

WHAT YOU SHOULD KNOW ABOUT

CREDIT CARDS

INFORMATION FOR VERMONT CONSUMERS

Published by the Vermont Department of Banking, Insurance,
Securities and Health Care Administration



WHAT IS A CREDIT CARD? ■ HOW REVOLVING DEBT COSTS THE CONSUMER. ■ GOOD USES OF
CREDIT CARDS. ■ FINANCIAL BUZZWORDS EXPLAINED. ■ HOW TO CHOOSE THE RIGHT CARD. ■
PREVENTING AND SOLVING PROBLEMS. ■ AND MORE...

PLEASE NOTE:

This booklet is intended only as a general guide to the use of credit cards.

Terms and conditions of credit may vary, and the guide does not override the provisions of individual contracts.

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Note:

Upon request, the Department will furnish the contents of this booklet in an alternate format for someone who has a reading or visual impairment.

WHAT'S IN THIS BOOKLET

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Although there are several kinds of credit cards, as described further on, the information in this booklet pertains to general purpose, bank-issued cards. Some areas covered are:

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WHAT IS A CREDIT CARD?

Where cards come from and who sets the terms of credit.

BEWARE OF THE "SLIPPERY SLOPE"

How revolving debt works and its costs to the consumer.

GOOD USES OF CREDIT CARDS:

Convenience, safety and consumer protections afforded by credit cards.

OTHER TYPES OF BANK CARDS:

Cards that lend you money vs. cards that use your own money.

FINANCIAL BUZZ WORDS EXPLAINED:

If you are not familiar with the financial terms used in association with credit cards — such as *grace periods, average daily balances, annual fees and fixed vs. variable annual percentage rates (APR's)* — this booklet will provide you explanations in simple language. Understanding these terms will help you appreciate key differences in the way banks charge you for using their money.

CHOOSING THE RIGHT CARD:

Some general guidance and a chart are provided, which you can use to do a side-by-side analysis of different credit card offers that may come your way.

PREVENTING AND SOLVING PROBLEMS:

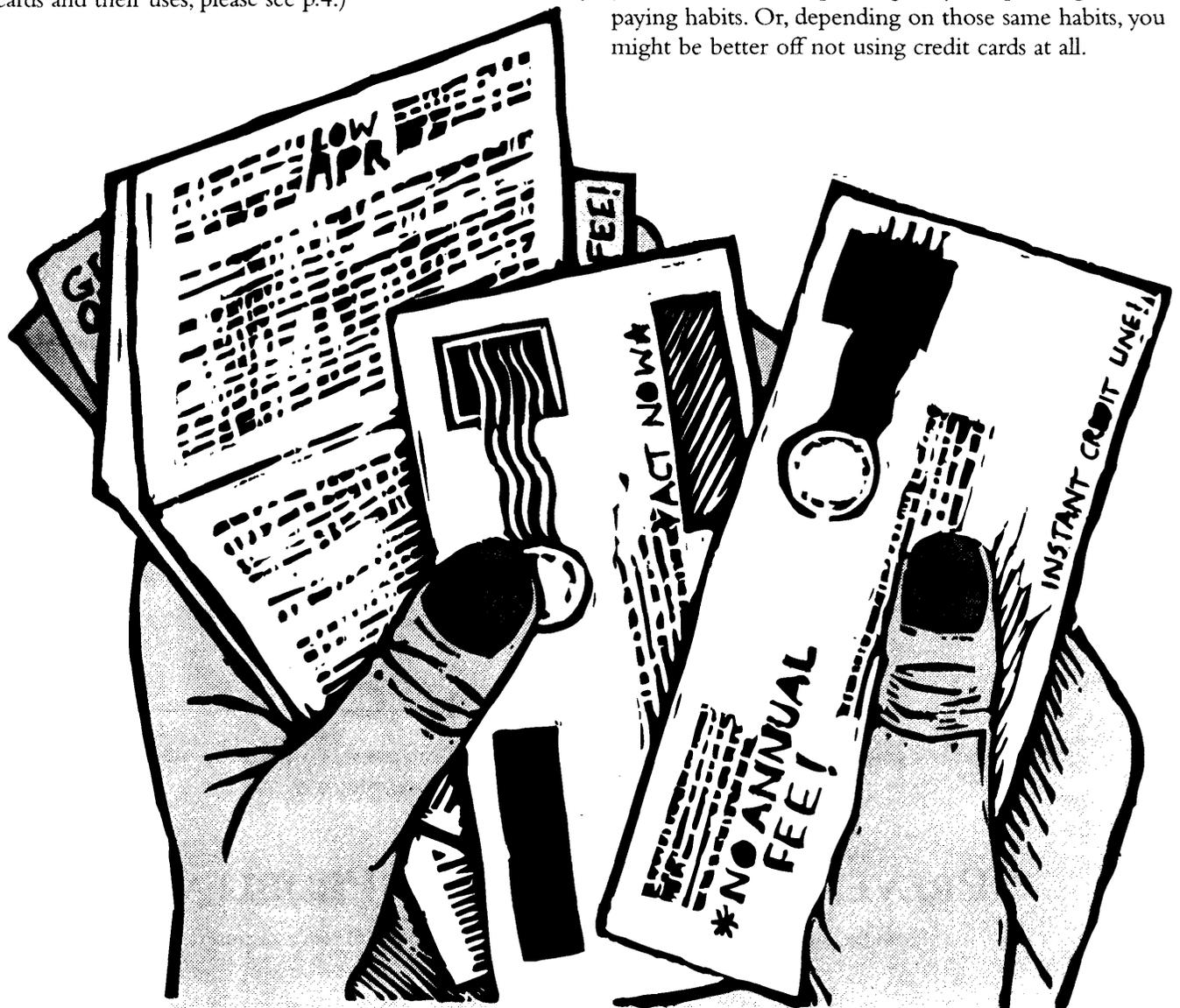
How the laws protect consumers, and what you can do to settle disputes.

