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Credit Cards

Q What are the advantages of having a credit card?

Paying with a credit card is an easy way to make purchases, but using your card wisely and paying your bills on time also helps you build a good credit history, and that helps you obtain other kinds of credit. People with good credit generally receive better rates and terms on mortgages and auto loans. Other advantages to having a credit card include the ability to:

- Shop by mail and over the Internet without having to send cash or a check.
- Delay paying for purchases for at least 21 days without interest if you paid your previous bill in full by the due date.
- Pay for big-ticket items and stretch out the payments over time.
- Take advantage of laws that protect you from fraud and defective goods or services that you paid for with a credit card.

Types of Cards

Q What is revolving credit?

Revolving credit is the type of credit agreement used by most credit cards. It allows consumers to pay all or part of the outstanding balance in each billing cycle. As credit is paid off, it becomes available again to use for another purchase or cash advance.

Q What is a charge card?

A charge card, like a credit card, allows you to charge purchases and take cash advances. Charge card balances are not subject to interest, but you cannot carry a balance—you must pay your bill in full each month. Charge cards often have annual fees.

Q Do charge cards have credit limits?

Some charge cards do not have a pre-set credit limit because cardholders agree to pay the full amount they owe every month.

Note

Credit card offers and terms vary widely. Always consult your cardholder agreement and issuer about your card. The information in this training manual is general in nature and intended for educational purposes. It should not be taken as legal or personal financial advice.

Q What is a secured credit card?

Secured credit cards are special credit cards that you can obtain only after you have deposited money in a savings account to guarantee that you will pay for your credit card charges. Secured cards look like and are used just like unsecured cards.

Q What is a security deposit?

A security deposit is the money you provide to a financial institution to guarantee payment of your secured credit card. Your deposit is frozen while you have the card. If you fail to pay your credit card debts, the funds in the account may be used to cover your obligations.

Q Who should apply for secured credit cards?

Secured credit cards are an option for people who have no credit history or have a poor one. In granting credit, credit card companies review your credit history to see how you have handled credit—if you have been late with payments or walked away from debts, you may not be eligible for a traditional credit card. Often, people who have been denied conventional credit cards can get a secured credit card instead.

Q How can I find out how good or bad my credit is?

If you have had credit (a credit card, mortgage or car loan), then information about how you handled that credit is on file with major credit reporting bureaus, in your credit report. Each year, you can call Annual Credit Report at 877-322-8228 to order a free copy of your credit report from each of the major national credit reporting bureaus. Annual Credit Report (www.annualcreditreport.com) is run by the three largest U.S. credit reporting bureaus under the supervision of the Federal Trade Commission.

Q What are subprime cards?

Subprime cards are credit cards that are marketed to people with poor or damaged credit.

Q What is subprime credit?

Subprime credit is high-interest credit offered to borrowers with poor credit histories. Lenders have their own definitions of subprime borrowers, but typically a credit score of less than 620 will mean you are considered a subprime borrower. A credit score is a number that reflects your creditworthiness; this number is based on the information in your credit report. A commonly used method of scoring is Fair, Isaac & Company's FICO score. According to FICO's web site (www.myfico.com), scores range from 300 to 850. Generally, the higher your score, the lower the interest rates you will pay for credit.

Q I have bad credit—can I get a credit card?

You may be able to get a credit card with a higher-than-average interest rate. But shop carefully and compare rates, fees and conditions before you apply—many cards marketed to people with damaged credit are not good deals.

Q What is a “stored value” card?

Stored value cards (or prepaid cards) look like credit cards and use the same magnetic stripe to retain account information. However, stored value cards are usable only with a specific amount of money that has been prepaid—or “loaded” on the card—in advance of its use. Payroll cards, electronic benefits transfer cards, travel funds cards and store gift cards are examples of stored value or prepaid cards.

Q What is the difference between a bank credit card and a card branded by a store?

The cards of banks or financial services companies can be used to purchase goods and services from any merchant or service provider who accepts credit cards. Retailers’ credit cards usually are more limited in their use. Retail cards are branded by a variety of businesses, including department stores, national chain retailers and gasoline companies, as a convenience for their customers.

Q Are cards that offer cash back or rewards the same as regular credit cards?

Not exactly. Both are credit cards, but reward credit cards offer the cardholder something back for using the card, such as frequent flyer miles, cash rebates, gift certificates or points to get free merchandise. If you use your credit cards a lot then a reward credit card can be a good way to gain extra goods and services just for using the card. There are many different types of reward cards available, including those that offer rewards of travel, hotels, retail products, car discounts, and cash back.

Card Offers

Q What information is the credit card company required to disclose when it makes an offer of credit?

By law, solicitations must include a box listing:

- The annual percentage rate (APR)—the finance charge expressed as a yearly interest rate.
- Variable APRs—if applicable, when and how the interest rate will change.
- Grace period—a period during which finance charges do not accrue on purchases.
- Annual fees—some issuers charge annual membership fees ranging from \$20-\$75 or more.
- Fees—such as cash advance, balance transfer, late payment or over credit limit.
- Balance computation method—the method used to calculate the finance charge.

