

# A GUIDE TO MANAGING CREDIT CARDS



Maryland Coalition  
FOR Financial Literacy

# A Guide to Managing Credit Cards

## Essential Facts for Students

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## HOW LONG AND HOW MUCH DO I HAVE TO PAY?

Use the following chart to find your payoff time and total payoff amount for credit card balances ranging from \$500 – \$10,000 with APRs from 12% – 20%. Calculations are based on making a minimum monthly payment of 1% of the outstanding balance plus accrued monthly interest or a payment of \$20, whichever is greater. This chart assumes discontinued use of your credit card and timely payments.

CARD BALANCE	12%		14%		16%		18%		20%	
	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS
\$500	\$578	2.4	\$595	2.5	\$612	2.6	\$631	2.7	\$652	2.8
\$1,000	\$1,393	5.8	\$1,500	6.3	\$1,613	6.7	\$1,731	7.0	\$1,854	7.3
\$2,000	\$3,393	11.6	\$3,667	12.0	\$3,947	12.4	\$4,231	12.8	\$4,521	13.1
\$3,000	\$5,393	14.9	\$5,835	15.4	\$6,280	15.8	\$6,731	16.2	\$7,189	16.5
\$4,000	\$7,393	17.3	\$8,002	17.8	\$8,614	18.2	\$9,231	18.5	\$9,857	18.9
\$6,000	\$11,393	20.7	\$12,337	21.2	\$13,282	21.5	\$14,231	21.9	\$15,193	22.3
\$8,000	\$15,393	23.1	\$16,672	23.5	\$17,949	23.9	\$19,231	24.3	\$20,528	24.7
\$10,000	\$19,393	24.9	\$21,007	25.3	\$22,617	25.8	\$24,231	26.1	\$25,864	26.5

## \$10 EXTRA – PAY OFF YOUR BALANCE FASTER

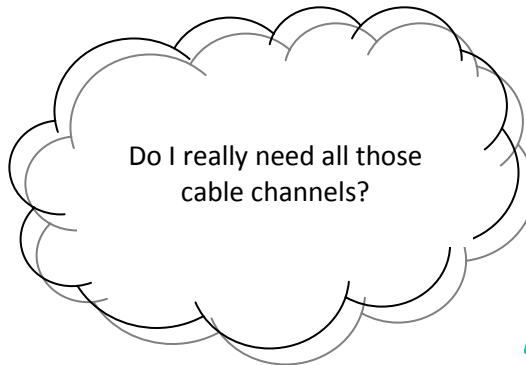
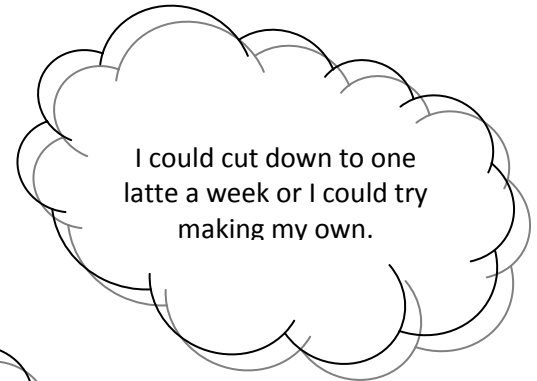
The following chart illustrates how you can significantly reduce the time and total cost required to pay off your credit card debt. This is achieved by simply adding \$10 to the minimum monthly payment described above. This chart assumes discontinued use of your credit card and timely payments.

CARD BALANCE	12%		14%		16%		18%		20%	
	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS
\$500	\$550	1.6	\$559	1.6	\$569	1.6	\$580	1.7	\$591	1.7
\$1,000	\$1,222	3.4	\$1,271	3.6	\$1,321	3.7	\$1,372	3.8	\$1,423	3.8
\$2,000	\$2,819	6.8	\$2,967	6.9	\$3,117	7.0	\$3,267	7.2	\$3,418	7.3
\$3,000	\$4,533	9.2	\$4,800	9.3	\$5,068	9.4	\$5,338	9.5	\$5,607	9.6
\$4,000	\$6,311	11.0	\$6,708	11.2	\$7,106	11.3	\$7,504	11.3	\$7,904	11.5
\$6,000	\$9,976	13.8	\$10,650	13.9	\$11,326	14.1	\$12,002	14.2	\$12,679	14.3
\$8,000	\$13,726	15.9	\$14,692	16.0	\$15,659	16.2	\$16,627	16.3	\$17,596	16.3
\$10,000	\$17,562	17.6	\$18,792	17.7	\$20,060	17.8	\$21,328	17.9	\$22,596	18.0

# Finding Extra Money To Pay Down Your Credit Card Debt

How long will it take you to completely repay your credit card debt? One of the first things you need to find out is the total amount of money you owe. After you've done that and checked with the charts on the previous page, you can make a plan to repay your credit card debt.

