Expedited payment fees: Charged by some companies to pay your bill at the last minute with the help of a customer service representative.

TIP: Avoid last minute, fee-based payment methods. Look for online bill pay, pay-by-phone or automatic payments that do not carry a fee.

Over-the-credit-limit fee: You can be charged an over limit fee only if you give your issuer permission to allow you to exceed your credit limit.

TIP: Manage your credit limit carefully. Call your card issuer in advance if you need an increase. Ask your issuer if it has free e-mail services that alert you when you are approaching your credit limit.

Statement copy fee: Charged for extra copies of monthly statements.

TIP: File statements for the past three years in a secure location for income tax purposes. If you sign up for online access to your accounts, you can download your statements and keep them in your computer.

Stop payment fee: Charged when you stop payment on a credit card convenience check.

TIP: Be cautious about using convenience checks. If you write one and it is lost, you may not be able to avoid this fee.

Wire transfer fee: Charged when you use your card to transfer money or when you buy money orders, lottery tickets or casino gaming chips.

TIP: Pay for these services with a personal check or cash.

This brochure was created by

Consumer Action • www.consumer-action.org

Consumer Action offers free credit card surveys with interest rates, fees and other terms for dozens of credit cards, as well as free brochures and guides on choosing and using credit cards. Counselors speak Chinese, English and Spanish. 415-777-9635 and 213-624-8327, TTY: 415-777-9456; e-mail: hotline@consumer-action.org.

American Express • www.americanexpress.com

Tips on money management, credit scoring, fraud protection, travel, shopping online and more. From the home page, click on "Resources for Cardmembers."

Credit Cards

What You Need To Know

A Consumer Action Publication

Credit is a valuable and necessary financial tool. It can help you establish a credit history, make purchases conveniently, and take advantage of the benefits and services offered by credit issuers.

Not managing your credit wisely can lead to:

- Increased interest rates (APRs)
- Penalty fees
- A decline in your credit score
- Denials of future credit

All of these negative consequences can be avoided.

Types of Cards

Credit cards

- Revolving credit line
- Pre-set credit limit
- Pay charges in full, pay the minimum due or make a partial payment

Charge cards

- All charges due in full every month
- No interest charged
- No pre-set spending or credit limits

Secured credit cards

- Guaranteed by money deposited in an account
- Credit limit equals the amount of the deposit

Sub-prime credit cards

- Marketed to people with lower credit scores
- Low credit line, higher interest rates
- Fees of up to 25% of the initial credit limit.

Prepaid or stored value cards

- "Loaded" with funds using cash, debit or credit card
- Value reduced as card is used
- Can be "reloaded" to add more money
- No interest charged
- Initial fees to buy and load the card, subsequent fees to reload

This guide can help you:

- **Learn the different types of cards that are available.**
- **Sort through offers and choose the card that's right for you.**
- **Understand credit card terms and conditions.**
- **Avoid fees and penalty rates.**

Card Offers

There are two types of card offers — pre-screened and invitations to apply. These offers come in the mail, by telephone, online, and in person at some retail stores.

Pre-screened offers are made based on your credit history. Federal law requires that these contain a firm offer of credit. The only exception is if you have experienced a serious decline in creditworthiness since the offer was made.

Invitations to apply simply ask you to apply for a card. This does not require a firm offer of credit.

To compare basic terms on card offers, look for a box listing interest rates, the grace period and fees, among other information. This box, required by law, is often headed with the words "disclosures" or "summary of terms."

Before responding to any offer, you should know that:

- Not all terms are included in the initial offer. Important information can be found only in the "cardholder agreement" that will be sent with your new card.
- You may not qualify for some offers you receive. Once you apply, you may be offered less favorable credit terms.
- Card offers often state: "You have been approved for a credit line of up to $100,000." The key words are "up to." When you apply, you won't know how much credit you will receive. The company can, and often will, give you a lower credit limit.
- An "introductory rate" is temporary. Introductory rates must last at least 6 months. When you open a new account, you must be told what the rate will be after the introductory rate ends. This is called the "go to" interest rate. (Even though the introductory rate is fixed, your APR can become a "variable rate.")
- Interest rates on new transactions can change at any time after a 45-day change-in-terms notice. Interest rates on new transactions can also change if you pay late or do anything else to expose yourself to a penalty interest rate increase — for example, making a late payment or bouncing a check.
- Many offers include the opportunity to transfer a balance from another card without paying a fee. Ask if you can wait until you get the card to transfer a balance. If the balance you want to transfer is higher than the credit limit on your new card, the company will only transfer a portion of your balance, leaving you with a balance on the old card.
- Sometimes cards have low introductory rates that are good for balance transfers or purchases or both. Any payment you make in addition to your minimum payment must be used to pay off your highest-interest rate balance first.

