

# You're a Credit Card Owner. Now What?

This program is made for the budding credit card owners of the world. It explains what you need to know to manage your first credit card the right way, rather than spiraling into debt before you complete your first semester in college.

## » Key Topics

- How credit cards work
- How to get a credit card
- How to use a credit card without going into debt
- How to avoid credit card fees
- How to build credit with a credit card
- How to increase your credit limit
- How to manage your money responsibly

With the help of this comprehensive guide, you will be able to take on the challenge of credit card ownership without making common mistakes.

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# You're a Credit Card Owner. Now What?

## » How Do Credit Cards Work?

Credit cards are like loans that you always have access to. They correspond to a **line of credit** that you are granted, which reflects how much money a credit card company is willing to trust you with. This could be \$500 or it could be \$5,000. It just depends on your situation.

The money in your line of credit is not technically your money. It belongs to the credit card **issuer**, or the company that gave you the card in the first place. You are allowed to use it out of trust, but you always have to pay it back. You can do this in one lump sum, or you can make payments on the account. As long as you fulfill the minimum monthly payments needed, your account will continue to be in good standing.

## Credit Card Processing at a Glance

To fully understand how credit cards work, you have to know how they are processed. In other words, you need to know how money gets from your line of credit to a merchant you buy something from. Here is a quick look at the steps:

1. You swipe your card at a store or some other business that accepts credit cards.
2. The merchant's machine sends a signal to a middle man (known as the **acquirer**), who then asks your credit card company if you have enough money for the transaction.
3. You swipe your card at a store or some other business that accepts credit cards.
4. The merchant's machine sends a signal to a middle man (known as the acquirer), who then asks your credit card company if you have enough money for the transaction.

After a couple days of extra processing, your amount due will show up on your credit card statement, ready for you. For the most part, your end of this process only takes a couple seconds to complete, but the whole process can take weeks with some credit card companies. All you need to know is that the money you charge on your card is taken away from your available credit balance (the money you can use).



# You're a Credit Card Owner. Now What?

## Credit Card Bills and Payments

Every time you use your card, money is taken out of your account. This is the money that you have to pay back. Each month, your credit card provider will send you a **billing statement** that highlights your transactions. This will explain what you owe on the card, what you still have available on the card and what your minimum monthly payment needs to be.

Example:

<b>Credit Card Statement</b>				Send Payment To: PO Box 555 Anytown, US	
<b>Account Number</b> 1234 567 8901	<b>Name</b> Suzy Student	<b>Statement Date</b> 1/15/2005	<b>Payment Due Date</b> 2/14/2005		
<b>Credit Line</b> \$1500.00	<b>Credit Available</b> \$500.00	<b>New Balance</b> \$1000.00	<b>Minimum Payment Due</b> \$30.00		
Reference	Sold	Posted	Activity Since Last Statement	Amount	
89XB773		12/12	Payment Thank You	-10.00	
78XY667	12/20	12/22	Gas 'n' Go SmallTown US	35.24	
34XP889	12/23	12/26	Gift Attic Whoville US	63.02	
23XY001	12/26	12/28	Computer Monitor Techville US	697.78	
76X0E11	1/8	1/10	Pizza Palace SmallTown US	24.53	
<b>Previous Balance</b>	(+)	189.43	<b>Current Amount Due</b>	<b>1000.00</b>	
<b>Purchases</b>	(+)	820.57	<b>Amount Past Due</b>		
<b>Cash Advances</b>	(+)		<b>Amount Over Credit Line</b>		
<b>Payments</b>	(-)	10.00	<b>Minimum Payment Due</b>	30.00	
<b>Credits</b>	(-)				
<b>Finance Charges</b>	(+)				
<b>Late Charges</b>	(+)				
<b>NEW BALANCE</b>	(=)	1000.00			
<b>FINANCE CHARGE SUMMARY</b>	<b>PURCHASES</b>	<b>ADVANCES</b>	For Customer Service Call: 1-800-555-5555		
Periodic Rate	3 %	3 %	For Lost or Stolen Cards, Call: 1-888-555-5555		
Annual Percentage Rate	36 %	36 %			

Your credit card billing statement may look a little different than that, but the basic components will be the same. All this is designed to do is clearly show you what you are expected to pay.

