

Protecting Wisconsin Consumers for 75 Years

Ready, set...credit

A credit card is a great financial tool. It can be more convenient to use and carry than cash, and it offers valuable consumer protections under federal law.

At the same time, it's a big responsibility. If you don't use it carefully, you may owe more than you can repay, damage your credit rating, and create credit problems for yourself that can be difficult to fix.

Chances are your mail is full of offers from credit card issuers. How do you know if the time is right for a credit card? Here is some important information that may help you determine whether you're ready for plastic, what to look for when you select a company to do business with, and how to use your credit card responsibly.

Qualifying for a credit card

If you're at least 18 years old and have a regular source of income, you're well on your way to qualifying for a card. Even if you get invitations from card issuers, you'll still have to demonstrate that you're a good risk before they grant you credit. The proof is in your credit report. If you've financed a car loan or other purchase,

you probably have a record at a consumer reporting company. This credit history shows how responsible you've been in paying your bills and helps the credit card issuer decide how much credit to extend.

You also can review a copy of your credit report to make sure it's accurate. The federal Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months.

There are three ways to order your free annual credit report:

- Online at www.annualcreditreport.com
- By calling (877) 322-8228
- Obtaining an Annual Credit Report Request Form either online, by calling or mailing in a request. Mail completed forms to:

Annual Credit Report
Request Service
PO Box 105281
Atlanta GA 30348-5281

When you order, you need to provide your name, address,

Social Security number, and date of birth. To verify your identity, you may need to provide some information that only you would know, like the amount of your monthly mortgage payment.

If you're not yet eligible for a free annual credit report under the federal law, you can buy it. Each report may cost up to \$9.50. Contact:

- Equifax at (800) 685-1111 or online www.equifax.com
- Experian at (888) 397-3742 or online www.experian.com
- TransUnion at (800) 916-8800 or online www.transunion.com

Establishing a credit history

Suppose you haven't financed a car loan, a computer, or some other major purchase. How do you begin to establish credit? Consider applying for a secured credit card. It requires that you open and maintain a bank account or other asset account at a financial institution as security for your line of credit. Your credit line will be a percentage of your deposit, typically from 50 to 100 percent. Application and processing fees are not

uncommon for secured credit cards. In addition, secured credit cards usually carry higher interest rates than traditional nonsecured cards.

Also consider asking someone with an established credit history — perhaps a relative — to co-sign the account if you don't qualify for credit on your own. The co-signer promises to pay your debts if you don't. You'll want to repay any debt promptly so you can build a credit history and apply for credit in the future on your own.

A positive credit history is an asset, not only when you apply for a credit card, but also when you apply for a job or insurance, or when you want to finance a car or a home.

If your application is denied

If you're turned down for a card, the creditor must tell you so and why. It may be that you haven't been at your current address or job long enough. Or, your income may not be high enough. Different credit card companies have different standards. But if you're turned down by several companies, it may indicate that you are not ready for a credit card.

If you don't get the card because of information in your report, the creditor must tell you how to get a copy of the report from the consumer reporting company that provided it. There is no charge for the report if you request it within 60 days of getting notice that your application was denied. Review your report carefully. Both the consumer reporting company and the

information provider (that is, the person, company, or organization that provides information about you to a consumer reporting company) are responsible for correcting inaccurate or incomplete information in your report. To protect your rights under the law, contact both the consumer reporting company and the information provider to dispute any information.

Getting the best deal

Fees, charges, and benefits vary among credit card issuers. When you're choosing a credit card, shop around. Compare these important features:

- **Annual percentage rate (APR)** — The APR is a measure of the cost of credit, expressed as a yearly interest rate. Check out the "periodic rate," too. That's the rate the issuer applies to your outstanding balance to figure the finance charge for each billing period. If the card offers a very low introductory rate, find out what the rate will be after the initial period. Ask about other limitations on the initial rate. For example, is it only for balance transfers, and not regular purchases? Be aware that some companies have high penalty rates. For example, if you're late paying your bill, your rate may increase significantly. Ask when the company may apply a penalty rate to your account.
- **Grace period** — This is the time between the date of a purchase and the date interest starts being

charged on that purchase. If your card has a standard grace period, you have an opportunity to avoid finance charges by paying your current balance in full. Some issuers allow a grace period for new purchases even if you don't pay your balance in full every month. If there is no grace period, the issuer imposes a finance charge from the date you use your card, or from the date each transaction is posted to your account.

