

## Credit Cards: Frequently Asked Questions

### How to Choose a Credit Card

Most people probably don't put much thought into choosing a credit card. Others accumulate them like pennies, constantly adding more to their collection. However, there are several things you should consider when applying for a card.

- First of all, don't apply for more than one or two cards at a time, and limit the total amount of cards you have (excluding store cards) to one or two. Too many can impact your credit score.
- Don't pay an annual fee. Sure, those perks of the fee cards look enticing, but for the average person, it's not worth it.
- If you usually carry a balance, look for a card with a low interest rate.
- Check to see how long the grace period is. This is the amount of time you have before you are charged interest.
- Find out what your credit limit would be. Too small an amount may cause you to exceed your limit if you make a lot of large purchases, perhaps resulting in a fee and a higher interest rate. Too high an amount may affect your credit score.
- If you're carrying a balance on a card with high interest, you may benefit by switching to a new card with a low interest rate for new balance transfers. Some also offer low introductory rates for a fixed period of time.
- If you pay off your credit balance every month, choose a rewards card that fits your needs. Cash rewards are the easiest, although some have limits on the amount you can accumulate in a year. If you travel a lot, you may prefer an airline card. Be sure to check to see when or if your points expire. Restaurant cards are convenient for those who like to eat out a lot.

Credit cards are a great convenience. However, they can also be a big problem for people who have trouble controlling their spending. If you pay off your balance every month, don't have an annual fee, and get a rewards card, you will come out ahead.

## **Credit Card Convenience Costs**

Your credit card comes with a pin number, and can be used just like a debit card to withdraw cash from an ATM. However, this money is considered a loan or cash advance, and you will not only be assessed a fee by the credit card company, but you will be charged interest beginning the moment you withdraw it. In addition, the interest charged may be higher than your normal rate. Therefore, it's not a good idea to use this method of getting cash unless absolutely necessary.

Another annoying practice that many credit card companies have is periodically sending out convenience checks to be used "just like cash". Because these also are cash advances, they have the same high fees listed above. As soon as you use one, you begin paying interest – usually at a higher than normal rate. Quite often there is a fee tacked on as well. It's not a bad idea to call your credit card company and ask that they stop sending you convenience checks. If they were delivered to the wrong address, or stolen from your mailbox, someone else may find them very convenient.

## **What is a Prepaid Credit Card?**

A prepaid credit card, also known as a secured credit card, is similar in concept to a debit card. Here's how it works: you deposit money into an account. As you use the prepaid credit card, your money is automatically taken out of this account. No bills and no interest. However, you do have to pay a fee when setting up the account and additional fees every time you put money into it. If you have poor credit, it is regarded by some as a means of re-establishing good credit.

## **Where Can I Purchase a Prepaid Credit Card?**

You can get a prepaid credit card almost anywhere from your bank to Walmart to the corner convenience store or gas station. You give them money which is loaded onto the card. You can then use the card like a credit card until all the funds are used up. Then you have to load more money onto the card.

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Be aware that you will be charged fees. Sometimes there are charges to put money onto the card, some may charge a monthly fee, and others may charge each time you use it. Some may charge all these fees. It is a good alternative for those unable to get a regular credit card. Because it is prepaid, they are readily available to almost anyone.

### **What is a Credit Card Charge Off?**

A charge off is an accounting designation that a credit card company makes when it feels that it can no longer collect a debt. The debt is written off as a “bad debt” or “business loss” after about six months of non-payment. After a debt is charged off, the company can no longer list it as an asset on their books. You still owe the money, and you will probably end up with a black mark on your credit report.

### **How to Get a Credit Card with No Credit History**

At some point, the credit card company may sell a group of charged off debts to a collection agency who will then attempt to collect. To preserve your credit, pay off all your debts even if they have been charged off. Here are a few suggestions to get a credit card with no credit history:

- Apply for credit while you’re a college student. There is no easier time to get a card, and there might even be a booth set up during class registration. Get just one card, and don’t overuse it.
- Do you have bank accounts? Apply at that bank and they might issue you a card because of the steady banking history you have shown. Get a card from a department store or gas station. They are easier to get and will help you establish your credit history.
- Get someone such as your parents to co-sign for your credit card. Or ask them to add you to his credit card. Be aware that any problems you have with the credit card will go right to them and become their problems. Also be aware that that process can work the other way as well. If they have credit problems then these problems can end up in your credit history.
- Get a secured or prepaid credit card. They are easier to get since you have essentially paid your bill before you spend the money. If you use

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the card responsibly, you should be able to upgrade to a regular credit card after a year or so.