# You're a Credit Card Owner. Now What?

## Exercise 1

Choose the best answer.

**1.** How much money is on a credit card?

- A: \$500
- B: \$5,000
- C: \$50,000
- D: It depends on a person's credit worthiness

**2.** How do you know how much money you can use on a card?

- A: Check the credit limit
- B: Check the available balance
- C: Check your credit score

**3.** If your credit limit is \$1,500 and your available balance is \$500, how much money have you charged to the card?

- A: \$1,500
- B: \$2,000
- C: \$1,000
- D: \$500

**4.** If you owe \$100 on your credit card and have a \$900 line of credit, how much is your available credit?

- A: \$800
- B: \$1,000
- C: \$900
- D: \$100

**5.** If your current amount due is \$200 and your available balance is \$550, how much is your credit limit?

- A: \$650
- B: \$550
- C: \$350
- D: \$750

# You're a Credit Card Owner. Now What?

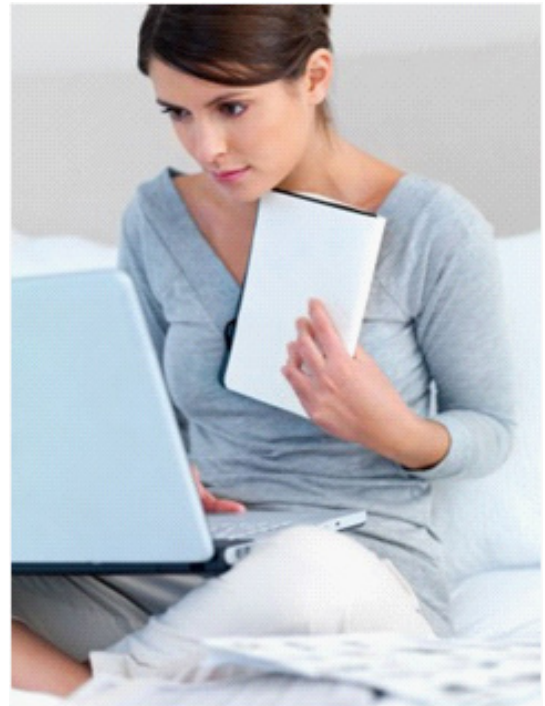
Applying for a credit card isn't as complicated as you may think it is. It's just like applying for a job, a college or anything else. You have to fill out the information that the credit card company wants to see and then someone will review your data to determine if you deserve a credit line or not. If everything works out, you'll soon have a card to call your own.

## What You Need

Some credit card companies require more information than others. At minimum though, you will need the following:

- **Name**
- **Address**
- **Phone Number**
- **Email Address (usually optional)**
- **Social Security Number**
- **Job Information (where you work, how long you've been working there, how much money you make, how often you get paid...)**

The credit card company needs a way to assess your ability to pay back a credit card balance. The only way it can do that is by having you provide information about what you do, how long you've been doing it, how much you make, etc. You don't expect them to just hand you a card, do ya?



## What They Do with Your Information

Most credit card companies use secure review processes to ensure that your information does not get into the wrong hands. They have to use your social security number to pull your credit report and review what other cards and accounts you have had in the past. If you have no history, that's fine, but they have to check that no matter what.

Other information is primarily used to contact you or to store on file should you ever fail to make a payment. Your references are not used to check how good of a person you are. They are considered backup contacts in the event that you do not answer your phone calls, letters, etc. That means you need to choose them wisely!

## Where to Apply for Credit Cards

Back in the “old days,” people mailed in their credit card applications. Today, you can expect to go to a credit card provider’s website to complete your applications. You might use a credit card comparison site like CompareCards.com to look at different cards, where you can be directly send to the application page for all card issuers such as Visa, MasterCard, AMEX, etc.

If you are getting a credit card through a bank, you can also fill out a credit card application there. One of the bankers will give you a paper application to complete that you will hand in directly. Your information will most likely be entered into a computer from there and then submitted to a remote review board, an automated system or a supervisor in another office. If everything goes well, you will hear positive news.

