



# Making Cents of Your Credit Cards

By Financial Speaker, Author, & Money Management Expert

Robert S. Laura, AAMS, CMFC, CRPC

[www.RobertLaura.com](http://www.RobertLaura.com)

**C**redit cards are a powerful tool in today's financial world. In fact, recent research suggests that American's now carry about \$850 billion in credit card debt. This represents an average debt of over \$17,000 for the approximately 50,000 households that do not pay their credit card balances in full every month. Therefore, it's more important than ever to understand the terms and conditions of your credit cards, what to expect from credit card providers, and how to recognize expensive traps.

Credit card terms can be confusing and misleading if you don't read the fine print. The old adage that *"education is when you read the fine print. Experience is what you get if you don't,"* highlights the importance of looking past an introductory rate or free gift. Here are some of the key terms and areas you want to review when assessing credit cards.

## **Annual Percentage Rate (APR):**

Interest represents the price of credit. When stated in dollars, interest makes up part of the finance charge, which is the total dollar amount paid to use credit. The APR expresses the cost of credit on a yearly basis as a percentage rate. Knowing the APR simplifies making comparisons among credit cards but it should not be the only consideration. Having a low APR may encourage more spending and it's easy to build up a balance based on a teaser or introductory rate, but most likely, your payment plan will be based on a higher variable rate. A teaser rate is an artificially low interest rate that applies for a limited time. Often times these rates do not adequately specify the true costs of the contract because costs associated with annual fees, transaction costs, and other penalties cannot be figured out in advance. Therefore, a card that assesses high fees can make a low introductory APR disappear with certain transactions.

## **Default Rate:**

When looking at the APR be sure to review the introductory rate, variable rate information, and most importantly, the default rate. The default rate is the maximum interest rate that will be charged to your account if you do not follow all the rules of the agreement. Simple mistakes like a late payment or going over your credit limit can trigger the default rate, which can exceed 25% and based on one credit card company out of Utah, can hit 35%.

## **Variable Rate:**

After an introductory rate is over, a new variable rate will apply to your balance and new purchases. Variable interest rates are often tied to the Prime Rate, which is an interest rate that is often given to the most qualified borrowers. The variable rate is usually figured by adding a certain percentage to the current prime rate. An example would be "variable APR equals the prime rate plus 2.99%." The current Prime Rate can be found in the money section of the Wall Street Journal.

### **Finance Calculation Method For Balances:**

One of the most overlooked aspects of choosing a credit card is the finance calculation method. This is simply the way your minimum payment is calculated each month. There are three common ways, with two significantly outweighing the benefits of the last.

- Average daily balance excluding new purchases: With this method, the cardholder pays interest only on any balance left over the previous month. This is the most beneficial and also the most difficult to find.
- Average daily balance including new purchases. This is the most common calculation method where the balance from the previous month and any new charges made during the billing cycle are included in the balance calculation, even if the previous month balance was paid in full.
- Two-cycle average daily balance is typically the most expensive and least beneficial method. This approach is the least favorable for consumers, especially those who carry a balance or are trying to pay down their balance. Unlike the one-cycle systems, where each billing cycle stands alone, you must pay-off your balance for at least two months to avoid finance charges.

### **Minimum Finance Charge:**

If you carry a balance from month to month a minimum finance charge may apply. This charge simply makes sure the credit card providers receive some benefit for allowing you to carry even small balances. With finance charges in general, it's also important to find out when finance charges begin accruing interest. They can begin on the date of transaction or the date of posting, with the later being the best however, with the electronic age upon us, it may only give you an extra day or two.

### **Late Payment Fees:**

Failure to make a timely payment can result in hefty fees. Late payment fees of \$25 or more are typical and often increase up to \$39 or more if you end up in default or your credit card agreement. Be sure to read your credit card statement very closely, most credit card companies have both a due date and *Time*. Yes a due time, which is typically the morning of the due date.

### **Over-The-Limit Fees:**

Use more credit than you have available and you'll be assessed an over the limit fee. These charges can range from \$20 to \$50 and really impact those who have maxed out their cards and only pay the minimum payment. Since minimum payments do little to reduce your cards balance, it is likely you will continually be assessed this fee month after month until you bring the balance down.