Q What does it mean when a company says its credit card offer is “pre-screened”?

Pre-screened (or “pre-approved”) offers are firm offers of credit based on your credit history. Federal law requires

that pre-screened offers contain a firm offer of credit. The only exception to the guarantee is if you experience a serious decline in creditworthiness after the offer was made.

Q I received an invitation to apply for a credit card. Does that mean my application is guaranteed to be approved?

No. There are two types of credit card offers: pre-screened and invitations to apply. Invitations to apply simply ask you to apply for a card. Unlike pre-screened offers, invitations do not require a firm offer of credit. The company will use the information you provide in your application, along with any information on file about you at the major credit reporting bureaus, to make its decision about your application. Issuers are required to assess the applicant’s ability to pay before opening a new account or increasing a credit limit.

Q What are my rights if I am denied a credit card?

Card issuers are required to tell you why you were denied credit and provide you with a free copy of your credit score.

Q How can I stop credit card solicitations from being sent to my home?

Every pre-screened credit card solicitation must include a notice in bold type on its first page giving the phone number and website for consumers to stop the offers. You can also call 888-5OPTOUT or visit www.optoutprescreen.com to “opt out” of most mailings. You will be asked to provide your Social Security number when you opt out. If you have an existing relationship with a company, it can still send you offers. To opt out of mail and e-mail offers sent by members of the Direct Marketing Association, visit www.dmaconsumers.org.

Q How can I make sure my son doesn’t apply for credit cards while he is away at college and get himself deeply in debt?

There are laws that limit credit card marketing on campus. Also, young adults who apply for credit have to show they have the independent means to pay or get a parent to co-sign for them. These measures may help, but you should discuss your concerns with your son and teach him about responsible credit use.

Q While I was shopping, I was invited to apply for the store’s credit card, to get a 10% discount on my purchases. Is this common?

Many retailers offer “instant credit” to shoppers. But there are reasons to be cautious about opening up credit cards just to get a discount. If you are buying an expensive item, such as a TV or a kitchen appliance, it might be worthwhile to accept the offer and pay the bill in full or in a small number of installments. However, if you took advantage of every instant credit offer, you would accumulate many credit cards, which can

negatively affect your ability to get the credit you need in the future.

Q How can I compare credit card offers to find the best one?

Compare the solicitations you receive in the mail, and visit credit card company web sites to see what they are offering “drop-in” visitors. You can also compare cards using Consumer Action’s annual credit card survey (www.consumer-action.org) or by visiting these sites: www.bankrate.com, www.cardtrak.com and www.cardratings.com web sites.

Q My credit union sent a flyer offering me a credit card. Do credit unions have good deals on credit cards?

You may find a good deal on credit cards and other financial services from a credit union. Credit unions are owned by their depositors and do not have to answer to stockholders, as do publicly owned companies. The Credit Union National Association (www.cuna.org) says that credit unions offer personal attention, high-quality service and low fees. Credit unions also get top ratings from bank customers in the American Banker publication’s annual survey. Visit cuna.org to see if you are eligible to join a credit union.

Q If I respond to a pre-screened offer, will I be guaranteed to get the high credit limit mentioned in the offer?

Probably not. You don’t know when you apply what credit line you will receive. Card offers often state: “You have been approved for a credit line of up to \$100,000.” The key words are “up to,” meaning that the company may give you a lower credit limit.

Q What is an introductory rate on a credit card?

Introductory rates are short-term, temporary interest rates offered to new credit card customers. The lower rates must be good for at least six months, although longer offers exist. Sometimes cards come with low introductory rates that are good only for balance transfers and not for purchases. Introductory rates are even available with “zero interest,” which means you can transfer a balance or make purchases and pay no interest during the introductory period. After the introductory period ends, your rate will increase to the regular, or “go to,” rate.

Q I received a credit card offer with a “zero percent” fixed rate. Will I ever pay interest?

This is probably an introductory offer, and the rate is “fixed” only temporarily. Your interest rate will be adjusted when the introductory period ends. Before you accept the offer, make sure you understand how many months will be interest-free (it must be at least six months). Be aware that many companies will cancel your introductory rates if you make late payments.

Q Are there certain policies to avoid when selecting a credit card offer?

Look closely at transaction fees (such as late, over limit, cash advance, bounced check and foreign transaction/currency conversion fees) and at any disclosure of how or why your interest rate will change. If you are looking for a low–or zero percent–introductory rate, remember that these rates are temporary. An introductory rate must last at least six months; one that lasts a year or gives you a permanent low rate on balance transfers for the life of the balance is even better.

Q What is a fixed interest rate?

In the past, if your credit card had a fixed interest rate, your APR would not have gone up or down because of fluctuations in the Prime Rate. Now, this is referred to as a rate that “does not vary with the Prime Rate.” If an issuer calls a rate “fixed,” it can’t change.