## How Credit Cards Get to You

If you are approved for a credit card, you will receive a card in the mail within 7-10 business days. Some companies will provide you with a temporary card or card number to use until the real one comes in. The real card will have your first and last name on it, along with an account number that represents your new line of credit.



## What to Do When You Get Your Card

Once you have your card in hand, you have to make sure you activate it. There should be some instructions about activation in the letter with the card, most often in the form of a removable sticker on the front of it. Some cards will be activated with the first use, while others require you to call a phone number and verify key pieces of information. Follow whatever instructions you need to in order to make your card “live.”

You also need to make sure your name is spelled properly on the card. This could be important if you ever need to show ID to use it. Sign the back of the card in pen or permanent marker in the area designated for your signature. This may also be used for identity verification. With all of that complete, you should be able to start using your card just like you want to.

## Exercise 2

Choose the best answer.

**1.** What information is needed to process a credit card application?

- A: Name
- B: Address
- C: Social Security Number
- D: Phone number
- E: All of the above

**2.** Where can you go to fill out an application?

- A: Walmart
- B: The internet
- C: McDonald's
- D: A bank
- E: Both B and D

**3.** How long does it usually take for a card to arrive in the mail?

- A: 3-4 business days
- B: 5-6 business days
- C: 7-10 business days
- D: 14 business days

**4.** What should you do when you receive your credit card?

- A: Post a picture of it on Facebook
- B: Call up your date for the night
- C: Verify it and sign the back
- D: Report it lost or stolen

# You're a Credit Card Owner. Now What?

By now, you've probably heard plenty of horror stories about people who have misused their credit cards. New card owners usually lack the responsibility needed to properly manage their credit card accounts, so they end up in debt very quickly. You can avoid this problem by learning how to use your card the right way and develop good money management habits from the start.

## Step 1 – Know Your Credit Limits

It is important to know how much money you have available to spend on your card at all times. Not only does this give you a budget to stick to, but it ensures that you don't get an embarrassing decline notice at a store or restaurant. When you first get your card you should have a full line of available credit to use. However, if your card charges an annual or monthly fee, that money may have already been taken out of the card's balance.



To check what's available, you can either call your credit card company, check your most recent billing statement (if it is up-to-date) or view your account online. You may also keep a running log of your purchases and compare them to your overall credit limit. This is recommended regardless of whether or not you need to know your available balance.

## Step 2 – Know Your Personal Limits

Just because you have money available doesn't mean you have to spend it. You should only put charges on your card that you can logically pay back that month. Some cardholders justify a purchase by saying they'll pay for it "eventually." That's how debt happens. You need to have a clear timeframe for your payback so you can keep your debt low to none. If you can't afford something right now and can live without it, don't get it.

## Step 3 – Have the Money Ready

In an ideal situation, you should already have the money for a purchase before using your credit card to buy it. What's the point of the

card then? To build up your credit score. Every time you make a payment toward your credit card, you get a positive mark on your credit report. This will help you get loans and other future cards.

Using a credit card also prevents you from giving out your bank account information if you don't like to pay in cash. This extra convenience will minimize the amount of items in your wallet and it will protect you if your card is ever lost or stolen. Simply report the card to the credit card company, and they will issue you a new one with a new number.



## Step 4 – Make Your Payments on Time

You will learn more about making credit card payments in the next section, but for now, just know that you need to make your payments on time. You will have a billing date every month that you have to abide by. This will be based on the day you received your credit card. You must make some kind of payment before that date to avoid late fees and negative marks on your credit. If you have a way to pay the full balance of the card, then do so. If not, pay as much as you can. You do have the option of making the minimum monthly payment, which may be as low as \$15. Doing this will add interest to the balance though, so it is best to pay more than that.

If you cannot make the full payment one month, try to put more towards your balance as soon as possible. The lower your debt is, the less there is to charge interest on. If you are being charged 10% interest for a month, you'll rack up less debt on \$50 than you would on \$500 (\$5 vs. \$50). You'll quickly accrue more debt than you're ready for by only paying the minimums.



