

# CREDIT CARDS.

## Take charge.

Creditcards.com reports that the credit card industry mailed over 6 billion credit card offers in 2005 – an average of 6 offers per U.S. household per month. Not surprising then to learn that over 80% of undergraduate students have at least one credit card in their name with an average outstanding balance of over \$2,100. Graduate students have even higher balances. Students trying to manage academics, credit card balances and “life” can be challenged to do so. Poor credit ratings and high levels of stress often result. If you learn to choose the right credit card for you and to manage it effectively, you’ll build an excellent credit rating and you’ll have less stress than your peers.

Credit card terms and conditions are often confusing. Add in the miniscule fonts and legalese and it’s little wonder that many credit card users make mistakes with their cards and end up paying a lot of fees and higher interest rates than they anticipated. Credit card companies are required to disclose their terms and conditions and generally do so on the back of a paper application. If you’re applying on the credit card company’s Web site, a link will normally be included. Read over the terms and conditions carefully. They will determine if the credit card is a good choice. You’ll want to focus on the various fees that the issuer charges as well as any potential surprises that you’ll be faced with once your initial few months with the card are up.

The most important thing to remember with any credit card is that the issuer can change the terms and conditions at any time. They can shorten your grace period, raise your interest rate, or whatever else helps their bottom line. These are some typical fine print terms defined for you:

### A.P.R. VARIABLE INTEREST RATE:

This is the annual percentage rate or interest rate you’ll be charged. You’ll find the interest you’ve been charged on your monthly statement under “finance charges.” Be careful that the interest rate that inspires you to apply isn’t a “teaser rate.” Teaser rates (0% APR on all new purchases!) generally change after 3-6 months. Note that your interest rate on your credit card is variable. It may change at any time. It’s likely to go up if you’re late with your payments, go over your limit, or are late with a payment on another credit card. Typically, if you pay off your balance in full each month, the A.P.R. isn’t the most important factor in which card you decide to apply for.

### GRACE PERIOD:

This is the amount of time that you have to make a payment or pay off your balance in full before you’ll be charged interest or “finance charges” by the credit card company. Many credit card companies have shortened the interest free grace period from 25 days to 20. Some have none at all. Look for a card with a grace period of at least 20 days.

### FEES, FEES, AND MORE FEES:

Credit card companies can be pretty creative when coming up with new fees to charge you. Issuers earn billions of dollars each year off of the fees that they charge to consumers. The fees can be quite high and are a common way that consumers fall behind in their payments and lose control of their credit card debt. Many credit cards also charge an annual fee and some even charge a monthly fee.

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### EXAMPLE:

Sally Maxout has a card with a \$3,000 credit limit, a balance of \$2,985, and a 19% interest rate. She sends her minimum payment due of \$120 in late and is looking at a lot of fees:

Balance:	\$2,985
Late fee:	<u>+ 35</u>
New balance:	\$3,020
Overlimit fee:	<u>+ 35</u>
New balance:	\$3,055
Payment:	<u>- 120</u>
New balance:	\$2,935

Sally's late fee plus her overlimit fee are \$70! After another month of finance charges she'll be almost over her limit again and could be assessed another fee.

### DEFAULT PURCHASE RATE:

This one's deep in the fine print. If you miss a number of payments, your interest rate goes up, even on your other credit cards! Look in the fine print to see if the card you're interested in does this. You'll often find the information close to where the company mentions "universal default."

### TRANSACTION FEES:

There can be fees assessed for cash advances from ATM machines (especially high when used overseas) and balance transfer fees. If you're planning to use your credit card at an ATM, you'll want to shop for the lowest fee.

### BEWARE OF UNSOLICITED CREDIT CARD OFFERS

When shopping for a credit card, the pre-approved offers that you get in the mail or from the guy hawking cards in front of the bookstore are not the best cards. Bankrate.com is a great resource for researching the best card for you. You can compare cards, and their search engine can pull up various credit card deals based on parameters that you input.

### CARDS WITH PERKS

Many consumers are very interested in getting a card that gives something back. Some cards offer cash back or airline miles or lattes or whatever. Beware that the annual fee you're charged for such cards doesn't cost more than the benefit you receive. Airline cards, for example, charge around \$80 per year and you get 1 mile per dollar charged. Most cards need 40,000 miles for a plane ticket. Consider how long it would take to run \$40,000 through your mileage card, and you may find that the annual fees you've been charged don't make it the best deal.

### BUILDING CREDIT

Credit cards can be an easy way to build a good credit rating when used responsibly. A small charge paid in full each month will show on your credit report as an on time payment. If you charge a small amount on your card each month and pay it in full (don't ever be late), you'll build a great rating by the time you finish school.