- Build your history. One way to build some credit history is to take out an installment loan at a bank and then pay it back on time or a little early. Once you get your card, use it responsibly and your credit history will get better and better. Don't charge more than 30% of the card's limit. Pay off your bill every month on time. Pay all your bills on time.

### **How to Get a Credit Card with Bad Credit**

The best way is to get a prepaid credit card. You can get it at your local bank or apply for one online at one of the many websites offering this service. A prepaid card has several advantages such as: no credit check, no employment required, and a quick application process. The card looks and works like a regular Visa or MasterCard, except that you preload it with money. Then as you use the card, the funds are taken off the card which stops working when there is no money left on it. You can't overspend, and you get the convenience of having a credit card.

A similar solution is to get a secured credit card which you must secure with a bank account. You keep money in the bank, and they let you use the secured card to charge against the bank balance. You could also ask a family member to co-sign for your credit card. Then if you don't pay, the co-signer is on the hook.

Finally, there are some credit card clearinghouses with online applications for people with bad credit. You can apply online and get a speedy response. These companies include – [Credit.com](http://Credit.com), [Credit-Land.com](http://Credit-Land.com), and [CreditCards.com](http://CreditCards.com)

If you get one of the above options and use it responsibly for a year, the card may be upgraded to a regular card. Also, some of the card issuers report regularly to the credit bureaus to help you build a better credit rating.

## How to Consolidate Credit Card Bills

You have two main options if you need to consolidate your credit card bills:

1. Get a consolidation loan to pay off the credit cards, or
2. Transfer your balances to a single card.

**Consolidation Loan** – You can get a consolidation loan from your bank or an online company. Your object is to obtain the loan at a much lower interest rate than your credit cards are charging. If your bank won't give you a personal loan, maybe they will give you a low-interest Home Equity Line of Credit. Be aware that you are just substituting one kind of loan for another. Your credit card balances will disappear, but you will now have a different bill each month, hopefully at a lower interest rate. After you use a loan to pay off your balances, cancel and cut up all your cards except one. Call the companies to actually cancel the cards.

**Balance Transfer** – Which of your credit cards charges the lowest interest rate? Call that company and transfer your outstanding balances from your other cards. Then stop using the other cards, cancel them, and cut them up. Another option, if you qualify, is to take out a new credit card with a low interest rate (or even 0%) and transfer in your other balances to this card. Pay off as much as you can while the low rate is in effect. These low introductory (teaser) rates may last for only six months at which time a higher rate goes into effect. Some people keep taking out new cards with low introductory rates every six months. This can work for you if you actually pay off your balance instead of running up more debt.

Which ever method of consolidation you select, make your minimum payment monthly plus some extra to get out of debt quicker. It doesn't make sense to consolidate your credit card balances, and then keep using the cards to pile up more debt.

## How to Reduce Credit Card Debt

The best way to reduce your credit card debt is to control your money. First stop using your card except for emergencies (real emergencies such as a tow truck in the middle of the night.) If you don't use your card, you will not be

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adding to the problem. You won't be digging yourself in deeper. This is the first and most important step to get out and stay out of credit card debt.

After you have stopped using the card, you must begin paying your debt. You knew this day would come, and now it is time to bite the bullet and pay up. Every month make the minimum payment and some extra. The more you pay, the sooner you get out of debt and the less interest you will be paying. The less debt you have, the less interest you have to pay, and the easier it is to get to the \$0 balance. It is a wonderful process if you can start and keep to it. When your debt starts getting lower, don't get over-confident and start charging things again.

If you don't have enough current income to make the minimum payments plus some extra, then you may have to reduce your lifestyle or take a second job. Still not enough? Take a little bit out of your savings account each month, borrow from your family, get a home equity loan or sell some of your belongings.

OK, all that assumes you have an income and the self-discipline to make your payments. What if you have no income or your total credit card payments are impossible. Try getting a credit counselor or try entering a debt management plan. Look here for how to get these:

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>

Also, the Federal Trade Commission has a lot of good information on getting out of debt here:

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre19.shtm>

### **How Long Will it Take to Pay Off My Credit Card?**

A quick and easy way to find out this information is to visit the Credit Card Payment Calculator at DollarTimes.Com. Go here:

<http://www.dollartimes.com/calculators/credit-card-payment.htm>

Just fill in the dollar amounts and the handy calculator will do all the math for you, and tell you how long it will take to pay off the credit card balance.

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