## Step 5 – Know When to Stop

If you feel that you are spending too much money on your credit card, put a stop to that. It is easy to become reliant on credit cards because they feel like free sources of money, but they're not. The sooner you realize that credit cards are portals to debt, the better off you will be.

## Bonus Step – Have an Emergency Fund

In addition to the tips above, you should consider saving money to use in an emergency. This money could be used to cover car repairs, finance last-minute trips, etc. You can rely on your credit card as an emergency fund, but early on, that may not be all you need. You won't be able to cover a \$1,000 plane ticket for a funeral if your card limit is set at \$500. Put money away from every paycheck until you have enough to live off for 3-6 months, which is the recommended amount.

## Exercise 3

Choose the best answer.

- 1.** How can you tell how much money is available on your credit card?
  - A: Call the credit card company
  - B: Check your most recent billing statement
  - C: Check your account online
  - D: All of the above
- 2.** Why should you use a credit card if you already have the money for an item?
  - A: To build credit
  - B: To avoid paying in cash
  - C: To protect your bank account information
  - D: All of the above
- 3.** How much money should you pay on your card each month?
  - A: The minimum monthly payment
  - B: 1/2 of your balance
  - C: The full balance
  - D: As much as you can afford, but at least the minimum payment

# You're a Credit Card Owner. Now What?

## » How to Make Credit Card Payments

At this point, you already know how important it is to make your credit card payments. What you may not know is how to go about making these payments. There are several options to choose from, depending on the type of card you have. Here is an overview of common credit card payment methods:

– **Online payments:** Sign into an online account and make a payment with your bank information. You can save the info for use at another time or enter it for every payment

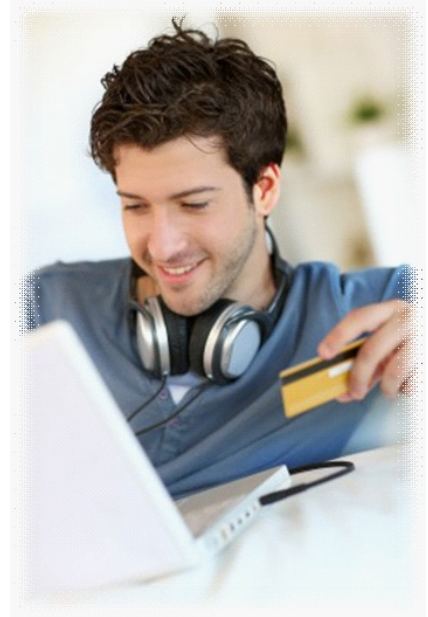
– **Mail-in payments:** Your credit card company should accept cash, check, money order, etc., but some companies will only accept certain forms of payment in the mail. Check with your credit card provider before sending money that may not be allowable.

– **Smartphone payments:** Some credit card issuers have apps that you can download on your phone to make a payment. You can also use these apps to check your account balance, check your due date and much more.

– **Call-in payments:** You may call the credit card company to make a payment, either through an automated system or with the help of an operator. Just note that there will probably be a fee for this option, especially if you get the help of someone live.

– **Balance transfers:** If you have multiple credit cards, you do have the option of transferring the balance from one to another. This isn't always a smart idea because you will have to pay a balance transfer fee. The higher the fee or the balance you're moving, the more money you'll have to pay.

Some of these payments show up instantly, but others, like the mail-in ones, may take a few days to go through. Note this duration before waiting until the last minute as you may end up with an unexpected late fee.



## Knowing When and What to Pay

If you don't know your billing date yet, call your credit card company and ask. You may also find this information in an online account or a downloaded app. If you get billing statements in the mail or by email, the due date will be listed somewhere on there. All you have to do is abide by it.

You may have a small grace period on your credit card payment where the company basically extends your deadline. This could be a day or two, or it could be as long as two weeks. It is never a good idea to get in the habit of using grace periods because that will teach you to ignore due dates. Nevertheless, if you have to be a couple days late on a payment, it may not be as bad as you think.

In terms of knowing how much to pay, again, you need to check your billing statement. Cover the minimum amount and any extra you can, and make sure you submit payment before the due date.

