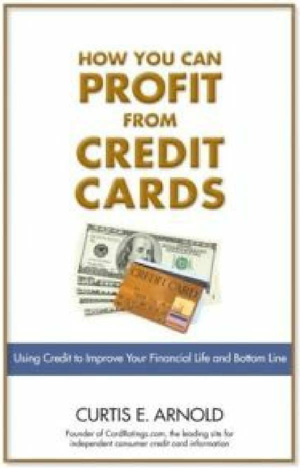

Book How You Can Profit from Credit Cards

Using Credit to Improve Your Financial Life and Bottom Line

Curtis E. Arnold
FT Press, 2008
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Recommendation

Credit card companies seem convinced that most consumers are spendthrifts who will quickly sink into debt if given the chance. And owning a credit card gives you that chance. Unfortunately, few applicants read the fine print on new credit card offers until they are merrily charging away and their debts mount. Eventually, previously naive consumers figure out that if they are late with even one payment, interest rates on all their cards can skyrocket. Fortunately if you know what to do – pay on time – you don't have to incur heavier debt. Here, consumer advocate Curtis E. Arnold outlines how you can reward yourself financially with savvy credit card use and how you can protect yourself. He hammers hard on the need to pay up, but the message really matters to your credit rating, particularly until new U.S. credit card regulations go into effect. Arnold explains how knowledgeable consumers can use the card companies' money for little or no interest, get cash back on their purchases, earn airline miles and even get the companies to contribute to their children's college funds. And none of it has to cost a dime. Want to learn how? *BooksInShort* recommends this book to anyone who uses credit cards and wants to come out on top.

Take-Aways

- The credit card industry is notably cutthroat. Individual companies will compete aggressively to get your business – and to hold onto it.
- Credit card companies benefit if you make maximum charges and minimum payments.
- Credit cards can make you feel like a champ or a chump. This depends on whether you use or abuse them.
- For individuals who pay in full and on time, credit cards offer big benefits – interest-free money, merchandise discounts, rebates on purchases and more.
- For individuals who always pay late, credit cards offer big trouble – huge debt at double-digit rates and dreadful credit scores.
- Cash-back, affinity and business cards are great for those who use them smartly.
- Cash-advance offers have incredibly high interest rates so avoid them.
- As a consumer, you are entitled to a free annual credit report.
- Your credit score depends not only on making prompt payments, but also on the ratio of your credit card debt to your available credit.
- To save money, always pay your credit card bills before they are due.

Summary

Turn Plastic into Gold

Credit cards financially bury people who don't know how to use them. But if you understand how credit cards work, you can take advantage of great perks, including rebates on purchases, partial mortgage payments, retirement plan contributions, free airline miles, gift certificates and much more. Plus, you can use credit cards to buy the things you want at low interest rates or for no interest at all. If you learn to be smart about plastic, you can benefit financially in numerous ways. You can even use cards to enhance your credit rating, enabling you to get great deals on major purchases, including car loans and mortgages.

> "Imagine getting 3% to 5% back just for using a particular piece of plastic. That's more than we often earn on our savings at the bank."

Credit card companies operate in an intensely competitive environment. They offer special incentives to compel customers to choose and use their cards. The trick is to take advantage of these deals without paying high interest charges – the pipeline for credit card companies' profits. U.S. law now requires the credit card offers you get in the mail to include important information, such as annual fees (if any), annual percentage rates, interest calculation methods and so on. Always read this information carefully, including all the fine print, before you sign up.

Cash-Back Cards

Credit card rebates earned through usage rewards or cash-back deals are very attractive benefits. Today, the rebates that credit card companies offer good customers are improving. Previously, most cards that gave rebates to consumers offered only 1% cash back. Now many cards offer up to 5% cash back on certain expenditures. With any cash-back card – indeed, with any credit card – you must pay your balance in full each month. This matters a lot since most cash-rebate cards have higher interest rates than other cards. Credit card companies bet that you will not fully pay your balance each month. You win the bet when you pay. Do not be fooled by credit card offers that increase the percentage of your rebate – for example, from 1% to 2% – if you carry a balance. This is a terrible deal for consumers. Paying 10% or more in credit card interest to earn an additional rebate of 1% on your purchases makes no sense at all.

> "Your card issuer really wants to keep you around...given the amount of competition out there, it'd cost up to $300 in marketing expenses to replace you."