Q The rate on my card is called “non-variable” and “does not vary with the prime rate.” Can the interest rate on my non-variable rate credit card ever change?

Yes. By law, credit card companies can change your non-variable interest rate, with a 45-day change-in-terms notice, anytime after the first year, or whenever you are more than 60 days late with your payment. The rate can also change at any time, without notice, after an introductory rate expires, or if you haven’t made your agreed-upon payments under a workout agreement (debt management plan). If your interest rate is increased as a result of your late payment, you must be told that the increase will terminate within six months if you make on-time minimum payments during that period. Except in the case of a penalty increase (as a result of late payment, for example) or the expiration of an introductory rate, an interest rate increase will generally apply only to new transactions made 14 days after the change-in-terms notice is sent. (If you have a variable rate card and the rate increases due to a change in the index (prime rate), the new rate will apply to old transactions as well.)

Q Can I decline a rate increase?

You can’t decline an increase in your APR, however since non-penalty rate increases apply to future transactions only, you can stop using the card and pay off your balance at the old rate. You will avoid the higher APR if you don’t make new purchases. (Any new charges will be financed at the new, higher rate.) If your credit card company increases your APR, it must review the increase at least every six months. It must reduce your rate within 45 days of its evaluation if the review justifies a decrease.

Q I applied for a new card and asked to transfer \$10,000 from another card, but only \$3,000 was transferred. What happened?

When you apply for a card, you do not yet know your credit limit. If the balance you want to transfer is higher than your new credit limit, the company will only transfer

a portion of your balance, which will leave you with a balance on the old card. Ask your new credit card company if it's possible to wait until you get the card to transfer a balance. Be sure to ask if you will be charged a balance transfer fee if you wait.

Terms and Conditions

Q What is the cardholder agreement?

The cardholder agreement is a legal document that spells out terms and conditions relating to your credit card account.

Q Is the cardholder agreement a legal contract?

Yes, cardholder agreements are legal contracts between you—the cardholder—and the issuer. By accepting and using the card, you agree to comply with the terms of the agreement.

Q I did not sign my cardholder agreement, so how can it be a legal contract?

When you apply for a card, you are asked to sign the application, which usually carries a message similar to this: "Your signature means that you agree to the terms of this agreement." Most credit card contracts also carry a statement saying that simply by using the card, you agree to its terms. Credit card agreements are standardized contracts. As a card applicant, you may accept or reject the contract, but you can't modify its terms.

Q How do credit card companies notify me about changes to my card?

Card companies must send "change of terms" notices to cardholders. Legally, these notices must be sent at least 45 days ahead of the date the change will take effect.

Q My interest rate increased and the company said they sent me a notice about it. I never saw the notice, so how can my account be changed?

Credit card companies often send change-of-terms notices with your monthly billing statement. Look closely at all "bill stuffers" before discarding any of them, as they may contain important information about your card.

Q What is an annual percentage rate?

The annual percentage rate, or APR, is your card's interest rate, expressed as a yearly figure.

Q What is a variable interest rate?

Variable interest rates have APRs that change over time. Variable rates change automatically—your credit card company does not have to notify you each time the rate

changes. The most common index used is the Prime Rate, however some card issuers tie variable interest rates to the London Interbank Offering Rate (LIBOR) or the Federal Funds Rate.

Q How can I make sure my variable interest rate is being figured correctly?

Variable interest rates change according to a set formula using an "index" and a "margin." The most common index is the Prime Rate—it and other indexes can be found in the business sections of most newspapers or on the Internet. To check your interest rate, add the current Prime Rate (or other index) to your card's margin rate to find your APR. Example: The Prime Rate is 5% and your margin is 8.99%: $5\% + 8.99\% = 13.99\%$ APR.

Q I got a new credit card a few months ago. Can my interest rate be increased?

Your rate can increase within the first year if:

- an introductory rate expires (must be at least six months after opening the account).
- your card has a variable interest rate tied to an index and the index changes.
- you are more than 60 days late in paying your bill.
- you are participating in a debt management plan (workout agreement) and you don't make your payments as agreed.

Q What is a default or penalty interest rate?

If you do not honor the terms of your cardholder agreement you might be charged a higher rate—this rate is called a default or penalty rate. You might be considered in default if you pay late or if you make a payment that is not honored (e.g., your check bounces). The penalty rate can be applied to new transactions. It can apply to existing balances only if you are more than 60 days late in paying your bill.

Q What is arbitration?

Many credit card companies require that cardholders settle disputes using an alternative to the courts called arbitration. Arbitration is a form of dispute resolution in which an independent third party hears both sides of the case and reaches a decision on how to settle the issue. It is often binding, with no right of appeal. Arbitration provisions may prevent you from suing the company in court or participating in class action lawsuits. However, some companies allow you to take your case to small claims court if the amount you are disputing is within the court's small claims limit.

Q What is binding mandatory arbitration?