## Exercise 4

Choose the best answer.

1. Which of the following is NOT a way to pay a credit card?
  - A: Through an online account
  - B: Through a phone app
  - C: Through the mail
  - D: Over the phone
  - E: All of the above are ways to make credit card payments
2. How can you tell when your payment is due?
  - A: Check your billing statement
  - B: Call the credit card company
  - C: Check your pricing and terms
  - D: Both A and B
3. What should you worry about when doing a balance transfer from one credit card to the other?
  - A: The cards are not from the same company
  - B: There is a fee for balance transfers
  - C: The credit card company may not allow balance transfers

# You're a Credit Card Owner. Now What?

## » How to Get out of Credit Card Debt

If you don't keep up with your credit card payments, you are inevitably going to fall into debt. This happens to everyone, so don't freak out if you find yourself in a big financial hole. While it is best to avoid debt entirely, you need to know how to get out of it if you're ever in that situation. Here are some tips to help you get back on track.

- **Cut back on your spending so you have more money to save.** You might have to sacrifice eating out for a few weeks, but that will save you from getting a bad credit score.
- **Make half payments every two weeks.** Even though this seems like it will lead to the same money, it'll actually result in an extra payment at the end of the year. Do the math if you don't believe it!
- **Turn in your payments on time.** Anything you turn in late will result in fees, which will put you even further behind.
- **Pay more than the minimums.** If you rely on minimum payments to get out of debt, you'll spend years making payments and building unnecessary interest.
- **Consolidate your debt.** This applies to situations when you have multiple forms of debt or multiple credit cards that are maxed out. Get a personal loan to cover all those balances, and then pay that off.

The goal here is to put away as much money as possible so you can get rid of your debt right away. If you let it sit for too long, it will have a negative impact on your credit score and cause you to pay more than what you should have to.

## Saving vs. Paying Down Debt



You have the option to either pay down your balance through your credit card company or save to pay it all at once. Both options come with their own pros and cons. If you make payments to your credit card company, you will lower the amount of interest accrued on the account. If you save and pay in one lump sum though, you might be able to earn interest on your savings account to make up the difference. The key here is to compare the interest rate on your credit card to the interest rate on a savings account, CD, or similar account. Figure out which option will save you the most money and use that as a foundation for payments.

## Budgeting for Credit Card Debt

Ideally, you should turn your credit card debt into a bill, just like your rent and electricity. If you see it as something that you can pay overtime, you're going to put it off like you do a test for an "extra" class in college. Prioritize the debt with everything else. If you want to save money to pay it off all at once, calculate how much you can logically afford to put back each week and stick to that. If you want to make payments on the card, commit to a certain amount every time you get paid. Any time you have extra money lying around, send it towards your payoff funds.



Along the way, you will be tempted to buy things that you want, rather than paying off your credit card debt. This is where self-control comes into play. Focus on the relief you will feel when you no longer have to worry about credit card debt and let that overpower your temptations. You can buy what you want after your credit card is clear.

# You're a Credit Card Owner. Now What?

## » How to Increase Your Credit Limit

After you know how to manage your credit card responsibly, you may feel the urge to get a higher credit limit. Most starter credit cards only allow you to spend up to \$500, which may not allow you to buy big furniture or other expensive items you need. Follow the steps below to increase your credit limit.

### **Step 1 – Use Your Card Regularly**

In order to be trusted with more money, you have to show your credit card company that you need it and that you can handle paying it back. One way to do this is by paying all your bills for the month on a credit card and then pay off the balance before the due date. You'll still be spending the same money, but you'll be able to improve your chances of getting a credit increase.

### **Step 2 – Wait for an Automatic Increase**

Some credit card companies will automatically review and approve credit increases after six months. That means once you've had the card for half a year, the company will automatically pull your credit and see if you deserve a raise. If so, they will put more money into your available balance and you can start spending it accordingly. Wait another six months to a year before applying for another increase.

If you aren't sure about your automatic increase options, talk to your credit card company. They will tell you when your review date will be, if any, so you can plan to check back in.

