

Using Credit Cards Wisely

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Tips for using credit cards safely, including a credit card “wrap.”

Credit cards can be good or bad for you, depending on how you use them. Follow these suggestions for using credit cards wisely:

- If you *transfer the balance* from one card to another, be sure to close the first account. If you don’t and that account involves an annual fee, you’ll still get a statement for the annual fee.
- Never close all your old credit card accounts. Keep some old accounts open and use them regularly to retain longevity as part of your credit score.
- Credit card issuers have lowered *minimum monthly payments* to two percent or less of the balance. If you pay only the minimum, your payments can stretch as long as 30 years.
- Exercise caution when considering whether to accept a *higher credit limit*. Instead, pay down the balance you have before using the credit card again.
- Resist *affinity cards* which promise a donation to your favorite charity or other group. Typically the group gets less than one percent of what is charged on the card. That can be as little as 25 cents for each transaction. Give your donation directly to the group instead. An added bonus is that a direct donation probably will be tax deductible.
- *Credit card insurance* costs \$15 to \$49 annually. This insurance covers the first \$50 of any unauthorized charges on lost or stolen credit cards. Check your homeowner’s or renter’s insurance policy. Often these policies already cover this potential loss.
- Resist using any “checks” sent with your monthly bill. Such “checks” automatically trigger a cash advance loan.
- If you *carry over an unpaid balance from the previous month*, send your payment as soon as possible to save as much interest as possible.
- Always send payments well ahead of the due date. Issuers charge hefty *late fees*. Being late also may trigger higher interest at the so-called “default” APR.
- If you use Visa, MasterCard or American Express, you shouldn’t be asked for *additional identification* unless you have not signed the card prior to using it. These companies guarantee payment on their cards. Merchants who take other cards such as Discover may check identification.
- *Credit card registration services* are probably not worth the annual fee they charge. Just as they do, you can keep an inventory list of your cards and call the issuers yourself if you lose them. This will save you the annual cost of the registration service.

Practice Safe Credit Card Use With a Credit Card “Wrap”

You can make your own credit control tool by making a credit card “wrap.” A credit card wrap is open only on one side. When the credit card is slipped inside the wrap, it is completely hidden. You have to take the card out of the wrap before it can be used. That extra second or two to get the card out gives you time to reconsider how you’re about to use your credit card.

To make a credit card wrap, you’ll need a 4 x 6 inch index card, scissors or a knife, and a pen.

Cut the index card so you have two pieces, each measuring 4 x 3 inches. Use each piece to make a credit card “wrap” by following these easy steps:

- Step 1.** Fold in half so the folded card measures 2 x 3 inches to make the credit card wrap.
- Step 2.** “Sandwich” your credit card inside by slipping it inside the “wrap.”
- Step 3.** Use the outside of the “wrap” to:
 - **Track spending.** Write down the amount charged each time the card is used. Keep a “running total” so you always know what your total outstanding balance is on that card.

- **Note any “rules” you want to follow in using your card** on the “wrap,” such as noting your Personal Credit Limit for that card, not charging certain items, or not shopping from a certain store.
- **Keep track of your decreasing balance on the card** so you can track how you’re getting it paid off. After sending your payment each month, cross out the written balance on the “wrap” and note the new balance. Hopefully, over time, you’ll see the balance going down.
- **Use pictures or stickers representing something you really like**, to serve as a reward and additional motivation to control credit use so you can save up for what you really want.

Step 4. Put the wrapped credit card in the credit card slot in your wallet in such a way that you have to remove the “wrap” to get to the credit card. Hint: If you can still see the credit card, you need to put the side of the card you see in the slot first.

Financial counseling clients have reported that the “wrap” has caused them to spend less with their credit cards. When the “wrap” starts to look worn, you can easily and inexpensively replace it. An extra bonus for those who use the “wrap” to track their spending is a ready record to compare with monthly statements.

Protect Your Privacy

- If the merchant requires additional identification such as your driver’s license, show it but do not allow any information to be written down. There is no legitimate reason for salespeople to record your driver’s license number.
- Save all receipts from purchases and ATM transactions. Check against monthly statements to verify accuracy of your bill.
- Do not give out credit card account numbers over the telephone unless you placed the call.
- Review your credit file at least once a year. Ask to have any errors investigated.
- Report lost or stolen credit cards or suspicious information on your monthly statement immediately.
- Destroy any “checks” you receive with your statement, any outdated credit cards, and any mail offers for new cards.

If You Can’t Pay Your Bills

Don’t ignore your bills or put them away in a drawer. Don’t have someone else tell creditors who call that you’ve left the country. To help you get back on track with your credit, figure out how much you need for very basic living each month. The difference between what you need to live and your income is the total amount you can truly afford in credit payments. Then write down all of your debts and develop a plan to pay each creditor. Contact your creditors and propose the payment plan. Negotiate but don’t promise to pay more than you can afford.

If you can’t do the negotiation yourself, find a nonprofit credit counseling service by asking for a referral from the debt-collection department at your bank or credit union. Avoid any “counselor” who charges a percentage of your total debt as a fee.

If negotiation doesn’t work, consider Chapter 13 (regular income) bankruptcy. It sets up a court-ordered plan to repay some or all of what you owe over three to five years.

If Chapter 13 is not working, consider Chapter 7 (straight) bankruptcy. This will cancel most debts, and requires you to give up some property. It does not erase certain debts such as student loans, child support, taxes, loans not included in the bankruptcy petition, loans granted on the basis of a false application or court judgments. Chapter 7 also will not get rid of debts incurred for luxury goods and services within 40 days of filing and cash advances for more than \$1,000 taken within 20 days of filing.

Consult reputable legal counsel before filing Chapter 13 or Chapter 7. Bankruptcy remains as part of your credit file for ten years.

Resources Used in This Publication

Federal Trade Commission (2003, July). *Getting Credit: What You Need to Know About Credit*. Washington, DC: FTC.

Garman, E. T. and Fogue, R. E. (2006). *Personal Finance* (8th ed.). Boston, MA: Houghton Mifflin Co.

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