

# Taking Charge of Credit Cards

## Credit Cards

Having a credit card allows you to buy now and pay later. Credit cards can make life easier if used wisely as financial tools. In fact, it is impossible to complete some transactions without a credit card. The keys to using credit cards are knowledge and discipline. With these, you can make smart credit-related decisions.

**Choose your credit card; don't let your credit card choose you.** First you need to think about how you will use a credit card:

- ✓ Do you expect to pay your monthly bill in full each month? Your best option is a card with no annual fee and one that offers a longer grace period than others.
- ✓ Do you think you will sometimes carry a balance from month to month? A card that carries a lower interest rate (annual percentage rate/APR) would make more sense for you.
- ✓ Do you expect to get cash advances on your credit card account? A card with a lower APR and lower fees on cash advances would be more appropriate for you.

**Compare credit card features.** Use a checklist to compare cards. Consider how each feature of a credit card might affect what you pay for the privilege of using credit:

- ✓ What are the APRs for?
  - Purchases
  - Cash advances
  - Balance transfers
  - Penalties and when does it apply
- ✓ How is the interest figured? Is it—
  - Fixed (never changes)
  - Variable (changes based on some index)?
- ✓ What is the grace period? (How long do you have to pay the total before you are charged interest)?
- ✓ How is the finance charge calculated?
  - Adjusted balance method
  - Average daily balance method with new purchases
  - Average daily balance method without new purchases
  - Previous balance method
- ✓ Is there a minimum interest charge?
- ✓ Fees:
  - Annual fee
  - Account set-up fee
  - Participation fee
  - Additional card fee
  - Balance transfer fee
  - Cash advance fee
  - Foreign transaction fee
  - Late payment fee
  - Over-the-limit fee
  - Returned payment fee
- ✓ Other features:
  - Rebates
  - Rewards
  - Frequent flier airline miles
  - Insurance on purchases

In order to use a credit card as an effective financial tool, the consumer must be smart about choosing as well as using the credit card. The Federal Reserve Board, whose goal is to protect consumers' credit card rights, provides an online guide to help navigate the credit card process:

<http://www.federalreserve.gov/creditcard/>



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## Tips on getting the most benefit from your credit card

Credit cards are actually high-interest loans in disguise.

Each time you use your credit card to pay for a purchase, you are taking out a small loan. You are not spending your money but someone else's money that you must pay back.

**Credit smart rules.** Remember, we humans are creatures of habit, so develop credit card use and spending habits that are credit smart.

- ✓ Pay the entire balance monthly.
- ✓ Pay on time!
- ✓ Know how much you owe by keeping track of charges.
- ✓ Limit the number of credit card accounts you open.
- ✓ Keep your receipts and reconcile them with your monthly statement.
- ✓ Never charge to your credit limit.
- ✓ If you must make monthly payments, always pay more than the monthly minimum payment due.
- ✓ Don't charge items you cannot afford.
- ✓ Never co-sign for a friend to get a credit card.



**Know yourself.** Know if you have the self-control to handle carrying a credit card without misusing it. In the absence of self-control, credit card debt can creep up. Don't run the risk of accruing major credit card debt.

- ✓ Credit cards make spending easier, encouraging consumers to spend money they don't have.
- ✓ Credit card may tempt you to purchase items on impulse that you do not need.
- ✓ If spending cash is harder than spending on credit, carry only cash.
- ✓ Don't purchase items on credit to cheer yourself up.
- ✓ Don't think of credit cards as extra income; a charge on a credit card is additional debt, not income.
- ✓ With credit available, you may be more likely to buy now, rather than comparison shop for the best buy.

## Getting out of credit card debt

**Be proactive.** Take control of the situation. Find a credit counseling service that is a member of the National Foundation for Credit Counseling. This is a safe organization whose certified counselors provide free or low-cost advice about managing money, offer solutions to financial problems, and develop a personalized plan to help you prevent future difficulties.

**Don't deny it.** Admit you are in over your head. Talk to your parents/spouse or others you trust about it. Sometimes, just talking it out with someone else helps you to see other perspectives and insights into ways to deal with your debt.



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