



# **Credit Cards: Advantages & Disadvantages**

Latino Community Credit Union & Latino Community Development Center

# **CREDIT CARDS: ADVANTAGES AND DISADVANTAGES**

Latino Community Credit Union

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# WHAT IS A CREDIT CARD?

Watch *Reymundo's World*: Electronic Services Episode



**DISCUSSION TOPIC:** What, if any, experience do you have with credit cards? Positive or negative? What concerns, if any, do you have about credit cards?

A credit card is a convenient tool that allows you to buy items now and pay for them later. If you buy something with credit, you are in debt. This means that you owe money to the company that gave you the credit card. If you don't pay the entire amount at the end of each month, you pay a fee for the credit card called interest. If managed correctly, credit cards can be a great way to build credit and manage your money.

Sometimes people confuse credit cards with debit cards or prepaid cards. Here's the difference:



**CREDIT CARD:** You borrow money from a credit card issuer and you pay later (with interest, if you do not pay the balance in full and on time).



**DEBIT CARD:** Your own money is taken directly from your checking account to make the payment. It acts like a check, but it's faster and more convenient.



**PREPAID CARD:** You can put your own money onto a card to make purchases. It works like a gift card.

Be aware of the advantages and disadvantages of credit cards to stay out of unnecessary trouble:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>• It's convenient to use in a wide variety of places – in stores, on the phone or online.</li> <li>• You can better manage your budget using your monthly statement with the details of all of your purchases.</li> <li>• It is safer than carrying a lot of cash.</li> <li>• You are not responsible for charges if your card is stolen as long as you report it immediately.</li> <li>• You can build your credit history.</li> <li>• You can earn prizes like frequent flyer miles, rebates or points.</li> <li>• Often, you need a credit card to make car, hotel, airplane or other reservations.</li> </ul>	<ul style="list-style-type: none"> <li>• If you make a late payment, do not pay the balance in full, or exceed your credit limit, you will have to pay extra in fees and interest.</li> <li>• Credit cards can lead to debt and negatively affect your credit history if it is not managed properly.</li> <li>• If you do not track your purchases, it can be difficult to know how much you spend in one month until your statement arrives.</li> <li>• The terms and conditions can be confusing and, in some cases, they are only available in English.</li> </ul>

# TYPES OF CREDIT CARDS

There are different types of credit cards. Find the details below.

## STANDARD CREDIT CARD

- **SECURED CREDIT CARD** – With a secured credit card you deposit a certain amount of money into your savings account and get a line of credit for the same amount. This way, if you do not make your payments, the credit card company can keep the money in your account. With this credit card, you can build credit history. (Note! Be sure the credit card company plans to report your account to the credit bureau, so you begin creating a credit history.) If you make timely payments in full over a certain period of time, typically one year, the credit card issuer might offer you an unsecured credit card, or other types of credit you might need.
- **UNSECURED CREDIT CARD** – This is the most common type of credit card. You can borrow up to a certain limit as long as you pay at least your minimum balance every month. To get a credit card, most credit card companies review your credit history and income. An unsecured credit card can be a convenient tool as long as you manage it carefully and make your payments on time and paid in full.

If you have never had credit or are trying to repair your credit, a secured credit card could be your best option.

## RETAIL CREDIT CARD

Retail Cards are used at a particular store or gas station. Be aware that these cards often charge higher interest rates than a standard credit card.

## CHARGE CARDS

These cards work like a standard credit card, but require that you pay the balance in full every month. These cards often have higher credit limits, but if you don't pay in full every month, you are often charged late payment fees and high interest rates.