In binding mandatory arbitration, a company requires that all its customers agree in advance to submit disputes to arbitration and to waive their rights to sue and to appeal arbitration decisions in a court of law. If binding mandatory arbitration is the company's policy, potential customers who do not agree to be bound by arbitration will be denied service by the company. Consumers

should look closely for arbitration provisions and fully understand that they are giving up their right to go to court by accepting the terms of most arbitration provisions.

Q Why do credit card companies use arbitration provisions?

Arbitration may be a less expensive option for companies compared to defending themselves in court.

Q Is arbitration free to consumers?

No. Most arbitration clauses require that cardholders who bring disputes pay their own arbitration fees. However, some card companies may pay for cardholders who can't afford to pay the upfront costs.

Q What are credit card checks?

They are "convenience checks" that are linked to your credit card account and can be used to make purchases or take cash advances. When you write a convenience check, you will typically be charged the cash advance interest rate, which may be higher than your regular rate, and a cash advance fee. Find out if interest begins to accrue immediately. There may be a charge to stop payment on a convenience check.

Q What is a grace period?

This is the period in which finance charges do not accrue if you are not carrying a balance. Despite what some people believe, the grace period is not the length of time you have after the due date to get your payment to the company.

Q What is a late fee?

This is a penalty fee charged by your credit card company if your payment is not received by the due date. A late fee cannot be higher than the minimum payment you missed. And it cannot be more than \$25 unless one of your last six payments was late; in that case, the fee can be up to \$35. In addition to charging a late fee, the interest rate on your existing balance may be raised substantially if you make a payment that is more than 60 days late. On each statement your issuer must provide information about what will happen if your payment is late. You must also be informed that the interest rate increase will terminate within six months if you make the minimum payments on time during that period.

Q When is my payment considered late?

Due dates must fall on the same day every month and payments received before 5 p.m. on the due date cannot be considered late. If the due date falls on a non-business day, such as a Sunday or a holiday, and your issuer does not accept and process payments on that day, you have until 5 p.m. the following business day to make your payment without penalty. Many issuers process payments on weekends and holidays.

Q Can a payment on the due date still be considered late?

This is possible if the payment arrives after 5 p.m. on the due date.

Q What is the Prime Rate?

The Prime Rate is the interest rate that serves as a benchmark for most loans and as such is often used as the "index" to set the interest rate on variable-rate credit cards. It is also the rate that banks charge their most qualified corporate borrowers for short-term loans. The WSJ (Wall Street Journal) Prime Rate is the most commonly used credit card index. The WSJ surveys the 30 largest banks and changes its rate when it finds consensus on new rates among three-quarters of the banks.

Q How is the Prime Rate used to set credit card interest rates?

The Prime Rate moves up or down with interest changes by the Federal Reserve Board. When the Federal Reserve raises its target for the short-term federal funds rate, banks almost immediately increase their prime rates. When prime rate goes up, variable credit card rates follow.

Q Can I refuse a rate increase and pay off my current balance at the old interest rate?

You can't refuse a rate increase, but rate increases won't apply to your balance. You have the right to continue paying off the existing balance at the old rate. However, if you make new charges following a notice of rate increase, these new transactions will be subject to the higher rate.

Q How can I approximate—in dollars and cents—how much I am paying in interest on my card?

Monthly credit card statements now must show how long it would take and how much it would cost you to pay off your current balance if you made only the minimum required payment each month. Statements must also show how much you would have to pay each month, and the total interest cost, to pay off your current balance in three years.

Q What is the minimum monthly payment?

This is the lowest amount that you are allowed to pay the credit card company each month. In most cases, it is figured by using a percentage of your balance, such as 2%-3%.

Q May I send in more than the minimum monthly payment?

Yes—you can send in any payment you want, as long as it is equal to or larger than the required minimum payment. Card issuers must apply any payment in excess of the minimum amount due to the portion of your balance with the highest interest rate.

Q What is the periodic interest rate?

Periodic interest rates are used by your credit card company to calculate how much interest you owe. Typically, issuers use the “average daily balance” method. Generally, under this method, the issuer calculates the average daily balance and then multiplies that by the daily periodic rate (DPR). The result is multiplied by the number of days in the billing cycle to obtain your periodic finance charge for that cycle. The daily periodic rate is your annual interest rate divided by 365. (For example, an 18% interest rate divided by 365 equals a periodic rate of approximately .04931%.)

Q How is my payment due date determined?

Most companies determine your payment due date by adding the number of days in your grace period to the date that your card’s monthly billing cycle ended. For example, if your billing cycle runs from Aug. 7 to Sept. 5, and your card has a 25-day grace period, your due date will be Sept. 30. Due dates must fall on the same date or day every month. And, billing statements must be mailed or delivered 21 days in advance of the due date.

Q Can I change my payment due date?

Some card issuers allow you to select your due date and structure your billing cycle around your chosen due date.

What is the difference between my APR and the “effective APR” I see listed on my credit card statement?