WHAT IS A CREDIT CARD?

A general purpose or standard credit card gives you the power to buy goods or services now and pay for them later. It represents an approval by a bank or company to use their money. Credit card issuers are usually banks, even though the card may bear another company name or logo. The name of the issuer appears somewhere on the card — usually the back. (Note: For descriptions of other types of bank cards and their uses, please see p.4.)

Trade names such as VISA and MasterCard are not actually card issuers. They call themselves “membership associations.” Banks use them for their payment processing services, policy setting and marketing assistance. Many different banks can package their own cards and different terms of credit using the logo and services of an association membership. Credit cards can be a great convenience, provided you realize how they work, and provided you use the cards responsibly.

These days many banks are marketing their credit cards directly — and sometimes aggressively — through the mail. It’s not uncommon to receive bundles of unsolicited offers. In such a competitive market it can pay to shop around. One card may pose a better deal for you than another, depending on your spending and bill paying habits. Or, depending on those same habits, you might be better off not using credit cards at all.



GOOD USES OF CREDIT CARDS



ere are some practical features of credit cards:

- You can **make purchases literally around the world** without the worries that come with carrying cash or getting personal checks approved. Credit cards offer protection against losses due to theft. (This is explained further under "Preventing and Solving Problems.")
- You have a **source of funds for unexpected emergencies**, should you find yourself short of cash or unable to write a personal check.
- You will have an **itemized record of your expenditures** each month for tax purposes, business or household budgeting.
- With many credit cards, you can **make purchases without an interest charge as long as you pay your account balance in full by the due date shown on your bill**. Most cards provide you a "grace period" of 20–25 days from the date of your statement. In this way, you get to use someone else's money free of charge for about a month. (See important conditions of grace periods under "Financial Terms Explained.")
- You can **use a credit card to obtain a "cash advance."** The cash you receive is like a loan.

Under the terms of a cash advance, you are charged interest from the day you receive the cash until you repay it. There are frequently other fees involved as well. You can obtain a cash advance from a bank, automatic teller machine (ATM), or by writing out a special cash advance "check" which some banks provide. However, it's best to hold onto those "checks" only to obtain cash. That's because cash advances generally involve higher fees than purchases you charge to your credit card. And, while purchases frequently have interest free grace periods, cash advances do not.

To get a cash advance from an ATM, you will need a "PIN," or personal identification number. You may

receive a PIN with a new card. Sometimes you have to request a PIN. Banks often provide lists of ATM's around the world which accept their cards. If you are planning a trip, you might think about requesting the list. Check the back of your card for the issuing bank's name and phone number.

- You can **use a credit card to establish a good credit record for yourself**. This will have value should you someday apply for a mortgage or other type of financing. However, having too many credit card memberships can prove a liability. Banks sometimes view the maximum credit limits on all your active credit cards as potential debt, regardless of what you actually owe at the moment. A high amount of debt could decrease your chances for a loan. This is one good reason not to have more cards than you really need.