## CHOOSING A CREDIT CARD

There are a wide variety of credit card products and features. It is important to shop around for options before deciding on a credit card. When choosing a credit card, look carefully at the following:

<b>ANNUAL PERCENTAGE RATE (APR)</b>	This is the <b>interest rate</b> you pay on the balance you have not paid off at the end of the month. Of course, it is best to pay your balance in full every month to avoid paying interest, but in case there are times when you cannot, it is best to search for the lowest interest rate possible. Beware! Some credit card companies offer you a low interest rate for a few months and then, increase it to a much higher rate.
<b>FEES</b>	Carefully review them before selecting a card. Fees vary widely among credit card companies and financial institutions, so find the best deal for you. The most common fees are:
<b>Annual Fee</b>	A fee that you pay every year <b>to use</b> your credit card. Some credit card companies do not charge an annual fee.
<b>Application Fee</b>	<b>Cost of applying</b> for a credit card. Some credit card companies do not charge an application fee.
<b>Late Fee</b>	A fee charged when you <b>do not pay off</b> your balance by the due date. Making late payments can also negatively affect your credit report.
<b>Over-the-Limit Fee</b>	A fee charged when you spend <b>more than your credit limit</b> (this includes all purchases and fees charged to your account).
<b>PENALTY RATES</b>	Avoid card offers that include penalty rates. This is when the credit card company <b>charges you a higher rate</b> if you make a late payment or spend more than your card limit, even just one time.
<b>CREDIT LIMIT</b>	The <b>total amount</b> you can spend on your card. For example, if you have a credit limit of \$1,000, you cannot spend more than this amount. There is a fee if you exceed this limit.
<b>GRACE PERIOD</b>	The <b>period of time</b> you have to pay off the balance on your credit card before you are charged interest. Search for a credit card that offers a grace period. But, remember, people who carry a balance on their credit cards have no grace period.
<b>PERKS</b>	<b>Bonuses or awards</b> that you receive for using your credit card, for example, a rebate for spending a certain amount of money, or discounts on airline tickets. This type of credit card might have a higher interest rate. Compare offers before deciding.

Below you can see an example of a disclosure summary with the conditions of a credit card:

**DISCLOSURE SUMMARY: Important Information About Your Credit Card Account**

**†Details of Rate, Fee and Other Cost Information**

As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement. Account and Agreement terms are not guaranteed for any period of time; all terms, including fees and the APRs for new transactions, may change in accordance with the Agreement and applicable law. We may change them based on information in your credit report, market conditions, business strategies, or for any reason. You should thoroughly review all the materials in this package so that you are fully informed about your credit card loan.

Interest Rates and Interest Charges	
<b>Annual Percentage Rate (APR) for Purchases</b>	<b>0%</b> Introductory APR for the first 15 statement Closing Dates following the opening of your account. See footnote <sup>1</sup> for explanation. After that, your Standard APR will be <b>10.99%</b> . This APR will vary with the market based on the Prime Rate as set out in the Variable Rate Information section of your Agreement.
<b>APR for Balance Transfers</b>	<b>10.99%</b> Standard APR. This APR will vary with the market based on the Prime Rate.
<b>APR for Cash Advances</b>	<b>24.99%</b> Standard APR for Direct Deposit and Check Cash Advances, and <b>24.99%</b> Standard APR for Bank Cash Advances. See footnote <sup>2</sup> for explanation. These APRs will vary with the market based on the Prime Rate.
<b>Penalty APR</b>	<b>None</b>
<b>How to Avoid Paying Interest on Purchases</b>	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
<b>Minimum Interest Charge</b>	If you are charged interest, the charge will be no less than \$1.50.
<b>For Credit Card Tips from the Federal Reserve Board</b>	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at <a href="http://www.federalreserve.gov/creditcard">http://www.federalreserve.gov/creditcard</a> .