### **Step 3 – Apply for a Limit Increase**

If you do not have an automatic limit increase or you have already passed your first one, you will have to apply for one. In most cases, this means calling up the customer service department for your card and requesting an adjustment. The representative will ask for your approval to pull your credit, which he or she will have to do to assess your options. If you grant that person permission to look at your credit, he or she will use the new information to for an increase application. This application will most often be sent through an automated approval system. If you have what it takes, you will get your new credit limit.

### **Step 1 – Keep Using the Same Card**

You won't get a new card in the mail just for having a higher balance. You will use the card you currently have. Some account adjustments happen immediately, but most will take 24-48 hours to complete. Just expect to wait a couple days and then you can use your card up to your new



## Exercise 5

Choose the best answer.

- 1.** Why should you use your card if you want a credit limit increase?
  - A: It shows that you need more money
  - B: It shows that you can handle your current limit well
  - C: It shows you know how to work an ATM
  - D: Both A and B
- 2.** How long should you wait before requesting an increase (at minimum)?
  - A: Six months
  - B: One year
  - C: Six weeks
  - D: Two years
- 3.** Do you need a new credit card if you get a credit limit increase?
  - A: Yes
  - B: No



# You're a Credit Card Owner. Now What?

As a cardholder, you have certain rights allocated by federal law to protect you and your money. These rights allow you to file disputes against unauthorized charges on your accounts, false marks on your credit reports, dissatisfaction on services rendered, etc. By understanding your credit card rights, you can adequately keep your finances and your personal information safe.

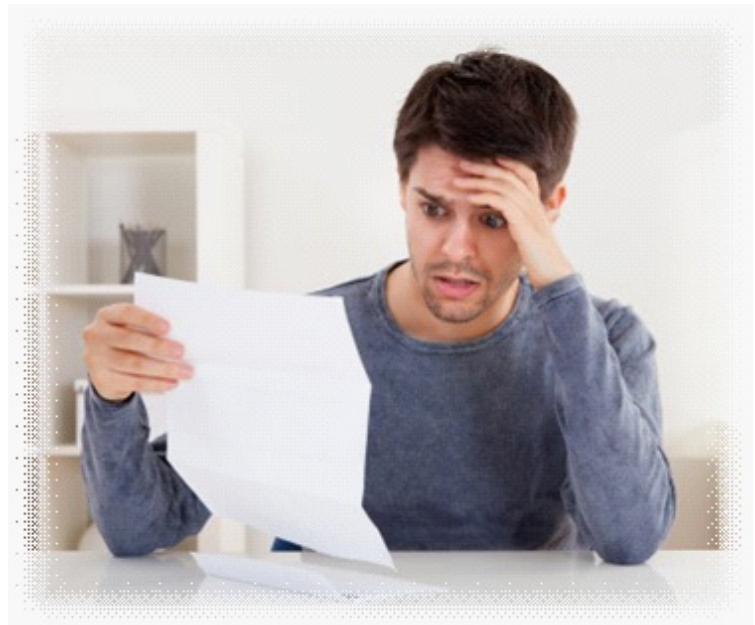
## Unauthorized Charges

If you notice an **unauthorized charge** on your credit card, report the action right away. By law, you are only liable for up to \$50 worth of fraudulent transactions on your account. Anything beyond that is the creditor's responsibility no matter what. Most credit card companies will remove all of the charges, cancel the card and issue a new card. They take these extra steps to ensure whoever has your credit card information will no longer be able to make charges to the account. You may file a dispute over the phone or through the mail at any time, though it is much easier to get the problems resolved if you report early.

## Billing Errors

If you have an issue with your credit card bill, you again need to contact the credit card company right away. Lawmakers have been cracking down on excess fees lately, making sure that consumers are not charged more than necessary for processing and other expenses. Nevertheless, card issuers try to sneak in new fees all the time, and some make false charges that seem like they could be legitimate, called grey charges.

Billing error disputes must be submitted in writing within 60 days of the bill in question. Send this to your credit card company by mail, including your name, account number, and reason for dispute. The company has 90 days to investigate and respond to the dispute. If you hear no word then, you can take legal action against the company.