OTHER TYPES OF BANK CARDS:



ot every non-standard card type is covered here. *New variations appear on the market from time to time. It's important to understand that the information presented in this booklet pertains to general purpose, bank-issued credit cards.*

Other types include:

Cards that lend you money

RETAIL CARDS: These can be used to make purchases only from the companies that issue them or their subsidiaries, such as mail order companies, department store chains and gasoline companies. Many companies issuing retail cards expect you to pay in full each month, although some permit you to carry a balance. The interest rates are among the highest in the market. The highest interest rates allowed for retail cards issued to Vermonters is 21%. However, some cards that appear to be retail cards are actually affinity cards issued by a bank. (See the next category below.) In that case, the interest rates are governed by the laws of the state in which the bank is located.

AFFINITY CARDS: These are issued by a bank, but in the name of an organization or company whose name appears prominently on the card. Affinity cards provide name recognition for the featured company or organization and sometimes furnish exclusive benefits to card holders. The interest rates are governed by the laws of the state where the bank is located. If your favorite store, professional association or other organization offers this type of card, you can compare the terms as you would for any other bank-issued card.

REWARD OR BONUS CARDS: These offer special incentives or bonuses for using their cards — such as credits toward future purchases — plus regular credit card services. They can be issued by a bank as a type of credit card, or could be issued by a company as a type of retail charge card. Interest rates tend to be higher than for most basic cards, and there are usually annual fees as well.

SECURED CARDS: These cards require some form of collateral held by the issuing bank. This type of card is designed for someone who needs to establish a line of credit for the first time or those who have had credit problems in the past. They are sometimes recommended for students.

Cards that use your own money

AUTOMATED TELLER MACHINE (ATM CARDS): These primarily allow you to make deposits and withdraw money from your own bank or credit union account, using machines located around the world. Most banks have connections to a number of worldwide networks, usually displayed on the ATM itself.

DEBIT CARDS (POINT OF SALE CARDS): These cards may carry a credit card logo such as VISA or MasterCard, but no lending of money is involved. When used at a store or other point of sale, the card directly debits your bank account for the amount of the sale. You can use this type of card anywhere that accepts credit cards carrying the same trademark or logo.

SMART CARDS: Not yet common in Vermont, these cards store your own money in an electronic format on the card itself, which can be used to make purchases up to the amount stored. You may “load” the card through a transfer of funds from your bank account. Some businesses now issue smart cards for use at company-operated vending machines. The customer puts real cash into a machine to load the card with an equivalent amount of electronic cash. The card can then be used to purchase whatever the company sells, such as long distance telephone services or subway tickets.

FINANCIAL BUZZWORDS



The following terms will help you understand when and how banks, as card issuers, charge you for using their money.

ANNUAL PERCENTAGE RATE (APR):

This is the stated interest rate you will be charged on purchases and cash advances. (With some cards, the rates for purchases and cash advances may differ.) The APR is usually broken down into a monthly rate (called the periodic rate) to compute your bill. Watch for these different APR's.

A true *fixed rate* is one that holds steady for the life of your membership, or contract, with the bank. If the bank changes the rate, they must notify you and offer you the option of taking it or closing your account.

An *introductory rate* is a special lower rate applied for a period of time — usually six months to a year — which then changes to a higher or variable rate. (Variable rates are explained next). Beware of marketing pitches that show a boldly displayed, low fixed rate using an asterisk. For example:

Low fixed* rate of 6.9%!

If you follow the asterisk to its corresponding message, you will probably find that the company is really offering an introductory rate that is replaced by a different rate later on. Some offers on the market today do not even use an asterisk, although the company does disclose the fleeting nature of their “fixed” rate elsewhere in the accompanying offer. Introductory rates, plainly disclosed or not, can still be a good feature to consider.

A *variable rate* is one you can expect the bank to change from time to time. The literature that comes with the card offer should reveal how and when the rate will change. Very often, a variable rate is expressed as a certain amount above the Prime Rate, as reported in the Wall Street Journal. That means when the prime rate changes, your variable rate changes. Sometimes a variable rate card will also have an upper and lower limit. For example one card offers a variable rate of 9.4% above the Prime Rate, but never lower than 12.9% or higher than 19.8%.

