

Topic of the Month

May

QUESTIONS? Contact ANH at 1.800.556.1548

Credit Cards: What Every Credit Card Applicant Should Know

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Today's consumer is showered with opportunities for credit card. Credit cards have become the primary source of borrowing for millions of people. Typically, those who have been approved for a credit card have 4 or more in their wallet. People can use their credit to make almost any type of purchase these days. You can use a credit card to charge the expenses of attending school, meals, gas, groceries, medical co-pays, vacations, cars and more. Why use a credit card?



The table below details some of the benefits and risks:

Benefits	Risks
Emergency funds	May be charged interest
Convenient	Easier to make impulse purchases
Safer than cash when traveling	May be charged fees
Monthly statement can help document expenses	Easy to rack up a lot of debt
Wise use helps build good credit history	Unwise use can lead to bad credit h

Why Use A Credit Card: The True Benefits of Having A Credit Card.

Credit cards make it easy to buy something now and pay for it later. It's much safer to use a credit card than to carry around cash. If you lose your credit card, you can ask your credit card company to cancel your card, and no one else can use it. But if you lose cash, your money is gone. Having a credit card is also convenient. You can use your credit card to make hotel, car rental and other reservations. You can buy items over the phone or online. You can also use credit cards for emergencies, like unexpected car repairs, when you don't have the cash to cover the expenses.

Finally, using a credit card gives you a credit history. Credit cards are a good way to establish your credit worthiness in the market. Based on whether you make timely payments or default on them, the credit card companies maintain your history and build your credit rating over a period of time. This can be shared with other financial institutions who want to check your credit worthiness before conducting financial transactions with you. This rating can also become handy when you are applying for loans or mortgages. Basically, any time you want to borrow money from someone, your chances are much better if you have borrowed money and repaid it on a timely basis in the past.

Risky Business: What Are the Risks that Surface When Using a Credit Card?

A credit card can be an asset to your lifestyle, but if not handled carefully it can become a liability, especially if you find it so convenient and easy to use that you lose control of your spending. While they can be very useful, credit cards can also be very risky. Credit cards may cost much more than other forms of credit, damage your credit rating if you payments are late or missed. Credit cards may also have complicated terms and conditions and allow you to build up more debt than you can handle.

The main advantage of having a credit card is convenience but if you're not good at budgeting and managing your finances, the over-use of credit cards can leave you with a debt that's very difficult to pay back. Even people who are usually good with their money get into trouble with credit cards.

Types of Cards

There are three types of cards being issued: revolving, secured and paid in full. A revolving credit card requires a minimum payment of 1.5% to 2.5% of the outstanding balance each month whereas the paid in full card, like American Express, is literally paid in full each month. Remember, credit cards may come with either a fixed rate or a variable rate of interest. A fixed-rate credit card is better than a low, variable-rate credit card. Why? Because credit card companies can raise their fixed-rate cards when interest rates go higher, but change is not automatic and they need to give you 15 days' notice. With a variable-rate card your rate can move regularly and without any prior notification.

On the other hand, people who have never had credit or need to repair a poor credit history may not qualify for a regular revolving credit card. For them, a secured credit card may be the only way to establish, or re-establish, credit. A secured card allows you to deposit money and then "charge" goods and services, sometimes up to the full amount deposited. For example, if you put \$500 in the account; you can charge up to \$500. You may be able to add to the deposit to add more credit, or sometimes a bank will reward you for good payment and add to your credit line without requesting additional deposits.

How Many Credit Cards Should I Have?

If you have two credit cards, you have one too many. Keep only one credit card. Having only one card makes it much easier to keep track of your purchases and allows you to avoid the paper chase of multiple cards. In order to keep you from using your card for unnecessary purchase, put a post-it note on your card with the message: "For emergency use only."

Having more than one credit card could, in some cases, negatively affect your credit rating with other companies from which you might request credit. Some companies may view you as someone who is in desperate need of credit, sending a message that you have no available cash or that you may be having financial problems. Too many credit cards in your possession make it easy for you to charge on all of them, and before you know it, you're in over your head!!

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Key Questions to Ask When Thinking About Applying for A Credit Card.