The downside of rebate cards is that they tempt people to overspend, so beware. Most cash-back cards do not carry annual fees, so also be wary of those that do. Avoid cards that offer high rebates but for only a short time, like the first 30 days. Spend smartly with your rebate card to get the maximum return. To illustrate, the Citi Dividend Platinum Select MasterCard features up to 5% rebates for purchases at gas stations, drug stores and most supermarkets. Some credit card companies send rebate checks, but most just include the rebates as credits on your statement.

Watch Your Interest Rate

Once you understand how credit card companies set and handle interest rates, use this knowledge to enrich yourself. You can even use some credit cards to eliminate debt on other cards. Why pay 10% to 15% on your charges when you – if you have a good credit rating – can get a low or even 0% rate by transferring your balance to the right card? Since companies change rates periodically without much notice, watch what your company is charging by always checking your statement. Companies can even change a fixed-rate card to a variable-rate card, so stay very alert. However, if you transfer your balance to a low-rate card, companies cannot change that rate (unless it was temporary in the first place) unless you are late with your payments or exceed your credit limit.

> "Use a reward card with a generous introductory period...to make a large purchase."

The best rates are below 10%, but getting such a bargain requires a high credit rating (more than 700). Credit unions also offer low rates. You can find great offers online or call the credit card companies directly. Don't hesitate to call your credit card company and negotiate a lower rate. Losing customers costs the company money, so if you have a good credit rating, your company is likely to bargain with you. Watch out for annual fees. To maintain a low rate, pay on time, don't bounce your payment checks and do not go over your credit limit. Your credit rating drops slightly when you request a new card so don't apply more than once in any six-to-twelve month period. Take advantage of low-fee balance-transfer deals. Some credit card companies will deposit the money you borrow into your checking account, often at low interest rates – sometimes even 0% on short-term promotional offers. Use that money to pay more expensive debts.

Always Be Careful with Credit

Credit cards are great if you know how to use them. They will murder you if you don't. The worst way to handle credit card debt is to make only minimum payments. Say that you have $45,000 in credit card debt with an interest rate of 18% (25% prior to taxes). If you make only minimum payments, paying this debt will take 44 years and will cost nearly $70,000. Obviously, that's a recipe for financial disaster. Use these 12 strategies to avoid troubling credit card debt:

1. **"Don't fall for the hype"** – Must you buy everything you want now? No, especially if you will have to pay for your purchases later with exorbitant credit card interest.
2. **"Manage your finances"** – Spend less than you earn. Develop a budget. Stay within it.
3. **"Get support and save money"** – Enlist your family and friends to support your efforts to stay out of credit card debt. Work with a "budget buddy."
4. **"Avoid extra expenses"** – Little purchases will break your budget. Don't spend a penny on things you do not need.
5. **"Is a card right for you?"** – If you cannot handle money, it is not.
6. **"Pay the balance in full"** – You're asking for trouble if you don't.
7. **"Pay before your due date"** – Do not make any payments late. If you do, you'll have to pay a fee and the rates on all your credit cards may shoot up right away. Paying early is best. Credit card companies base interest charges on your average daily balance. If you pay early, you reduce this balance, which cuts your total interest payments.
8. **"Treat your credit cards like cash"** – Never spend money you do not have.
9. **"Limit the plastic in your pocket"** – Credit cards come with "terms and conditions, including varying interest rates, penalties, fees, grace periods and due dates." Thus, it is easy to make mistakes. Read the fine print, Use only one or two cards at a time.
10. **"Cash advance = financial suicide?"** – Yes it does. Cash advances are trouble because of their exorbitantly high interest rates, which is often annualized at more than 200% interest. Stay away from cash advances and avoid credit card checks for the same reason.
11. **"Say 'no' to extra products and services"** – Skip costly credit card insurance and card monitoring programs.
12. **"Benefit from planning and saving"** – Save today for tomorrow's expenses. Create an emergency fund with any bonuses or cash gifts.

> "If you pay your balance in full every month, you get to take advantage of an interest-free loan from your lender for between 20 and 25 days."

Credit cards are like ticking time bombs just waiting to go off in your pocket. Use them incorrectly and they will blow your finances sky-high for years. How do you use them correctly? Simple: Always pay balances in full during your cards' available "grace periods." That's like getting interest-free loans on all of your purchases. But watch out: many credit card companies are contracting their grace periods. Now some only offer 20 days before payments are due.