By law, card issuers must disclose on billing statements the “effective APR”—which includes certain fees and interest charges. If you have paid cash advance fees during the period, your effective APR will reflect the additional charges, and it will be higher than your APR.

Q I found a charge I didn’t make on my credit card. What should I do?

If you find a mistake on your bill, call your credit card company immediately. You can formally “dispute” the

charge—you have the right to withhold payment on the disputed amount while your dispute is being investigated. (You still have to pay any part of the bill that’s not in dispute, including finance and other charges.) You can dispute charges for:

- the wrong amount,
- something you didn’t accept, or
- an item or service that was not delivered.

The credit card company must receive your dispute within 60 days of the bill that first contained the error. Follow up your call by writing a letter to the card company at the address listed on your statement for billing inquiries. Include your name, address, account number and a description of the error. The company must acknowledge your complaint in writing within 30 days unless the problem has been resolved in your favor. Your dispute must be resolved within the shorter of two billing cycles or 90 days.

Q How can I pay my credit card bill at the last minute to avoid a late charge?

You may have several options for paying at the last minute—call your issuer to find out which ones it offers. Make sure you know the rules and ask about any fees for the service. Here are some common payment options:

- If you have online bill payment at your bank, ask how long it takes for your card company to receive an electronic payment. Your payment could reach your issuer in as little as two days if the card company accepts electronic payments.
- Pay bills online at your issuer’s web site. Issuers can’t charge a fee to make a payment online unless you make an expedited (last-minute) payment with the help of a customer service representative.
- Pay by phone by calling your issuer and providing a check number and your bank’s routing number (both printed on your checks). Issuers can’t charge a fee to make a payment by phone unless you make an expedited payment with the help of a customer service representative.

Q Many credit card policies have changed in favor of consumers. What hasn’t changed?

The Credit Card Accountability Responsibility and Disclosure (CARD) Act created many consumer protections, including:

- limits on when issuers can raise rates, and 45 days notice required in many cases
- rate increases generally limited to new transactions only (except under a penalty rate increase if you are more than 60 days late in paying your bill)
- billing and due date consistency
- no online or phone payment fees unless using a customer service representative at the last minute; no over limit fees without cardholder permission to allow

- over limit transactions
- no double-cycle billing
- any additional amount paid beyond the minimum due, will be applied to your highest rate balances

Learn more about these and other changes throughout this guide.

While the legislation changed many credit card industry practices, it did not address others. For example, issuers can still raise rates on future card purchases, and there is no cap on how high a rate can rise—nor is there a cap on the default, or penalty, rate (the rate you may be charged for infractions such as paying late). Also, an issuer can still close your account or lower your credit limit with no advance warning.

Using Credit Cards

Q The owner of a market in my neighborhood said that I couldn't use my card for purchases of under \$10. Isn't this illegal?

It's not illegal but it is against the rules of many credit card payment networks. Complain to your card issuer.

Q Are credit card "convenience checks" covered by the same Fair Credit Billing Act rules that govern credit card purchases?

No. When you use a credit card check you don't have the right to dispute the purchase under the credit card dispute provisions of the Fair Credit Billing Act (FCBA)—even though the checks are linked to your credit card account. If a product purchased with a convenience check is defective, your bank won't be required to help.

Q When I take a cash advance at an ATM using my credit card, will I be charged an ATM fee?

In most cases, yes. The financial institution that owns the ATM charges this fee. Typically, ATMs charge an additional fee of \$1-\$2.50 when you use your credit card to take cash advances. Most credit cards also charge cash advance fees and a higher interest rate for cash advances, and the interest on cash advances begins to accrue immediately.

Q What is the best way to cancel an unwanted credit card?

Call your issuer and ask for directions on closing the account. In general, you should notify the issuer in writing. Cut your card into pieces and dispose of it. Follow up by phone in a month to make sure the account was closed. The next time you check your credit report, make sure the account is listed as being closed at your request—not at the bank's request. Accounts that are

closed by the bank can have a negative impact on your credit.

Q Can a hotel block some of my available credit when I reserve a room?

Yes. Hotels may place a hold—or block—on your credit card to cover the cost of your reservation. When you reserve a hotel room, ask the reservation agent if it will put a hold on your card, and if so, how much it will be. Hotel holds stay on your card until you cancel the reservation or settle your final bill with the hotel.

Q Is it legal for a store to ask for ID when I am paying by credit card?

It is not illegal and it might be seen as a good practice in helping to avoid credit card fraud. But under the rules of the major card payment networks the merchant may not refuse to make a credit card sale if you refuse to present identification, such as a driver's license.

Q My daughter took my card and used it to buy some clothes. Isn't this an unauthorized charge and do I have to pay it?

Yes, the charges made by your daughter were unauthorized if you did not give your permission for her to use your card. (If you did give her permission, your cardholder agreement may provide that you are responsible for paying.) The issuer may try to collect from the unauthorized user and may ask you to cooperate by signing an affidavit of unauthorized use, which it can use to bring legal action against the unauthorized user. In many situations like this, the family prefers to handle the situation privately with discipline or by requiring that the charges be paid out of the unauthorized user's pocket.