Whether you phoned the credit card company and asked a representative to send you information, hooked up with a card company's online applications or received an uninvited application through the mail, don't sign up until you have asked some key questions.

1. Is there an introductory rate? What is it and how long does it last?
2. Is there an application or processing fee?
3. Is there an annual fee?
4. Is there a late fee and over limit fee? How much are each of your fees?
5. Are there any other fees, like account termination fees or balance transfer fees?
6. What is the grace period before interest is applied?
7. How will you inform me of any changes in my contract?
8. What is the company policy if I have trouble paying my bill?
9. What are my payment options?

Reading the Fine Print: The True Cost of Credit

Before you select a credit card you need to become familiar with and understand what the terms and conditions of its use mean. Credit cards can be very costly. If you can't understand the terms and conditions of a card, hold off on submitting that application. Finance charges, late fees, over-the-limit fees, balance-transfer fees, cash advance fees, annual fees add up quickly. Fees can make paying off the balance a distant goal. Understanding how your credit card company assesses finance charges and penalties can save you hundreds of dollars. More important, not understanding the language used in credit card offers and creditor statements could leave you frustrated and deep into debt.

When you make purchases on your credit card, you will pay the credit grantor a finance charge (their profit) for the use of their money. Not to mention, the credit grantor may charge you fees. If your payment is late, a late payment fee will be charged to the card. If you go over the card's charge limit, you will be assessed an over-the-limit fee. If you take out a cash advance, you are charged a cash advance fee. Typically, a fee of 2% of the amount advanced is charged. A penalty fee is sometimes charged if you cancel a card. And of all credit card fees, the annual fee is the most important since you shouldn't have one at all! An annual fee is a nominal fee charged every year just for the privilege of using the card.

Why Should I Pay More Than the Minimum Monthly Payment on My Credit Card?

Credit card companies charge you an enormous amount of interest on each balance that you don't pay off at the end of each month. This is how they make their money and this is how most people in the United States get into debt (and even bankruptcy.) Consider this: If you have a \$100 in savings, most banks will give you at the most 2.0 to 2.5% interest on your money over the course of the year. This means you earn \$2.00 - \$2.50 a year on your \$100 savings. Most credit cards charge you up to 10 times that amount of interest on balances. This means that if you have \$100 balance that you don't pay off, you will be charged 20-25% interest on that \$100. This means that you owe almost \$30 interest (plus the original \$100) at the end of the year (Source: Bankrate.com).

A good way to look at this is in comparison to what you would earn in interest from a bank or owe in interest to a bank loan: Savings accounts may pay you around 2% interest; if you have a loan from a bank you may pay them around 10% interest (5 times as much as you earn off your savings); if you owe money to a credit card company, you may pay them around 20% interest (10 times as much as you earn off your savings.) That being said, you will save and benefit by paying more than the monthly payment, and reap more benefits if you are able to pay off your credit card balances each month.



Credit cards can make life easier and be a great tool, but if they aren't used wisely they can become a huge financial burden. If you do decide to use credit cards, remember these simple rules:

- Before signing up for the first low-rate offer that comes your way, shop around. Maybe that great rate only lasts six months and includes an annual fee .
- Always read the fine print. Before you sign that application and drop it in the mail, make very sure that you know exactly what you're getting into. [one of our web page resources give you a chart comparing credit card features – FYI]
- Shop for a card with a grace period that gives you enough time to pay your bills on time without charging you interest.
- Understand key numbers before you sign: What is the APR, annual fee, grace period, penalties, late payment charges, over-the-limit fees and interest rates on any cash advances, and under what circumstances can the card company change your interest rate (or any other terms of the deal)?
- Pay off your balance on all of your credit cards at the end of each month.
- Keep in mind that if you make only the minimum monthly repayment you may never get out of debt.
- Don't loan your credit or give out your credit card information to anyone but reliable companies.
- Use a low or no-fee credit card and save on the annual fee that some companies charge.
- Only charge to your credit cards what you can pay off in full when the bill comes. You might not use your credit card as much if you start believing that you have to pay off your entire balance at the end of each month.



For non-biased advice on the purchase of your home, tailored to your unique situation, contact A New Horizon today at 1 800 556-1548