To help formulate your plan to pay it down you need to know how much money you have available. Even though it may seem tedious you need to keep track of the money you spend for a month. You can use index cards or a small notebook but be sure to record any money you spend. Then you need to begin to search for ways to free up extra money to add to the minimum monthly payment for your credit card bills. What can you give up or spend less on until you can pay down your credit card bills?



## ESSENTIAL INFORMATION

When used and managed properly, credit cards offer us convenience, a sense of security, and allow us to build a healthy credit history. Irresponsible credit card use can result in excessive debt and can produce a poor credit score and become a long-term financial liability.

Basic information necessary to help you wisely choose and responsibly use a credit card can be grouped into two main categories:

1. A complete understanding of the costs of credit.
2. Behaviors that reflect financial literacy and personal responsibility.

## CREDIT CARD COSTS

The following identifies the various costs and fees associated with credit card use. Some are evident and others are not so obvious. These costs apply equally to all cards, including MasterCard, Visa, Discover and American Express.

**Annual Fees** – Some issuers charge an annual fee for the privilege of using their card. This charge will appear on your account at the same time each year. Issuers still offer cards without an annual fee but they may become more difficult to find.

**Interest** – Financial institutions charge card holders monthly interest on unpaid credit card balances. Interest rates are expressed as an Annual Percentage Rate (APR). The higher the APR, the more money you pay in interest. APRs can be variable or fixed. A variable rate APR is based on a published index, like the prime interest rate, plus a few percentage points more, which is determined by the card issuer. The CARD Act includes many changes pertaining to credit card interest rate charges.

- With few exceptions, interest rates cannot be increased on an existing balance during the first year the account is open. Exceptions are:
  - If you were offered an introductory rate for a limited period of time and if the issuer disclosed what the new rate would be after the introductory period expired. Promotional rates must last a minimum of 6 months.
  - If you have a card with a variable rate and the index changes. For example, if your APR is based on the prime rate plus 4% adjusted annually, your rate will change if the prime rate changes.
  - If you are more than 60 days behind in payment. If after 6 months, you pay at least the minimum monthly payments on time, the lower rate will return to the account.
  - If your rate had been temporarily lowered during a hardship arrangement that is either completed or dropped out of.
- As of 8/20/09 issuers are required to give 45 days notice on rate increases on existing balances. Previously, issuers were only required to give 15 days notice.
- The practice of universal default, which allowed your issuer to raise your APR if you were more than 30 days late on any payment to anyone, is no longer allowed.

**Interest Calculation** – Most issuers use the Average Daily Balance Method to calculate interest. Since it often resulted in higher interest charges, the two-cycle billing method (also known as double-cycle billing) is no longer allowed per the CARD Act. The formula of the Average Daily Balance Method works as follows:

- Charges and payments are calculated on a daily basis to determine how much is owed each day. The issuer then adds these totals and divides by the number of days in the month. This figure reflects your average daily balance.
- To determine the “daily periodic rate,” the issuer’s APR is divided by 365.
- The average daily balance is multiplied by the daily periodic rate and then multiplied by the number of days in the statement period to obtain monthly interest charges.

**Cash Advances** – These are cash loans you can get with your credit card. Cash advances typically have a one-time fee applied at the time the money is issued, are usually assessed higher APRs, and are granted no grace period. That is, you immediately start paying interest on the borrowed money.

**Convenience Checks** – These are pre-printed checks linked to your credit card account that are typically attached to your credit card statement. Similar to cash advances, they usually have a one-time fee applied to them at the time of use, are assessed higher APRs, and are granted no grace period.

**Payment Allocation** – If you have different APRs on your account (e.g., one applying to purchases and the other applying to cash advances) any payment in excess of the minimum monthly payment and finance charges must first be credited to the balance with the highest interest rate. (Before the passage of the CARD Act, it was common practice for issuers to apply these payments to the balance with the lowest interest rate.)

**Default Rates** – A default rate is a high APR. Traditionally these high rates have been applied when a cardholder went over a credit limit, bounced a payment check, missed a payment or made a late payment. Due to the CARD Act, issuers will not be able to apply a default rate on an existing balance unless the cardholder is more than 60 days behind in payment. If after 6 months, the cardholder pays at least the minimum monthly payments on time, the lower rate will be returned to the account.