Q I bought a refrigerator using a store credit card and I noticed that it said the store had a "security interest" in the appliance. What does this mean?

When you buy a product and charge it on the store's credit card, the retailer often holds a security interest in the item. If you don't make the payments, the seller can legally reclaim the item. If you buy things using credit provided by a lender other than the seller, you have clear title to the goods. However, most retailers don't go to court to reclaim used items, especially if the items have lost a great deal of their value.

Q I got a credit card bill that was very high because there were 38 days in the billing cycle. Isn't 28 days the normal length of a billing cycle?

Yes, most credit card billing cycles are about a month. However, credit card billing cycles can be shorter or longer than a month.

Q If I pay someone using a convenience check and they lose the check, what should I do?

Call your credit card company and ask it to stop payment on the check. You will probably be charged a stop payment fee. If someone else has found and cashed the check in the interim, you may be liable for the amount.

Q I'm in debt and I can't afford to pay my card's minimum payment. Can I work out a repayment plan with my card issuer?

Some companies will help you structure a repayment plan, but if you have multiple debts, it may be preferable to contact an accredited non-profit credit counseling agency. To find a credit counselor, contact the National Foundation for Credit Counseling (www.nfcc.org; 301-589-5600) or the Association of Independent Consumer Credit Counseling Agencies (www.aiccca.org; 800-450-1794). One option that may be offered to you by the credit counseling agency is a debt management plan. Under the plan, participating consumers make reduced bill payments to the agency, which distributes them to creditors. In exchange, some creditors offer waived or reduced interest charges and fees. If you decide to participate in a debt management plan, make all required monthly plan payments. If you don't, creditors can rescind any concessions made under the plan.

Q How can I avoid paying an annual or monthly fee on my credit card?

Fewer than half of all cards have annual fees, although it is predicted by some industry analysts that more cards will have annual fees in the future. Annual fees are common on charge cards, rewards cards and airline miles credit cards, and on secured and sub-prime cards. Look at the overall value of a card when comparing fee and no-fee cards. If you are thinking about getting a rewards or airlines miles card with special benefits, make sure that the card's benefits and services are worth the price of the fee.

Q I have bad credit, and every card offer I receive has application fees. Where can I find a card without an application fee?

Many sub-prime cards and some secured cards charge a fee when an account is opened. Secured credit cards are generally much better deals than sub-prime credit cards, and you can find secured credit cards that don't charge application fees. Check out the Bankrate web site (www.bankrate.com) to find companies that offer secured cards. Be aware that regulations limit account-opening fees (including an annual or application fee) to 25% or less of the card's initial credit limit.

Q I went on a trip and neglected to make a payment because I didn't realize that my card had a small balance on it. The company closed my card and wants an account reopening fee to reinstate it. Is this legal?

Companies can charge a fee to reopen your account, but not all companies have such a fee. Always pay your credit card bills on time and you should be able to avoid any situation in which you would be charged an account reopening fee.

Q Do credit cards charge a fee for balance transfers?

Most card companies charge a fee for balance transfers. However, most companies don't charge balance transfer fees to new cardholders for the first month or two. So when you apply for a new card, ask about balance transfer fees. Balance transfer fees usually are assessed as a percentage of the amount transferred (example, 3%).

Q I sent a payment to my credit card company and the check bounced. What should I do?

If your check bounced because of a mistake at your bank, try calling your credit card company to ask to have the fee waived. But your request will probably be denied if your payment check is returned because you don't have enough money in your checking account to cover it. If your bank acknowledges that it made the mistake, ask it to pay the credit card fee. When you have the funds to



cover the payment in your account, ask your bank if you should send a replacement check or allow the company to resubmit the check. Delaying your payment will result in added interest and perhaps other fees. In the future, always make sure you have sufficient funds in your bank account to cover your payment check before mailing it.

Q My card company has a minimum cash advance fee of \$15. What does this mean?

A minimum cash advance fee means that you will pay \$15 even if the percentage-based cash advance fee is less than \$15 for the amount you were advanced. For example, if you take a \$100 cash advance with your credit card and your company charges a 3% cash advance fee with a \$15 minimum, you will pay \$15 instead of 3% or \$3.

Q I had an emergency and took out a \$1,000 cash advance with a fee of 4% of the amount advanced. But the company only charged me \$25—I thought it would charge \$40. What’s up?

Your card has a maximum cash advance fee of \$25, which limits the fee to \$25.

Q Can my credit card charge me a fee for asking for a higher credit limit?

It can, but it may be in dangerous territory if it does, and most issuers won’t do this. A national bank regulator found the practice unfair and fined one large bank for charging for higher credit limits. If your card company tries this report it to the federal agency that regulates it and look for a new card.

Q On a recent trip to Canada, I bought some toys using my credit card. When the bill came there was a line item for “currency conversion fees.” What are these?