### **Other Fees:**

Cash advance fees, foreign currency transactions, and balance transfer fees typically run 3% and can carry a minimum cost. Each will also probably carry a higher interest rate than that for standard purchases. Often times, in addition to a higher interest rate, credit card providers may require you to pay down your standard purchase balance before applying payments to these areas. This obviously benefits the card companies, as interest will likely accrue faster in these areas than you can pay it off.

**W**hile some federal regulations like the Truth in Lending Act requires credit card issuers to provide certain information like the APR, card fees, and finance calculation method for balances, credit card issuers also use creative techniques to make the most of your debt. Here's what you need to watch for.

### **Skip A Payment:**

Some card issuers offer credit cards where cardholders are allowed to skip a payment. On the surface this sounds great but the practice simply increases the total amount owed because the unpaid interest continues to add to the unpaid balance.

### **Universal Default:**

This is the scariest tactic and one that is becoming increasingly popular. With universal default credit card issues look for any situation where a customer is having trouble with other accounts or has taken on significantly higher amounts of debt. In this situation the credit card company can decide the borrower is in universal default and, therefore, apply the default rate to an account that you are handling well simply because you have trouble with other accounts. Assuming you have a 3.9% introductory rate on a card with a balance \$2,500, universal default to 29.99% could increase your payment by well over \$100 dollars.

### **Increased Minimum Payments:**

The introduction of the Bankruptcy Abuse and Prevention Act of 2005 affects consumers in a number of ways. The most noticeable to credit card holders will be increased payments. Part of the act requires credit card issuers to identify what is being called the equivalent of the surgeon general's health warning on cigarettes. Credit card providers must disclose how long it will take consumers to pay-off their balances if they only make minimum payments. This has, in turn, encouraged banks and financial institutions to increase minimum payment from the typical 2% or 2.5% up to 4%, effectively almost doubling your payment.

**W**hether you're filling out your first credit card application or considering a balance transfer, there are several simple steps you can take to save money on your credit cards. Here are three easy ways to reduce credit card costs and fees.

### **Use Your Billing Cycle To Your Advantage:**

Your billing cycle represents the time period between your opening and closing billing dates. These dates can vary by card and may be based on the date in which you open an account. The key is that by knowing your billing cycle you can plan your purchases better and create the most time to pay-off your balance. Here's how it works. Let's say your billing cycle begins on the first of the month and ends on the last day of the same month. The law states that credit card bills must be sent to the consumer within 14 days of the closing billing date. So how would making a purchase on the 25<sup>th</sup> of the month compare with waiting to make that same purchase at the beginning of the next month? If you made a purchase on the 25<sup>th</sup> that purchase would end up on your current bill and you would need to pay it off within three weeks. But if you just waited five more days you would effectively have almost 6 weeks

to pay it off (the entire next billing cycle plus the 14 days time for your bill to arrive). It's a simple way to make your billing cycle work to your advantage.

### **Set Your Own Minimum Payment:**

Just like credit card companies set a minimum payment amount, you should do the same for yourself. Commit to a percentage that fits into your budget and exceeds the card company's minimum balance. Start with at least 5% and increase it when you are able to. This will ensure you are paying off your Visa or MasterCard instead of paying on it. If you can't commit to paying back at least 5% of the balance owed each month, you shouldn't be using your card any more.

### **Define What An Emergency Is:**

Many of us have a credit card specifically for "emergencies." The card you're supposed to use when your car breaks down, the furnace goes out, or for the unforeseen things that always seem to happen when you least expect them. Interestingly enough, this is also the credit card that usually causes people the most financial problems. Therefore, take the time to define exactly what emergencies allow you to use the card. Here's a hint: If you can wear it or eat it, it's not an emergency.

### **File Bankruptcy On Yourself**

One decision that often crosses the mind of a person who is struggling with debt is to declare bankruptcy. Filing for personal bankruptcy is a serious decision and one that carries with it years of repercussions. So before you legally file for bankruptcy, *declare it upon yourself first*. The premise behind this strategy is to help you understand what the actual legal filing will do to you before you actually decide to file. A bankrupt person has no credit and consequently no credit card, even for emergencies. By necessity, they will only be able to spend on the things they really need and can afford, and be forced to save for things instead of buying as they please or feel they deserve. A lot of things will change if you lose your credit standing. You will be forced to live on a cash-on-hand basis, which usually means making difficult choices with limited dollars. Before you file for bankruptcy, put yourself in a situation to understand what those lifestyle terms will really mean to you.