If you have any questions about a credit card offer, check the company's website for more information or call the company's toll-free number before you apply.

Card Terms and Conditions

Credit cards come with a "cardholder agreement," a legal contract between you and the card issuer. If you misplace the agreement, log on to your issuer's website or call customer service to get a copy.

Your card company cannot raise interest rates on existing balances or accounts in the first year, except when:

- An introductory rate ends (after at least 6 months).
- You have a variable rate card.
- You are more than 60 days late with a payment.

After the first year, some terms (interest rates and annual fees, for example) can change with 45-days advance notice. No 45-day advance notice is required if:

- You have a variable interest rate tied to an index (such as Prime Rate) and the index goes up.
- Your introductory rate expires.

Some changes trigger the right to cancel the card before the change takes effect. If you accept that option, your credit card company can close your account and double your monthly payment but you must have at least five years to pay off the balance. (If your APR is increased on new transactions you will get a notice but ***not*** the right to cancel.)

Here are some common terms and conditions to look for:

Annual percentage rate (APR): A card's interest rate, expressed as a yearly rate.

Variable rates: Interest rates that change according to a set formula, such as Prime Rate + 3%. If your card has a variable rate, the APR changes when interest rates change.

Fixed interest rates: A set (non variable) APR, which can change only when you receive 45 days notice.

Default or penalty rate: A higher interest rate charged if you pay late, bounce a check or your credit gets worse. Unless you are 60 days late, the new rate can't be applied to your balance–only on new transactions.

Cash advance APR: The interest rate you pay when you use your card to get cash. Most cards charge a higher interest rate for cash advances than for purchases.

Daily periodic rate: Your APR divided by 365 days.

Arbitration: A form of dispute resolution that is often binding with no rights of appeal and that may prevent you from suing the company or joining class action lawsuits.

Balance transfers: The ability to transfer the balance from one card to another. If applicable, interest on balance transfers begins to accrue immediately.

Convenience checks: Checks linked to your credit card account. They can be used to transfer a balance from another card or to make purchases or payments.

Grace period: Period in which finance charges do not accrue if you are not carrying a balance.

Minimum monthly payment: The lowest amount that you are required to pay the credit card company each month. You will be in default if you pay less than this.

Payment due date: The last day that payment can be accepted without penalty. Each month, your due date will be the same date or day of the month.

Avoiding Credit Card Fees

You can avoid fees by carefully managing your account. Here are common fees and tips on how to avoid them:

Annual or monthly fee: Common on charge cards, rewards and airline miles credit cards and on secured and sub-prime cards. Sometimes applied if you don't use your card at least a few times during the year.

> **TIP:** Consider the overall value when comparing fee and no-fee cards. If you are thinking about getting a rewards or airlines miles card, make sure the card's benefits are worth the cost of an annual fee.

Application processing fee: Charged on many sub-prime cards and some secured cards when an account is opened.

> **TIP:** Required fees in the first year can't total more than 25% of the initial credit limit. For example, if your initial credit limit is $300, the fees for the first year can't be more than $75.

Balance transfer fee: Charged for transferring a balance from one card to another, this fee is commonly assessed as a percentage of the balance transferred.

> **TIP:** When you apply for a new card, ask about balance transfer fees. Most companies don't charge these fees to new cardholders for the first month or two.

Bounced check or returned item fee: Charged if your check bounces.

> **TIP:** Make sure you have sufficient funds in your bank account to cover your check.

Cash advance fee: Charged as a percentage of the cash advance, with minimum charges common.

> **TIP:** Cash advances are an expensive way to get cash. Not only do you pay a fee, but interest on cash advance balances begins to accrue immediately. Instead, use your ATM or debit card to withdraw cash from your checking or savings account at ATMs.

Foreign transaction fee: Charged when you make purchases that are cleared through a non-U.S. bank and the charges have to be converted to U.S. dollars.

> **TIP:** If you plan to use a card while traveling outside of the U.S., shop around to find a card with a currency conversion method that is favorable to you. (You might also pay this fee if you shop online at a business that processes payments through a non-U.S. bank.)

Late fee: Charged if your payment is late, sometimes even if it is received on the due date after 5 p.m. Be aware that your credit card company cannot charge a late payment fee that is greater than your minimum payment and generally can't charge a fee of more than $25. (If one of your last six payments was late, the maximum fee rises to $35.)

> **TIP:** Always pay your bill on time. If you send your payment by mail, allow at least seven days for the payment to reach your issuer. Consider other payment methods, such as online bill pay, pay-by-phone or automatic payments. Ask if your issuer offers e-mail reminders.