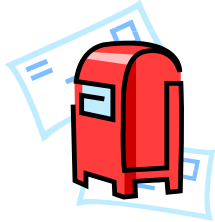
Grace period

Fees	
<b>Annual Fee</b>	<b>None</b>
<b>Transaction Fees</b>	<ul style="list-style-type: none"> <li>• Purchases Purchases of wire transfers from a non-financial institution: Either <b>\$10</b> or <b>4%</b> of the amount of each transaction, whichever is greater.</li> <li>• Balance Transfers Either <b>\$10</b> or <b>4%</b> of the amount of each transaction, whichever is greater.</li> <li>• Cash Advances Either <b>\$10</b> or <b>4%</b> of the amount of each transaction, whichever is greater (except as noted below).  Overdraft Protection Cash Advances (if enrolled): <b>\$10</b> for each transaction (not assessed if checking account overdrawn by less than \$10).</li> <li>• Foreign Transactions Transactions made in a foreign currency and transactions made in U.S. Dollars that are processed outside the United States: <b>3%</b> of the U.S. Dollar amount of each transaction. This fee will be in addition to any other applicable fee.</li> </ul>
<b>Penalty Fees</b>	<ul style="list-style-type: none"> <li>• Late Payment Up to <b>\$35</b></li> <li>• Returned Payment Up to <b>\$25</b></li> </ul>



## WHERE CAN I GET A CREDIT CARD?

There are several ways you can get a credit card. No matter where you get your credit card, look carefully at the credit card features before making a decision.



**You probably receive credit card offers in the mail.** In the United States a huge number of offers are mailed to consumers. Don't rush to apply for the first offer that you receive. Instead, try to find the card that is the best for you.



**Financial institutions, like credit unions and banks, usually offer credit cards.** This could be your best option because you can meet with someone to help you choose the best card for you.



**Some department or chain stores offer credit cards** that you can use to purchase products and services from their particular stores. These cards can be beneficial if you shop frequently at that chain because they give discounts or rewards if you pay off the entire balance at the end of each month. Be careful, some of these cards have high interest rates and extra fees.



# USING YOUR CREDIT CARD WISELY



**DISCUSSION TOPIC:** What can you do to use your credit card wisely?

Credit cards can be a very useful tool when they are used wisely.

DO	DON'T
<p><b>Pay</b> your bills on time.</p> <p><b>Never</b> spend up to or more than your limit.</p> <p><b>Remember</b>, credit cards are not extra cash!</p> <p><b>Apply</b> for and use three or fewer credit cards.</p> <p><b>Only charge</b> the amount you can pay at the end of the month. Pay your entire balance at the end of the month or as much as possible.</p> <p><b>Use your credit card</b> over a long period of time to show consistency.</p> <p><b>Read your monthly statement</b> carefully and notify your credit card company of any errors right away.</p>	<p><b>Pay</b> your bills late.</p> <p><b>Spend</b> more than your limit.</p> <p><b>Apply</b> for and use many credit cards.</p> <p><b>Keep a high balance</b> on your credit card.</p> <p><b>Constantly</b> change credit cards.</p> <p><b>Forget</b> to review your monthly statement for errors.</p>



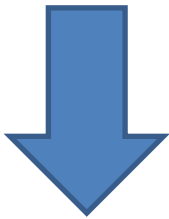
**If your credit card is lost or stolen**, report it to your credit card company immediately. By law, the maximum you are required to pay if the card was stolen and used by someone else is \$50. It is a good idea to keep your account number, issuer's name, phone number and a photo copy of the front and back of the card, so that you have the information in case the card is lost or stolen.

## WHAT IF I AM DENIED A CREDIT CARD?



There are several reasons why you might be denied an unsecured card:

- You do not have a credit history
- You have a bad credit history
- You do not have enough income
- You spend too much
- You have only been working at your job for a short time



### IF YOU HAVE BEEN DENIED A CARD, YOU CAN:

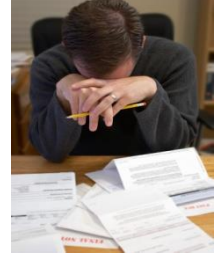


- Apply for a secured credit card to build your credit.
- Get help from a credit counselor or look for a class or workshop on financial education.
- Look for stable work that provides a steady salary.
- Find ways to cut your spending.
- Ask your credit union or financial institution what services they offer to improve your credit history.

Each company has its own criteria. One company might deny your application and a different one might approve it.