Most credit cards charge an additional 1%-3% when you make purchases while traveling overseas. This charge varies by issuer and may be called a currency exchange fee or a foreign transaction fee. If you expect to use a card while traveling outside of the U.S., look for a card that has a currency conversion method that is favorable to you.

Q Can I be charged a fee for going over my credit limit?

You can only be charged an over limit fee if you have given your card issuer permission to allow you to make transactions that push you over your pre-established credit limit and charge a fee when you do this. In this case, an over limit fee may be imposed only once per billing cycle. If you have not given permission, transactions that exceed your limit are likely to be

declined at the point of sale. An over limit fee cannot exceed \$25 or the amount you overspent. For example, if you only exceeded your limit by \$5 then the over limit fee can be no more than \$5.

Q Can I be charged more than one fee for a single late payment or over limit transaction?

No, you can’t be assessed more than one fee for a single event or transaction. This also means that if you have been charged a late fee for missing a due date because your payment check bounced, you can’t be charged a “returned payment” fee.

Q Do credit card companies charge for copies of statements?

Yes, most companies charge a fee for additional copies of monthly statements. To avoid this fee, file the past three years’ statements in a secure location. If you sign up for online access to your accounts, you can download your statements and keep them on file in your computer.

Q How much does it cost to send money to Mexico using a credit card?

Wire transfers are usually subject to a cash advance fee. Credit card cash advance fees are typically 2%-4% of the amount you send. Depending on your card company’s policy, you may have to pay a minimum fee of \$5-\$15, even if the straight percentage-based fee is less.

Q If I don't buy credit insurance from my credit card company, will my credit card application be denied?

Most credit card issuers offer optional services for a fee. These may include payment or credit protection insurance or fraud prevention plans. You do not have to buy them—it will not affect your application or change the terms of your card. Before making a decision on whether to purchase optional services, get detailed information and review the limitations and restrictions of the service.

Q What does the credit protection insurance my credit card company sells do for me?

Lenders offer insurance to make your loan payments if you die, become ill, or lose your job, but the coverage is quite expensive and there are significant limitations. Depending on your company's program, credit protection insurance might cover your minimum payments when you are ill or out of work or allow you to miss several minimum payments without being charged late fees. However, interest will still accrue as usual. On this type of insurance, payouts are usually limited to a few months. Often self-employed people or seasonal workers are not covered, but you might not be told this until you try to make a claim.

Q I'm a landscaper and work mostly during the growing season. I signed up for a service from my credit card company that would pay my minimum payment if I become sick or disabled. But when I looked closer, it said seasonal workers like myself are not covered during the times they are not employed. Can I get my money back?

You can try. First contact the creditor or insurance company. If you're not satisfied with the outcome, write to your state insurance commissioner or appropriate federal or state regulator. Your state insurance department should be able to provide you with information and assistance. To locate your state insurance department, look in the state government pages of your local phone book or check the web site of the National Association of Insurance Commissioners (www.naic.org). To find the federal or state banking regulator that oversees the financial institution that sold you insurance or credit protection, call the Federal Deposit Insurance Corporation (FDIC) at 877-275-3342.

Q When I broke my leg at work, I was grateful to have credit card insurance. Then I learned that I can't use the card during the time the insurance is paying out. Is this legal?

This is legal and it is a typical provision in credit card insurance coverage.

Q With all this identity theft, is it a good idea to get the credit monitoring service that my credit card company sells for \$79 per year?

You can use a monitoring service or save the money by checking your credit report yourself. Credit monitoring companies charge a yearly fee to check your credit report—usually at only one of the three major credit reporting agencies. The company will alert you if certain information in your report changes—such as reviews by potential creditors or when new accounts are opened. You can find out the same information by ordering free copies of your credit report each year from the big three credit reporting bureaus. Consider staggering your orders and getting one of the free reports every four months. Call Annual Credit Report at 877-322-8228 or get your report online at www.annualcreditreport.com.

Q My card company sells a fraud protection plan for \$49 per year. Doesn't existing law protect cardholders from liability for fraudulent charges?

Yes. Federal law limits cardholders' liability for unauthorized charges to \$50 per credit card. You probably won't even pay \$50—most credit cards offer voluntary "zero liability" protection when their cardholders are victimized by fraud. Always report loss, theft or unauthorized use of your credit card to your bank as soon as you discover the problem.

Q My alumni association sent me a card solicitation. Is there any advantage to me in carrying a card that is co-branded by my college?

The advantage is not to you but to your alumni association, which receives a small amount from the credit card company based on how many cardholders apply for and use the card. In some cases, such cards provide special savings opportunities or rebates to cardholders.

Q I was told that if I buy something with my credit card and the item breaks, I could complain to the credit card company. How does that work?

Some credit card companies offer free replacement of stolen or damaged items purchased using their cards. The offer is typically good for only a short time after the item is purchased and may be limited to a certain dollar amount each year. If the item is stolen, you might be required to provide a police report in order to receive compensation.

