prestigious International Standards Organization.

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