> "Take credit card, debit card and ATM receipts with you when you leave a cash register. Never throw them in a public trash container."

Credit card crooks can make your life miserable by perpetrating identity theft and similar scams. Watch out for "phishers" who use e-mail to misrepresent themselves as credit card company employees. View any online request for your financial information as a scam. Never reveal personal fiscal data to anyone you do not know. Never use birthdays, addresses, phone numbers or anything else obvious for your passwords and PINs. Instead, use nonsensical word and number groupings.

College Students and Credit Cards

Credit card companies love young, inexperienced, naive college students. Most kids don't have much money, so they often find it difficult to pay their credit card bills on time. Thus, credit card firms work diligently to hook college students. They even offer students bonuses for soliciting their friends to sign up for cards. Students can easily amass mountains of high-interest credit card debt in no time. The average college senior carries $3,000 in credit card debt. One out of 10 seniors owes $7,000 or more on credit cards. Two out of three students pay only minimum amounts on their cards, and about one out of 10 pays even less. Clearly, such young people will be trapped in debt for a long time.

> "If you have a lousy credit picture, you'll pay more for everything – not just this year, but for the next seven years and maybe longer."

What can you do to help your children become savvy credit card consumers? Educate them about the dangers of debt. Teach them how to use credit cards in a responsible manner. Help them be realistic about how much they are likely to earn, even after college. Some students assume that they will immediately make large salaries and easily pay all their debts. This often proves to be a sad – and financially dangerous – pipe dream.

"Targeted" Cards

If you know what you're doing, you can benefit from various special kinds of targeted credit cards. For example, you can use a "secured" credit card to rebuild a poor credit rating. Such cards require that you make deposits as collateral. For instance, the credit line could be 130% of your collateral. In this case, $300 of collateral secures $390 worth of credit. You can build your credit rating from there. You can also use department store and other retail cards to improve your credit rating. They often have less stringent application requirements than the big card companies.

> "Even if your payment is only a few hours late, you run the risk of a late fee and increased interest rate on that card as well as your other cards, thanks to universal default."

A "business" credit card provides an established line of credit to get a new company up and running. Such cards often include attractive discounts on business-related purchases. With "affinity" cards, the credit card company donates a small percent of your purchase price to the charity you designate. However, such cards often come with high annual interest rates. Wealthy individuals with excellent credit ratings can receive numerous plush benefits from "prestige" credit cards, such as the American Express Centurion Card (the "Black Card"). These benefits include enhanced frequent flyer miles and hotel upgrades. However, the card costs $2,500 annually, along with a $5,000 initiation fee. The Diners Club Carte Blanche Card offers similar fancy perks but is more economical at $300 annually.

Credit Reports

Since modern life requires credit, the way credit card companies rate your solvency and payment record has a tremendous impact. Your credit report and credit score are so important if you need a mortgage or car loan. When you have good credit, you can get more credit at reasonable terms. If you have bad credit, plan to pay cash for everything. You can request your credit report online at no charge. As a consumer, you are entitled to a free annual credit report, which will include your credit card accounts and loans, and any tax liens, bankruptcies and court judgments. If you find errors, go online to the credit bureaus that create the reports, Experian, Equifax and TransUnion. Each company's Web site explains how to dispute data on your credit report. You can also request your credit score by signing up for a "free credit score trial offer" online or by purchasing your credit report, usually for about $15.

> "Credit repair scams vary, but most charge their customers a fee to 'erase' bad credit – yet the companies offering such services can't legally do anything of the sort."

A good credit score is more than 700. People receive good scores for paying their bills on time and for having low "utilization," owing much less than their available credit. Try to owe only 10% or less of the total credit available to you. For example, if your available credit is $25,000, try not to carry a balance of more than $2,500. Numerous inquiries about your credit rating and frequent applications for credit also hurt your score.

> "Creditors are not required to negotiate with debt settlement companies, so whatever you're told...there are no guarantees."

Credit cards offer many attractive benefits, including extended warranties, price and purchase protection, discounts on merchandise and more. Plus, you can use credit cards to reallocate your various credit lines – moving individual card credit limits back and forth – to save money. You can even make money by taking advantage of special offers with low rates to use newly available funds for short-term investments. But be careful that none of this backfires. Indeed, be cautious about all aspects of the plastic in your name. Make your cards work for you, not against you.

About the Author

Curtis E. Arnold is a consumer advocate and the founder of a Web site that provides credit card information to consumers.