GRACE PERIOD: A grace period gives you time to pay off your purchases (although not cash advances) with-

out paying finance charges on them. Most cards offer grace periods. They are about 20–25 days long, but can differ in important ways. Here are the two types of grace periods:

A standard grace period — If you start each monthly billing cycle with a zero balance, and you always pay off all new charges by the due date shown on your statement, you will never pay finance charges on your purchases. However, if you carry forward any unpaid balance into the new month, all your purchases that month will be subject to finance charges. *In other words, beginning the month with an unpaid balance acts like a switch that shuts off the grace period.*

A full grace period — Whether or not you have an unpaid balance from the previous month, your new purchases each month are free of finance charges for your first billing period.

METHOD USED TO COMPUTE FINANCE CHARGES:

This assumes that you have purchases or transactions subject to finance charges. The method used to compute finance charges is often expressed as “the average daily balance including new transactions.” It works this way:

The computation for the average daily balance begins by working out a current amount owed for each day of the billing period. Picture a page from a monthly calendar with a balance noted for each day. The first day begins with any balance due from the previous month. If no other transactions occurred that day, the same balance repeats each day until you make a transaction, such as a purchase or a payment. On the date transactions appear, the daily balance is refigured and the new sum is repeated each day forward unless another transaction occurs to change it. At the end of the billing period, all the daily balances are totalled and then divided by the number of days in the cycle. This is your average daily balance. It becomes the amount used to compute new finance charges.

Cards that have standard grace periods usually use this method to compute finance charges whenever a balance due is carried forward. A card with a full grace period excludes new purchases (those appearing on your bill for the first time) from each day’s daily balance.

UNDER VERMONT LAW, CARDS ISSUED BY VERMONT BANKS MAY NOT CHARGE MORE THAN AN 18% ANNUAL INTEREST RATE. SOME VERMONT BANKS, HOWEVER, OFFER A CARD ISSUED BY A BANK IN ANOTHER STATE, AND THUS THE CARD MAY BE SUBJECT TO LAWS THAT ALLOW HIGHER RATES. RATE OFFERS AND VARIOUS OTHER TERMS OF YOUR MEMBERSHIP ARE USUALLY CONDITIONAL. IF YOU DO NOT KEEP YOUR ACCOUNTS IN GOOD STANDING, THE TERMS CAN CHANGE.

ANNUAL MEMBERSHIP FEE: A flat amount you may be charged for the privilege of using the card. There are sometimes conditions which alter the amount.

MINIMUM FINANCE CHARGE: The finance charge, if one is applicable, will never be below this amount.

LATE PAYMENT CHARGE: A fee you may be charged for failing to make your payment on time.

OVER THE LIMIT CHARGE: A fee you may owe if you charge or borrow more than your allowed credit limit.

FEE FOR CASH ADVANCE: A fee you may be charged for using your credit card to obtain cash.

Note: Banks should disclose in their card agreements how they apply your monthly payment to cash advances and purchases. Some apply only a portion of the total payment to any outstanding cash advance balance, which carries a higher interest rate than purchases.

If You Like Charts...



The chart at right breaks out the key finance terms and conditions common to many credit cards. It provides a basis for comparing different offers. The first column is filled in just as an example. The remaining columns are left blank for you to make comparisons. You can reuse the format for additional comparisons.

You may have to look closely, but you should be able to find all the terms and conditions the chart contains somewhere in the literature that comes with a card offer. Be sure to read all the terms, especially any statements under the heading “disclosures.” Disclosures are intended to openly state certain conditions of the card agreement but they aren’t always boldly displayed.

WHICH CARD IS RIGHT FOR YOU?



ou can narrow down the many options available by thinking about your bill paying habits.

If you always pay your bill in full every month:

As long as your card has at least a standard grace period (and most do) you will, in essence, get an interest free loan every month. In that case, don't choose a card on the basis of the annual percentage rate (APR). You won't be paying finance charges anyway. Concentrate on good deals in membership fees and other bonuses or services that appeal to you.

If you almost always carry a balance forward:

You will be paying some finance charges almost every month, even with a grace period. Therefore, focus your search on cards that offer attractive APR's. Within

that group, find the most appealing deals in membership fees and other bonuses, services or terms. A card with a full grace period would be a plus because it exempts new purchases (though not a previous balance) from finance charges.

A NOTE ABOUT SOME LOW APR OFFERS ON THE MARKET TODAY: Some banks offer attractively low *introductory* APR's, and invite you to use your new membership with them to pay off other credit card balances with higher APR's. The introductory rate is usually good for no more than six months to a year. If you realistically plan to pay off your other balances within that time frame, such an offer can be a good deal. At the very least, you could have six months to a year of lower interest rates on your balance. Just be prepared for the APR to change to a different figure after the introductory period, according to the terms of the card offer.