**Low Interest Introductory Rates** – An introductory rate (promotional rate) is time-limited and must be of at least 6 months’ duration. Your issuer is required to disclose in the initial credit card offering the rate that will occur at the end of the first six months.

**Balance Transfers** – You may want to take advantage of a lower APR by transferring your credit card balance from one issuer to another. First, understand the fees. There may be a balance transfer fee, the lower APR typically applies only to the transferred balance (not new purchases) and the low APR is often time-limited.

**Late Fees** – A late fee will be applied when payments arrive after the due date. Taking effect 8/20/09, your credit card statement must be sent to you no later than 21 days before the due date. The payment due date, the date a late fee will be charged and amount of the late fee must be disclosed in a conspicuous location on your statement. Cardholders who make a payment at a local branch will have their payment credited the same day. If a due date falls on a weekend or holiday your issuer cannot count your payment late if it is received the next business day. It is common practice for issuers to charge a tiered fee based on the amount of your balance. These fees typically range from \$15 to \$39.

**Over-Credit Limit Fees** – An issuer can charge you an over-limit fee if you have given them permission to authorize a purchase that puts you over your limit. This does not require them to authorize an over-credit limit purchase; they are free to decline such requests. Your issuer is not able to charge an over-the-limit fee if you go over the limit just because of interest charges or fees. Issuers won't be able to charge account holders more than one over-limit fee during each billing cycle and if you only go over the limit once, you cannot be charged over-limit fees more than three months in a row even if your minimum monthly payments don't bring you back under the limit. Many issuers charge a flat fee of \$29 to \$39. Some charge a tiered fee based on the amount of the balance.

**Bounced Check Fees** – If you bounce a credit card payment check, your credit card issuer will likely charge you a penalty fee of \$29 to \$39.

**Currency Conversion Fees** – Your credit card issuer will typically charge a currency conversion fee of 3% on foreign purchases.

**Transaction Fees** – A transaction fee is an up-front fee often assessed when making a balance transfer, using a convenience check or taking out a cash advance.

## HOW TO WISELY CHOOSE & RESPONSIBLY USE A CREDIT CARD

Not all credit cards are equal since credit card issuers are free to offer the terms, services, and perks they desire. The CARD Act requires issuers to post their cardholder agreements on the internet. Be sure to familiarize yourself with the issuer's terms and conditions before applying for a card. When choosing a credit card, it's best to look for:

- A Low, Fixed Annual Percentage Rate (APR)
- No Annual Fee
- A Long Grace Period (law requires at least 21 days). This is the length of time between the previous month's closing date and the next month's due date when you can avoid finance charges on new purchases if you pay your total new balance in full.
- Interest Calculated Using the Average Daily Balance Method. As of February 2010, issuers will no longer be allowed to use any of the two-cycle billing methods.
- Low Fees

**Convenience Users** – Convenience users pay their credit card balance in full each month and avoid paying interest on their credit card purchases. This benefit is attained because of the issuer's grace period, defined above. This method of credit card use is the most cost effective. If you do not pay your balance completely one month, you will not be granted a grace period the following month and will pay interest on all of your credit card purchases.

**“Revolvers”** – These individuals keep a revolving balance on their account and pay interest on everything they purchase. They do not benefit from a grace period. Revolvers are especially looking for a card with a low APR to minimize the interest they must pay. Issuers will only require a minimum payment (MMP) each month, which is often based on 1% of the outstanding balance plus accrued interest or \$20, whichever is greater. ALWAYS PAY MORE THAN THE MMP. Paying just the MMP is the most costly and least desirable form of payment. Issuers are required to display a warning on monthly statements indicating that making only the MMP will

increase the amount of interest paid and time required to repay one's balance. Repayment information must include the number of months and the total cost to the consumer, including interest and principal payments required in order to pay the balance in full if only the MMP is made. This assumes no further charges are made on the account. Similar information to pay off the debt in 36 months is also required.

When choosing a credit card, just remember to shop around and to ask questions. Don't be embarrassed to ask a representative to explain the contract so that you clearly understand the card's APR, whether or not there is an annual fee, the grace period, default fees, transaction fees, etc.

