



Managing Money

Credit Cards

Managing Money:

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Credit cards are a widely used source of convenient credit for restaurants, hotels, mail order, on-line shopping, gasoline stations, grocery stores, dental and medical care, church bazaars, as well as telephone and television advertised products. There are many advantages of using credit cards, but the consequences of misuse can be painful.

Some advantages of credit cards are: credit cards can act as a short-term loan if you find something that is a bargain and don't have the cash or balance in your checking account to pay for it, and they eliminate the need to carry large sums of cash. Credit cards can help you coordinate receipts for tax purposes and the receipts may be useful in keeping records of expenses.

Some disadvantages are that adding monthly interest charges means you pay more for the goods and services. If you have more than one credit card, when the credit limits for all cards are added up the total can be in the thousands of dollars. It is too easy to fall into the habit of using credit cards to extend your income.

Types of Credit Cards

There are four major types of credit cards: bank cards, travel and entertainment cards (T & E cards), retail store cards, and oil company cards. Applications and interest rates for each type of card may be different. When using a credit card, the consumer agrees to the terms of the credit card company. Read these terms carefully and understand them before using the card.

Bank cards. The two major bank cards are MasterCard and VISA. You may use bank cards to charge motel and restaurant bills, merchandise, airline tickets, services, and some cards allow cash advances. Interest on a cash advance starts the day you get the money and continues until you pay back this loan.

Some cards are offered without fees, some are included in a total banking package, and others charge a yearly membership fee. You are granted a bank card based on your credit record. Your credit record also determines the maximum amount you can charge. You may request to have this limit raised if you establish a good credit history while using the bank card.

The interest charges for bank cards range widely, so it's worth shopping for a low interest rate if you don't pay your bill in full each month. If you fail to make the monthly required minimum payment, this is reported and shows up on your credit report. As a result, your account may be cancelled or your interest rate may be increased.

Some companies use banks to sponsor their own MasterCard and VISA cards for their customers. More and more universities, organizations, travel clubs, and even political parties are sponsoring credit cards. If you support their goals, you can make a contribution to them when you make a purchase by using an affiliated (affinity) credit card.

Debit cards. Don't confuse debit cards with credit

cards. Debit cards may look like credit cards, but they act like checks. Once the debit card is used, the amount is immediately deducted from your checking or savings account. The debit card eliminated the need for carrying cash, but it does not extend credit. Debit cards may be used as guaranteed check cashing cards. In contrast, credit cards defer your payment until you are billed.

Travel and entertainment cards (T&E).

Consumers must apply for travel and entertainment cards such as American Express, Diners Club, and Carte Blanche and are charged an annual membership fee. Card holders are billed for purchases every 30 to 60 days. They are expected to pay each bill in full. Failure to pay promptly may result in a poor credit report, interest charges, and eventual cancellation of the account.

Some T&E cards offer card holders additional services such as group life and accident-and-health insurance, cash advances and gift catalogs. Free travel insurance is frequently provided when T&E cards are used and they may offer to stretch payments for large bills over a three-to six-month period.

Retail store cards. Retail credit cards are issued by department stores and other companies. If you have a retail store card, you may be notified of special sales before the general public. These cards offer revolving credit at a pre-established credit limit. Finance charges are added to your bill if you do not pay in full each month. Most retail stores also accept bank cards.

Oil company cards. Oil companies offer their own credit cards and most accept VISA and MasterCard.

Use the Shopping for a Credit Card Work Sheet to compare costs of credit card offers and to determine which card is the best one for you.

Lost or Stolen Credit and Debit Cards

Notify the credit card issuer immediately if your credit card is lost or stolen. You will be charged up to a maximum of \$50 of unauthorized purchases that occur per card before the card company is notified of the loss. If you lose five credit cards, you may be responsible for up to five times \$50 or \$250. Some homeowner's insurance policies cover up to \$500 in charges on stolen credit cards. As soon as the credit card issuer has been informed that a card has been lost or stolen, the credit card holder is no longer responsible for even \$50 of unauthorized purchases.

You should be informed about your \$50 liability for unauthorized use of credit cards when you receive requested cards. Prepare for the possibility of lost cards by listing credit card account and phone numbers, and addresses for notification. Keep this information separate from your cards and leave it with a relative or friend.

Lost or stolen debit cards can cost more to their owners than lost or stolen credit cards. Debit card holders are liable for the first \$50 of charges even if the loss is reported before the card is used. If the loss is not reported, the debit card holder is liable for up to \$500 of unauthorized use.

Shopping for a Credit Card Work Sheet

	Credit Card #1	Credit Card #2	Credit Card #3
	_____	_____	_____
	(name)	(name)	(name)
Annual fee amount			
Annual percentage rate (APR)			
Grace period before finance charges are assessed			
Credit limit (dependent upon credit approval)			
Over-the-credit limit fee			
Transaction fees (for cash advances, etc.)			
Late Payment fee			
Other fees			
Other things to ask: *How widely is the credit card accepted? *What other services and features are available?			

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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