# HOW DO I GET OUT OF CREDIT CARD DEBT?

- 1. Stop Spending!** This is the most important step when you have debt. Think about expenses you can omit.
- 2. Contact your credit card company or financial institution** in advance to let them know if you won't be able to make your monthly payment on time. In some cases they will assist you in temporarily adjusting your payment schedule and waive the late fee.
- 3. Make a budget** to calculate how you are going to pay off the debt. Look for areas to cut your spending and put more money toward paying off your debt.
- 4. Pay more** than your minimum payment every month.
- 5. Pay off the debt** on the card with the highest interest first.
- 6. You might want to transfer balances** on credit cards with high interest to the credit card with the lowest interest. Be sure to ask if there are any balance transfer fees.
- 7. There are some non-profit organizations** that will help you to consolidate your debt into one loan. The interest rate on the new loan could be lower or higher, depending on your credit history. So, weigh your options carefully.
- 8. With a Debt Management Plan** you can make one payment that is distributed to the multiple accounts where you owe money. Contact your local non-profit credit counseling agency for information. (If you are a Latino Credit Union member, you have free access to BALANCE, a non-profit).
- 9. Beware of companies that promise you a quick fix for your debt.** They might promise to “restructure” your debt. You will end up paying off your debt over a longer period of time with even more in fees and interest.



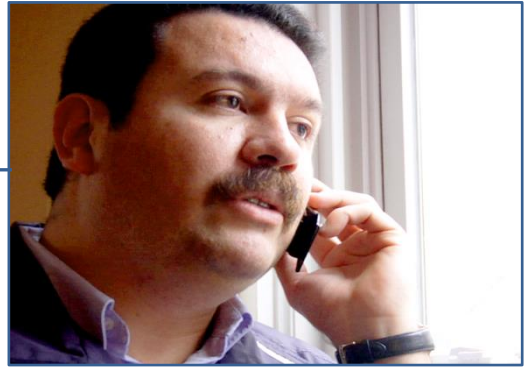
Even more important is to be sure that you **do not spend more than you earn**, so that you can remain debt free in the future!

Some companies might try to convince you to change your social security number or ITIN to avoid debt. Do not take this advice. This is a federal crime.  
**Do not trust anyone offering you a quick fix for your credit.**

## MYTH BUSTERS



**I did not have a credit card in my country and I don't need one now.**



In the United States, it is very important to have a credit history and a credit card can help you build one. Credit cards are also often needed to make airline, hotel and other types of reservations.

**No one is going to give me a credit card, so I shouldn't even apply.**

A number of financial institutions have reasonable offers for first time credit card holders. The credit limit may be lower than you like initially, but you can always renegotiate an increase in your limit after you have shown that you can make payments on time. You can also start building your credit with a secured credit card.

**If I have a credit card, I won't be able to control my spending.**

If you manage it wisely, having a credit card can actually help you to better manage your money. You will receive a monthly statement that will provide all of the details of your purchases, which helps you to understand and control your spending.

**A credit card is equal to a mountain of debt.**

If you stick to your budget and pay off your credit cards at the end of each month, you will not accumulate debt.

## A WORD OF CAUTION!

### CAUTION!

Beware of credit cards, loan offers, or checks you receive in the mail in your name. If you use the credit cards or cash the checks they send you, you will have to pay the money back with interest rates as high as 32%. If you need a loan, it's better to ask at your bank or credit union.



#### Identity theft:

**Keep your credit card information private.** Remember, never lend your card to another person, leave your cards or receipts in a visible place, sign blank receipts, write your account number on post cards, or give your account number over the phone unless you initiated the call and are dealing with a company with a good reputation.

## GOALS – CREDIT CARDS

The following are some possible action items that you might be interested in taking to start putting into practice what we have discussed! Please check the goals below that you are interested in completing for the next session.

If you do not have a credit card:	
	Ask various financial institutions about their credit card options and conditions.
	Think about whether or not you would like to apply for a credit card and how you might use it (for example: do you travel frequently, do you make many purchases online?)
If you already have a credit card:	
	Carefully review the expenses on your monthly credit card statement.
	If you have credit card debt, make a plan to reduce it.
	If you have a high interest credit card, consider transferring the balance to your credit card with the lowest interest. Verify if there are any fees related to making the transfer.
	If you are a member of Latino Credit Union, you can contact BALANCE, a free service that offers credit counseling over the phone at 1-888-456-2227.