## RATES AND FEES AND THE SCHUMER BOX

Credit card issuers detail their basic rates and fees in a table called a "Schumer Box," named after Senator Chuck Schumer. This table makes it easier to compare credit card offers and facilitates your ability to choose the right card for your needs. A sample Schumer Box looks like this:

Annual Percentage Rate (APR) for Purchases	This rate only applies to purchases and can be a fixed rate or a variable rate.
Other APRs	The "Other APRs" box contains information on APRs for balance transfers, cash advances, convenience checks, and default rates. These rates can either be fixed or variable.
Grace Period for Repayment of Balances for Purchase	The grace period applies only to balances for purchases. You only receive a grace period if you pay your new balance in full each billing period by the due date.
Method of Computing the Balance for Purchases	Most issuers use the Average Daily Balance Method, including new purchases.
Annual Fees	Many issuers do not charge an annual fee. Others may offer the first year free of an annual fee with a charge thereafter.
Minimum Finance Charge	A minimum fee typically is charged on any balance that remains unpaid. Usually it only applies when the interest charge is less than the minimum charge.
Transaction Fee for Balance Transfers	An up-front fee is assessed for making a balance transfer.
Transaction Fee for Cash Advances	This up-front fee is assessed for requesting a cash advance. (The same fee typically applies to convenience checks.)
Late Payment Fee	This fee is assessed when a payment is received by the issuer after the due date.
Over-the-Credit Limit Fee	When one chooses to exceed their credit limit a fee is assessed.
International Transaction	A fee (usually 3%) is assessed on each foreign currency purchase after it has been converted into U.S. dollars.

Further descriptions of the terms and conditions of a credit card offer may be found beneath the Schumer Box. Be responsible and read these explanations as well as the on-line contract so that you understand the credit card agreement to the best of your ability.

## DOs AND DON'Ts ONCE YOU HAVE A CREDIT CARD

Once you have a credit card, follow these guidelines to avoid financial problems:

**Limit yourself to one card.** Having more than one card can tempt you to spend more. Once you become familiar with credit, you may opt for an additional card. When starting out, one should suffice.

**Don't use your credit card for tuition** and limit its use for school related expenses. Student loans are far more cost effective for tuition.

**Differentiate between needs and wants.** The convenience of plastic makes it easy to overspend. Think twice before making a purchase. Is it something you *need* or *want*?

**Remember that credit cards are a convenience.** Your socio-economic status is not changed once you have a credit card. Keep in mind you are borrowing money every time you use your card and this money must be repaid.

**Pay your credit card bill off fully each month.** If you can't pay your credit card bill fully each month, ALWAYS MAKE MORE THAN THE MINIMUM MONTHLY PAYMENT.

**Manage your credit card account like you manage your checking account.**

Be sure you have enough money to pay your credit card balance.

**Don't skip payments, even if your issuer says you can.** You will be charged full interest during this period and will end up owing more the following month.

**Pay your bills on time.** Avoid late fees, because it could cause a lower credit score.

**Avoid exceeding your credit limit.** Don't get charged over-limit fees which are expensive. If you go over your limit just once, you can be charged an over-credit-limit fee for three months in a row if you do not bring your balance under the card's limit.

**Avoid cash advances.** Except in an emergency, do not request a cash advance because they're expensive. Typically you will be charged a transaction fee, a higher APR, and you will not be granted a grace period (your interest starts accruing at the time the advance is taken).

**Avoid using convenience checks.** The same precautions apply for convenience checks as for cash advances.

**Be wary of introductory rates.** At a minimum, they must be of at least six months duration and the solicitation must state the new (increased) rate once the initial six months have elapsed.

**Don't use one credit card to pay another.** If you only have one card, you won't be put in this dilemma. But if you do have multiple cards, this is a cardinal rule. Use savings, responsibly borrow from family or friends or talk to your issuer and ask for help, but NEVER USE ONE CREDIT CARD TO PAY ANOTHER.

**Don't rise to the occasion when your issuer gives you an increased credit limit.** When first starting out, it's best to keep a low credit limit. As you become more familiar with credit, you can raise your limit, and it will be beneficial to you. If you are under the age of 21 and have a co-signer for your account, your limit may not be increased unless your co-signer approves the increase in writing and assumes joint liability for the increase.

**Mail your check as soon as you receive your statement.** If you keep a revolving balance, the earlier your issuer receives your payment, the lower your average daily balance. This will reduce the amount you pay in interest.

**Keep your credit card receipts.** You should keep your credit card receipts so that you can verify the accuracy of the charges listed on your monthly statement. This audit is critical for detecting potential fraud or mathematical errors. When the audit is complete, keep your important receipts in a secure place and destroy all others.