Q How long does my credit card's purchase protection cover the things I buy using the card?

This depends on the company's policies, but most card companies limit replacement protection to 90 days. However, you may have additional protection against defective goods under certain circumstances if your card extends the manufacturer's warranty on things you buy.

Q If I pay for a rental car with my credit card, can I decline the liability insurance?

No—unless your personal or corporate auto insurance covers liability when you are driving a rental car. Rental car insurance offered by credit cards covers only "collision damage waiver" (CDW) coverage, which protects you if the car is damaged or stolen. If you cause an accident or damage someone else's auto or property, CDW coverage does not protect you. Check with your auto insurance company for more information.

Q I rented a car and it was vandalized. The damage was covered by my credit card, but the car company charged me for "down time." Why didn't my card's insurance protection cover this amount?

Many credit card companies' "damage waiver collision" rental car insurance specifically excludes down time, or "loss of use" charges, which reimburse the rental car company when the car is out of service.

Q I have a card that gives me airline miles, but I can never seem to get the travel dates I want. Do you have any advice for me?

Many mileage awards earned on credit cards require that you be flexible in scheduling your travel. Try flying on weekdays or on early morning or late night flights, when more seats are available. If it is consistently hard to book travel using miles earned on a specific credit card, investigate other card mileage programs, especially those that tout "no blackout dates" on travel.

Q I accepted a credit card that said it would give me 5% cash back. But later I was told that it gives 5% back only when monthly purchases reach \$450. Isn't that false advertising?

It may be deceptive if the company did not disclose that you have to spend \$450 each month before you will receive the 5% rebate. You might have not seen the disclosure because credit card companies often list the details in the fine print, which many cardholders don't read.

Q I had credit card insurance and I became seriously ill. It was then that I learned that the service I was paying for only allowed me to suspend payments while I was ill. The balance continued to accrue interest. Where can I complain about this?

All credit card insurance comes with limitations—it's important to read the fine print before joining a plan. Complain to your state's insurance regulator. Look in the government pages of your phone directory or visit the National Association of Insurance Commissioners (www.naic.org) to find your regulator's name and contact information.

Bankrate

(www.bankrate.com)

Bankrate provides free credit card tips and rate information.

Consumer Action

(www.consumer-action.org)

Consumer Action's site features free credit card surveys with interest rates, fees and other terms for dozens of credit cards, as well as free brochures and guides on choosing and using credit cards in Chinese, English, Korean, Spanish and Vietnamese.

Consumer Financial Protection Bureau

(www.cfpb.gov)

The CFPB is the federal agency responsible for writing rules and receiving consumer complaints about consumer financial products and services.

CardWeb

(www.cardweb.com)

Card Web lists credit cards and offers e-mail newsletters for consumers, frequently asked questions and online credit card calculators.

CardRatings

(www.cardratings.com)

Card Ratings lists and reviews credit cards and offers tips and credit card calculators.

Federal Trade Commission (FTC)

(www.ftc.gov; 877-382-4357)

The FTC offers a wide range of free publications on credit and consumer rights. (It also accepts complaints from consumers for use in investigating violations, but does not resolve individual complaints.)

Federal Reserve Board

(www.federalreserve.gov/consumers.htm)

The Federal Reserve provides a free brochure on choosing a credit card and a guide to credit protection laws.

American Express

(www.americanexpress.com)

Get tips on money management, fraud protection, travel, shopping online and more. From the home page, click on "About Us" and then on "Consumer Resources."

"Credit Cards: What You Need to Know" is a joint educational project created by Consumer Action and American Express. All materials in this series are free and available in bulk or in electronic format that may be freely reproduced by those engaged in educational work. The "Credit Cards: What You Need to Know" series includes:

- A brochure designed for individuals, available in Chinese, English, Korean, Spanish and Vietnamese.
- This training manual, which is intended to provide an in-depth backgrounder for staff members of community-based agencies engaged in financial literacy education. It is written in question-and-answer format to help counselors and trainers answer frequently asked questions.
- A PDF training guide that outlines a two-hour training with worksheets and suggested class activities.
- A PowerPoint slide presentation for use during trainings. The slides can be downloaded from the Consumer Action website. Go to www.consumer-action.org/modules and choose "Credit Card Terms."

Consumer Action empowers low to moderate income and limited-English-speaking consumers nationwide to financially prosper through education and advocacy. You may reach us:

- On the Internet: www.consumer-action.org
- By e-mail: info@consumer-action.org
- By phone: 800-999-7981
- By mail:

Headquarters:

San Francisco, CA
415-777-9648

Los Angeles Office:

Los Angeles, CA
213-624-4631

Washington, DC Office:

PO Box 70037
Washington, DC
202-670-3601

Consumer Action will provide nonlegal advice and referrals on consumer problems if you leave a message at 415-777-9635 or 213-624-8327; TTY answering machine: 415-777-9456.

Chinese, English and Spanish are spoken.

For advice and referrals via e-mail, write to: hotline@consumer-action.org



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