## Stop Payments

If you receive a product or service that you are not pleased with, you can put a **stop payment** on your card. If successful, the stop payment will pull the money from the merchant's account and put it back in yours. You have to have substantial reasons for filing a dispute like this, and you must contact the seller or service person before contacting your credit card company. If that party refuses to help, you can take matters into your own hands.

To withhold a payment, contact your credit card provider and explain your situation. The company will most often have a claims department that you can go through to file a dispute and plead your case. This acts much like an informal court of law. Assuming you win the case, you will have money refunded to your account within a few business days.

## Credit Report Errors

False marks on your credit reports can lead to a low score you do not deserve. When this happens, you need to file a dispute right away. You can check your credit reports for free once a year on [AnnualCreditReport.com](http://AnnualCreditReport.com), or you can sign up for a free service that actively monitors your credit score at [CompareCards.com/free-trial-credit-scores](http://CompareCards.com/free-trial-credit-scores). Make notes of any errors you see, and make sure you know which bureau it comes from (TransUnion, Experian, or Equifax). Contact that bureau by phone to note the error and see if you can get any help through the customer service department. If not, you may issue a dispute letter explaining which marks you are disputing, why you are disputing them, and what you would like done with them. They will respond accordingly.



Note that it can take up to six months for a loan to show up as paid on your credit reports. It can take three years for credit inquiries to fall off the report as well. Before you rush into filing a dispute, make sure enough time has passed for your reports to be up to date.

## Exercise 6

Choose the best answer.

- 1.** How long do you have to file a dispute against an unauthorized charge?
  - A: 30 Days
  - B: 60 Days
  - C: 90 Days
  - D: There is no time limit, but it is ideal to act fast
- 2.** How long do you have to file a dispute against a billing error?
  - A: 30 Days
  - B: 60 Days
  - C: 90 Days
  - D: There is no time limit, but it is ideal to act fast
- 3.** Who do you contact if you want to issue a stop payment on your account?
  - A: Equifax, Experian, and Transunion
  - B: The person you bought an item or received a service from
  - C: The credit card company
  - D: Both B and C
- 4.** How long should you wait to report an error on your credit report?
  - A: 30 Days
  - B: 60 Days
  - C: 6 Months
  - D: 1 Year

# You're a Credit Card Owner. Now What?

## » Quick Tips for Smart Money Management

If you can manage your money well, you can manage your credit cards well. It's as simple as that. The main reason why most people fall into credit card debt is because they don't know how to handle their funds. Follow these quick tips to make sure you start on the right foot:

– **Never spend more than you can afford.** If you can't think of a feasible way to pay something back, don't get it at all.

– **Be willing to make some sacrifices.** This is part of being an adult just as much as it is being a credit cardholder. Put your bills and needs first, with your wants on hold, until you have the money to pay for them.

– **Put yourself on a budget.** Make sure you only spend within your means, no matter how high or low they are.

– **Keep track of your charges.** Know what your current bill and available balance are every time you use your card so you don't overspend.

– **Only apply for a card when you are ready.** Don't tempt yourself with something you cannot handle just yet. There is nothing wrong with waiting a while to get a credit card.



Above all else, remember to charge responsibly. The debt you get into now will last for years, but so can good financial habits. Get in a solid routine of spending money on your card and paying it back on time. Conquer that, and you'll be better off than most people in the world.

**acquirer:** The messenger between a merchant and a credit card issuer.

**asset allocation:** How your money is divided among asset classes such as stocks, bonds, and short-term investments.

**billing statement:** A summary of your transactions made in one month, usually displaying how much you owe.

**compound interest:** Interest calculated on both the principal interest and the accrued interest.

**diversification:** Spreading your money amongst various types of investments within an asset class (different kinds of stocks and different kinds of bonds).

**issuer:** The bank or credit card company that issues the credit card.

**line of credit:** An account offered in exchange for trust that a card user will pay back its balance.

**stop payment:** A request made by the account holder to a financial institution to stop a payment that has not been processed yet.

**unauthorized charges:** A charge made by someone other than you or another authorized card holder. The cardholder is usually not held responsible.