**Immediately notify your issuer if you move.** More than one young adult has paid late fees needlessly because they failed to advise their credit card issuer that they moved and did not receive their credit card bill in time.

**Immediately notify your issuer if your credit card is lost or stolen.** If you report the loss before your card is used, you're not liable for unauthorized charges. If you report the loss after the card has been used, you may be liable for up to \$50. You are not liable if your account number, but not the card itself, was used illegally.

## THERE IS ALWAYS A SOLUTION

If you are having difficulty paying your credit card bill, the worst thing you can do is ignore the problem. First, stop using your card. Next, call your issuer and advise them of your problem. They may be able to offer you a time-limited alternative payment plan. Obviously, you should work to reduce expenses and increase monthly income. Also, it is best to pay down high APR accounts before low APR accounts.

If your problem persists, you may want to contact a credit counselor for help. Credit counseling firms typically negotiate with your creditors for better interest rates on your various credit card accounts. Once you're on an acceptable repayment plan, you make one monthly payment to the firm and they, in turn, pay your creditors. Consumer Counseling Service of MD & DE is located at [www.cccs-inc.org](http://www.cccs-inc.org) or 1-800-642-2227.

If you are stressed out about credit card debt, don't hesitate to talk with a school advisor, counselor, parent, or psychologist. Remember, there is always a solution to this problem.

# CREDIT REPORTS & CREDIT SCORES

**Credit Report** – A credit report is a collection of information obtained from your creditors reflecting the extent of your credit and payment history. Think of it as your “credit report card.” Lenders use this information to determine if they will loan you money and at what rate.

The three major credit-reporting agencies are: Equifax (800-685-1111), Experian (888-397-3742), and Trans Union (800-888-4213). You can obtain a free annual credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling 877-322-8228. Experts recommend that you check your credit report several times a year.

Negative information can stay on your credit report for seven years, unless there is a bankruptcy, which remains for ten years.

**Credit Score** – A credit score is a numeric value that is applied to your credit history by a credit-reporting agency or a lending institution. The most well-known scoring system is called the FICO score. Ranging from 300 to 850, the higher the number, the better the score. Higher scores get you the best interest rates.

Typically your payment history accounts for 35% of your score, so paying your bills on time is extremely important. Balances on all of your credit cards and installment loans, compared to the total available credit limits on all of your cards, accounts for 30%. It’s called a “debt-to-credit-limit ratio” and should be kept as low as possible. Less than 30% is optimal; more than 50% is way too high. The length of your credit history makes up 15% of your score. The longer you display good credit habits, the higher the score. The number of recently opened accounts and credit inquiries establishes 10% of your score. It’s frowned upon to have too many cards (more than 3 or 4) or to seek lots of credit in a limited period of time. The last 10% of your score comes from the mix of credit held. Higher scores go to those who show they can manage a credit card or two along with an installment loan such as a car or student loan.

Your credit history and credit score are extremely important. They speak volumes about your character, capacity and collateral. Lenders consider individuals with a high credit score to be low-risk, desirable customers who are worthy of the lowest interest rates. If you have a low credit score, you may face some or all of these negative consequences:

- You may be denied credit.
- If granted credit, you likely will pay high interest rates. This can be quite costly when purchasing a home, car, appliances, electronics, etc.
- You could have difficulty renting an apartment.
- Employers have access to your credit score and you can be denied employment because of a poor credit history.
- Graduate schools may reject your application for admission.
- You likely will pay higher insurance premiums.
- You may have to pay a large deposit for a cell phone.
- You may have to pay higher deposits for gas, electric, and phone installations.

For Additional Resources

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

[www.mymoney.gov](http://www.mymoney.gov)

# Coalition Members—United to Educate

The Maryland Coalition for Financial Literacy is a private-public partnership of organizations, individuals, and groups united in bringing education, resources and awareness to Marylanders to create strong personal finance skills. With representatives from Oakland to Ocean City, the Coalition's members are dedicated to the financial literacy cause. Financial literacy impacts individuals, families and communities, and so Coalition resources and efforts are focused on each of these areas. A website—[www.mdfinancialskills.org](http://www.mdfinancialskills.org)— offers tips, resources and information for students, parents, teachers and others to improve money management skills.

The Maryland Coalition for Financial Literacy welcomes support from individuals and organizations that endorse the Coalition's mission to provide financial freedom through education. The Coalition members listed in this brochure encourage others to add their voice to this grassroots effort to strengthen Marylander's financial education.

## ***Executive Committee Representatives:***

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