### **Consider Professional Help:**

Today it seems easier than ever to get a credit card or two or three or more... Financial trouble could be lurking very close by and you may need the help of a professional to help you sort out your options and to understand your rights as a consumer. Review the following list to see if you might be headed for financial trouble and may need the services of a financial counselor:

- Are you using credit cards in situations where you previously used cash?
- Are you using credit cards to pay insurance premiums, taxes, or other large predictable bills?
- Have you ever used one credit card to make a payment on another?
- Are you regularly requesting new cards with higher credit limits?
- Have you asked for increases in your credit limits on your current cards?
- Do you regularly take cash advances?
- Are you only making minimum credit card payments while continuing to charge?
- Have you taken out a consolidation loan? Are you considering doing so again?
- Have you borrowed money or used your credit cards to pay for necessities like groceries,?

**T**here's no doubt that credit cards will continue to be an important financial resource for years to come. Understanding credit cards terms, what to watch for in credit card offers, and following some simple money savings steps can help you both reduce your debt and increase your savings account. Maintaining a solid knowledge base in all areas of money management will continue to be more and more important as each of us becomes more responsible for our own financial future. For this purpose, we have included a resource list, brief overview of the *Fair Credit Billing Act* to help dispute credit card errors, a *Credit Card Comparison Chart*, and a *Credit Card Disaster Recovery Form* for your use.

**Resource List:**

[www.bankrate.com](http://www.bankrate.com)

Credit card, home loan and other financing rates.

[www.aiccca.org](http://www.aiccca.org)

[www.nfcc.org](http://www.nfcc.org)

Credit Counseling

[www.cardtrack.com](http://www.cardtrack.com)

Credit card comparisons

[www.fpanet.org](http://www.fpanet.org)

[www.feeonly.org](http://www.feeonly.org)

[www.afcpe.org](http://www.afcpe.org)

[www.cfp.net](http://www.cfp.net)

Financial Planners

[www.transunion.com](http://www.transunion.com), [www.equifax.com](http://www.equifax.com), [www.exprian.com](http://www.exprian.com)

Credit reports

[www.financialkarma.com](http://www.financialkarma.com)

Learning money management skills

[www.myfico.com](http://www.myfico.com)

Credit scoring information and tips

[www.publiclibraries.com](http://www.publiclibraries.com)

Your Local Library

[www.ingdirect.com](http://www.ingdirect.com)

Savings

**I**t's always important for you to review your credit card statements for errors and signs of identity theft. Taking the extra time to review your monthly statement can save you money and a financial nightmare. If you do find billing errors follow the rules set fourth in the Fair Credit Billing Act described below and review the sample letter to help notify your credit card provider of the error.

The Fair Credit Billing Act (FCBA) is designed to assist people who wish to dispute billing errors with there credit card accounts. You must make your complaint within 60 days after the date on which the first bill containing the error was mailed to you and in turn, the credit card provider then has 30 days to acknowledge your notification. Within the next 90 days they must either permanently correct the error, return any overpayment, or provide evidence as to why they believe the bill is correct.

While the dispute is being investigated, creditors cannot assess interest, apply penalties for non-payment of the disputed amount, or send negative information about your account to credit bureaus. In order to qualify for protection under the FCBA, the notice you send must be in writing. Be sure to send the letter to the correct department. Do not send a dispute letter to the typical billing address. Look for an address on your statement that is prefaced by a heading like "send inquiries to." Provide photocopies (not originals) of all related documentation that supports your claim. Keep the originals to

challenge any finding by the company and if possible, pay the undisputed amount on your credit card bill in full in order to isolate a disputed item. Under the provisions of FCBA, the company must immediately credit your account for the amount in dispute. After the dispute has been settled, review your credit report to ensure that it does not include information regarding your refusal to repay the disputed amount.

First Bank  
1234 Main St  
Southlane,NE 22321

## Sample Letter

Attn: Billing and Errors

Re: Mr. & Mrs. Smith , account # 457659876523

To whom it may concern,

I recently found an error on my Visa statement dated December, 21, 2008. On November 24<sup>th</sup>, I checked into a hotel for two nights with my Visa card. On my departure date, February 26<sup>th</sup>, I made a payment of \$256.65. My bill however, is for \$265.56. It appears that the numbers have been transposed.

