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What’s in your wallet?

We see the commercial all the time that asks “What’s in your wallet?” Though it is an advertisement for a certain credit card company, it is obvious that no matter what credit card many of us carry, we simply don’t know what’s in our wallet. Do you know what terms and conditions come with that credit card, regardless of the company issuing it?

If you are like many credit card holders, you don’t. A report released by the Government Accountability Office (GAO) concluded that though the use of credit cards has become widespread, we don’t know the terms and conditions on our own cards.

Over the past 25 years, the use of credit cards has grown exponentially. Between 1980 and 2005 the amount that US consumers charged to their credit cards grew from $69 billion per year to more than $1.8 trillion.

In most cases, our lack of knowledge can be classified as a failure to communicate. By law, the credit company is required to send a disclosure of terms. However, the notices seem to be designed for someone with supernatural eyesight with the tiniest print you can imagine. The GAO concluded that the information on most disclosure letters were poorly organized with information scattered throughout various sections. The language in the credit card disclosures is difficult to comprehend. Most Americans read at or below a 8th grade level, but the disclosure letters are written at a 12th grade level.

As a result, we aren’t informed enough. Many cardholders don’t realize that they are charged up to three different interest rates for different transactions on the same card. They may not realize that the issuer has the right to raise their interest rate based solely on their payment to other creditors.

The GAO analyzed 28 major credit card companies and found some big differences in credit polities.

For instance, 22 of these credit card companies charged an over limit fee, but it differed when they assessed the fee. Fourteen of these companies assessed a fee if they went over any time during the billing cycle. Eight of these, however, only charged a fee if you were over at the end of the cycle. So if you have a tendency to go over, you might be able to beat the fee by paying down during the cycle.
Fees do matter. Exceeding the credit limit can cost you on average, $31. In addition, your credit card limit may be different for cash advances or credit transfers.

So what if you do not follow the rules of your credit card? Your credit card issuer can increase your interest rate to a higher penalty rate, with some companies charging as much as 33% for this penalty rate. Four of the six major companies will reduce the rate to normal if you abide by the rules on the agreement for a period of one year, but the other two continue to charge at the higher rate.

The way to find out what your rules are is to review your terms disclosure. Call your credit card issuer and get a copy, then sit down for a read. Be sure to use a magnifying glass or go to the copy machine and put it on enlarge.

The only way to beat the system is to know what the rules are.