- **Annual fees** — Many credit card issuers charge an annual fee for granting you credit.
- **Transaction fees and other charges** — Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.
- **Customer service** — Many issuers have 24-hour toll-free telephone numbers.
- **Other benefits** — Issuers may offer additional benefits, some with a cost, like insurance, credit card protection, discounts, rebates, and special merchandise offers.

Types of accounts

Credit grantors generally issue three types of accounts. The basic terms of these account agreements are:

- **Revolving agreement** — A consumer pays in full each month or chooses to make a partial payment based on the outstanding balance.

Department stores, gas and oil companies, and banks typically issue credit cards based on a revolving credit plan.

- **Charge agreement** — A consumer promises to pay the full balance each month, so there are no interest charges. Charge cards, not credit cards, and charge accounts with local businesses often require repayment on this basis.
- **Installment agreement** — A consumer signs a contract to repay a fixed amount of credit in equal payments over a specific period of time. Automobiles, furniture, and major appliances often are financed this way. Personal loans usually are paid back in installments, too.

Credi-quette

- \$ Once you get a card, sign it immediately so no one else can use it. Note that the accompanying papers have important information, such as customer service telephone numbers, in case your card is lost or stolen. File this information in a safe place.
- \$ Call the card issuer to activate the card. Many issuers require this step to minimize fraud and to give you additional information.
- \$ Keep your account information to yourself. Never give out your credit card number or expiration date over the phone unless you know who you're dealing with. A criminal can use this information to steal money from you, or even assume your credit identity.

\$ Keep copies of sales slips and compare charges when your bill arrives. Promptly report any questionable charges to the card issuer in writing.

\$ Don't lend your card to anyone, even a friend. Your credit privilege and history are too precious to risk.

Federal protections

Federal law offers the following protections when you use credit cards.

- **Errors on your bill** — You must notify the card issuer in writing within 60 days after the first bill containing the error was mailed to you. In your letter, include: your name; account number; the type, date, and amount of the error; and the reason why you believe the bill contains an error. In return, the card issuer must investigate the problem and either correct the error or explain to you why the bill is correct. This must occur within two billing cycles and not later than 90 days after the issuer receives your billing error notice. You do not have to pay the amount in question, and related fees like the finance charges, during the investigation.
- **Unauthorized charges** — If your credit card is used without your authorization, you can be held liable for up to \$50 per card. If you report the loss of a card before it is used, the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you will owe for

unauthorized charges is \$50. You should be prompt in reporting the loss or theft of your card to limit your liability.

You are responsible

While a credit card makes it easy to buy something now and pay for it later, if you're not careful, you can lose track of how much you've spent by the time the bill arrives. And if you don't pay your bill in full, you'll probably have to pay finance charges on the unpaid balance. What's more, if you continue to charge while carrying an outstanding balance, your debt can snowball. Before you know it, your minimum payment is only covering the interest. If you start having trouble repaying your debt, you could tarnish your credit report. And that can have a big impact on your life. A negative report can make it more difficult to finance a car or home, get insurance, and even get a job.

For more information, or to file a complaint, contact the Bureau of Consumer Protection at:

(800) 422-7128

2811 Agriculture Drive
PO Box 8911
Madison WI 53708-8911
(608) 224-4976

FAX: (608) 224-4939

TTY: (608) 224-5058

E-MAIL:

datcpHotline@datcp.state.wi.us

WEBSITE:

www.datcp.state.wi.us

(Information taken from the Federal Trade Commission fact sheet "Ready, Set...Credit, 02/05")