I understand that the law requires you to acknowledge your receipt of this letter within 30 days unless you correct the billing error before then. Furthermore, I understand that within two billing cycles (but in no event more than 90 days), you must correct the error or explain why you believe the amount to be correct.

I have enclosed a copy of the receipt from the hotel for your review.

Sincerely,

Mr. & Mrs. Smith

# Credit Card Comparison Chart

Will you be carrying a balance on this card?      Yes                  No

Areas For Comparison	Credit Card Offer 1	Credit Card Offer 2	Credit Card Offer 3
	Name:	Name:	Name:
Introductory rate APR Annual Percentage Rate			
Length of introductory APR For new purchases & balance transfers			
Variable APR information What percentage is added to the prime rate?			
Default APR information			
Annual fees			
Method for computing the balance for purchases	1. Avg daily balance w/o new 2. Avg daily balance w/ new 3. Two-cycle billing average 4. Other:	1. Avg daily balance w/o new 2. Avg daily balance w/ new 3. Two-cycle billing average 4. Other:	1. Avg daily balance w/o new 2. Avg daily balance w/ new 3. Two-cycle billing average 4. Other:
Minimum finance charge When does interest begin accruing?			
Grace period			
Cash advance fees			
Late payment charge			
Over-the-limit fees			
Balance transfer fees			
Card Benefits			

# Credit Card Disaster Recovery Form

*Place in Safety Deposit Box*

**Business or Personal Card** (circle one)      **Debit or Credit Card** (circle one)

**Issuing Bank or Finance Company:** \_\_\_\_\_

**Type:**      Visa      MasterCard      American Express      Discover      Other \_\_\_\_\_

**Account Number:**      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

**Expiration Date:**      \_\_\_\_\_ (Month)      \_\_\_\_\_ (Year)

**Three Digit Security Code On Back Of Card / Signature Pad:** (Optional): \_\_\_\_\_

**Customer Service Number:** ( \_\_\_\_\_ )      \_\_\_\_\_ - \_\_\_\_\_

**Business or Personal Card** (circle one)      **Debit or Credit Card** (circle one)

**Issuing Bank or Finance Company:** \_\_\_\_\_

**Type:**      Visa      MasterCard      American Express      Discover      Other \_\_\_\_\_

**Account Number:**      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

**Expiration Date:**      \_\_\_\_\_ (Month)      \_\_\_\_\_ (Year)

**Three Digit Security Code On Back Of Card / Signature Pad:** (Optional): \_\_\_\_\_

**Customer Service Number:** ( \_\_\_\_\_ )      \_\_\_\_\_ - \_\_\_\_\_

**Trans Union Corporation**

P.O. Box 1000  
Chester, PA 19022  
1-800-888-4213  
[www.transunion.com](http://www.transunion.com)

**Equifax (CSC)**

P.O. Box 740241  
Atlanta, GA 30374  
1-888-685-1111  
[www.equifax.com](http://www.equifax.com)

**Experian**

P.O. Box 2104  
Allen, TX 75013-2104  
1-888-397-3742  
[www.exprian.com](http://www.exprian.com)

Toll-free directory assistance:      (800) 555-1212  
MasterCard help line:      (800) MC ASSIST  
Visa help line:      (800) VISA 911  
Federal Trade commissions Identify Theft Hotline – 877-438-4338  
FEMA (800) 621-FEMA.  
Department of Homeland Security at 1-800-BE-READY (1-800-237-3239)

## **About Robert Laura**

Robert Laura has spent time as both a corporate executive and entrepreneur. He is the author of *Financial Karma* and *The Five Most Important Financial Things They Don't Teach You In School*. He is the creator of the first and only behavior based money management software, My Financial Reflection, and maintains a financial news and education website at [www.FinancialFYI.com](http://www.FinancialFYI.com).

Robert frequently speaks on all topics related to money and is a member of the National Speakers Association (NSA). His presentations are ideal for every age group, from high school and college students, to Middle Americans looking for financial motivation, and pre-retirees to current retirees. You can learn more about him and his programs at <http://www.robertlaura.com>