FEATURES:	CARD: (sample)	CARD:	CARD:
Annual Percentage Rate (APR) for purchases a. True fixed rate?			
b. Introductory rate? Good for how long?	9.9% 6 months		
c. Variable rate? calculation method: Minimum/maximum rate?	Yes — after 6 months increases to 6.65 above prime rate. None noted.		
Annual percentage rate (APR) for cash advances (if different than for purchases)	20.15%		
Transaction fee for cash advance	2%		
Grace period (Standard, full or none)	Standard		
Annual membership fee	None.		
Late payment charge	Up to \$13 per billing cycle.		
Over the limit charge	Up to \$13 per billing cycle.		
Added benefits/bonuses	Purchase protection, extended warranty, \$500,000 travel insurance, auto rental benefit.		

PREVENTING AND SOLVING PROBLEMS



ever accept a new credit card “deal” over the phone: Although legitimate card issuers use telemarketing practices, if an offer interests you, always insist that the caller mail it to you in writing. This will allow you to fully examine the details and also lessen your chances of being taken in by a scam.

CORRECTING ERRORS IN BILLING:

Always keep your receipts and check them against your monthly bill. Report any discrepancies to the bank immediately. Under federal law, you have 60 days to report a discrepancy in writing to the card issuer. In your letter, include your name, account number, the amount of the suspected error and the reason you believe the bill is wrong. During the period the bank is investigating the error, you do not have to pay the amount in question. The card issuer has two billing cycles — but not longer than 90 days in all — to respond. Within that period they must either correct the error or explain to you why the bill is correct.

GUARD YOUR ACCOUNT NUMBER: Theft of card numbers is a very serious problem. Obviously, you have to reveal your number to sales clerks. But you can take some worthwhile precautions to prevent strangers from learning your number. Keep receipts and other account documents in a safe place. Tear up the carbon inserts that separate copies of your receipt — they bear an impression of your number. Be very cautious about giving your number out over the phone. Deal with known companies. Do not give your number to a stranger who calls you out of the blue — offering attractive deals or prizes — and then asks for your credit card number.

UNAUTHORIZED CHARGES: The sooner you report a lost or stolen credit card the better. The law says that if your credit card is used without your authorization, your liability for those charges cannot exceed \$50 per card. However, if you report the card's loss before anyone uses it, you cannot be held responsible for any unauthorized charges. Some companies have a toll free

number printed on their statements and 24-hour service to accept such information. For your own protection, it's a good idea to follow-up a phone report with a letter, as documentation of the loss.

DISPUTES ABOUT MERCHANDISE OR SERVICES: If you have a problem concerning an item you purchased or a service you paid for with your credit card, and you made a good faith effort to work out the problem with the seller but were unsuccessful, you have a right to withhold payment of the amount on your credit card bill. The idea is similar to a stop-payment action on a personal check. However, the following conditions apply: You may stop payment up to the amount of your outstanding credit for the unacceptable item. The protection is limited to purchases over \$50 that you made within your home state or within 100 miles of your billing address.

OTHER PROBLEMS WITH THE CARD ISSUER: You should first contact the bank that issued your card to resolve a problem. If you are still not satisfied, you may seek help from agencies that regulate the card issuer, as follows:

- For a state-chartered bank or credit union, contact the banking commissioner of the state in which the bank is located. If you need help obtaining an address or phone number for the bank commissioner of another state, you may call the Vermont Banking Division for assistance at (802) 828-3307.



- For a nationally-chartered bank (name contains the word *national* or is followed by the letters N.A.), contact:

**The Office of the Comptroller
of the Currency, Compliance Division**
250 E Street, N.W.
Washington, DC 20219
Tel: 202-874-4820

- For a federal bank (name contains the word *federal*), contact:

**The Office of Thrift Supervision
Department of the Treasury**
10 Exchange Place, 18 floor
Jersey City, NJ 07301
Tel: 1-800-253-2181

- For a federally-chartered credit union, contact:

**The National Credit Union
Administration**
9 Washington Square
Albany, NY 12205
Tel: 518-464-4180

MORE QUESTIONS?

THIS BOOKLET IS
PUBLISHED BY THE
VERMONT BANKING
DIVISION.
QUESTIONS ABOUT
CREDIT CARDS MAY BE
ADDRESSED TO:

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See the Department's Internet web site for
additional consumer information:

<http://www.state.vt.us/bis>



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