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Playing Your Cards Right: Smart Ways To Use Credit and Debit Cards

Paying with plastic—by credit or debit card—certainly has benefits. You can buy goods and services with a credit card now and pay for them later. And debit cards, which deduct payments automatically from your deposit account, offer a quick, easy way to make small purchases and avoid interest charges. But you must understand the terms and conditions of the card you use—and indications are that many consumers do not.

FDIC Consumer News knows that the banking product consumers gripe about the most—about one third of all consumer complaints received by federal banking regulators—is the credit card. Banking regulators also get questions about debit cards now that they are more popular as a payment option. That's why we offer this special update.

So don't stop reading now—charge ahead!



Illustration: T.W. Ballard

Problems With Plastic: Our Tips for Tackling Your Top Five Concerns

What are the most common problems reported with credit or debit cards, according to FDIC staffers who respond to consumer inquiries? Here they are, along with guidance on how to prevent and resolve those problems.

1 Billing errors and other disputed transactions: Billing errors include a charge on your credit card bill that isn't yours or an incorrect dollar amount on a credit or debit card transaction. Other problems might include a payment that didn't show up on your statement or a dispute with a merchant over something you purchased.

To reduce the odds that you'll be charged for something inappropriately, promptly review your monthly statements. With your credit card, the Fair Credit Billing Act (FCBA) protects you from paying for a purchase that wasn't yours or that you didn't agree to. But you must write the creditor (a call isn't sufficient) using the address given for billing inquiries (not the payment address), and your letter (or any complaint form provided with your bill) must reach the creditor within 60 days after the first bill containing the error was mailed to you. "I recommend that you send your dispute by certified

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mail, with a return-receipt requested, so that you have proof that the creditor received it on time," says FDIC Senior Consumer Affairs Officer Janet Kincaid. Also include copies—not originals—of any sales slips or other relevant documentation, and keep a copy of your request.

The FCBA also allows you to withhold payment for defective goods or services purchased with a credit card until the problem has been corrected, under certain conditions. In general, the purchase must be for more than \$50 from a merchant in your home state or within 100 miles of your home. Your card issuer may offer additional protections.

Even though debit card transaction amounts are deducted from your bank account immediately—or within a few days—you have protections against errors and defective purchases under the Electronic Fund Transfer Act (EFTA) and industry practices. So, notify your financial institution immediately if there is a problem involving your debit card. While the EFTA does not require you to put your complaint in writing, it's a good idea to do so.

2 Application Denied or Downgraded: Consumers get upset when they apply for a credit card and, because of incorrect information in their credit report, their request is denied or they are offered less favorable credit terms than they expected. Credit report errors can happen, so periodically get a copy of your credit report to make sure everything is correct. It's especially smart to review your credit report before applying for a mortgage, credit card or other important loan, so that an error doesn't slow down your credit approval. And if you do find an error in your credit record, write to the credit bureau that prepared the report and provide copies of relevant documentation.


You can get your credit record by contacting any of the three major credit bureaus: Equifax (call 800-685-1111 or go to www.equifax.com on the Internet); Experian (866-200-6020, which is toll free, or go to www.experian.com); and TransUnion (800-888-4213 or www.transunion.com). Their reports can vary, so some experts suggest that you review your credit report from all three credit bureaus. Your report is free in some cases but can cost no more than \$9 under current law. If a creditor rejects your card application based on your credit report, you must be told so and given a chance to correct inaccurate information. That is one situation where you may be eligible for a free credit report.

3 Late Payment Fees: You say you mailed your credit card payment on time or you paid through your bank's electronic bill payment service... and you *still* got hit with a \$30 late fee. Why? Financial institutions mark credit card payments as "paid" on the day they are received, *not* the day you mailed it. While the federal Truth in Lending Act (TILA) says a card issuer must credit your payment as of the date of receipt, most card issuers suggest that consumers allow seven to 10 days for payments to be received and credited. Find out your bank's cutoff time for card payments. Some have a 10:00 a.m. deadline for payments to be credited that day. Also, send your payment to the address indicated by your card company. Mailing to the wrong address can cause late or even missed payments. And if you know your "late" payment arrived on time, contact your card issuer to resolve the matter.

Consumers using their bank's electronic bill payment service also should recognize that it still may take two or more days for their credit card company to receive the funds. To be safe, pay a few days in advance.

4 Changes in Terms: Credit card companies have the right to change interest rates or terms, as outlined in the cardmember agreement. However, FDIC attorney Mark Mellon explains that "if your card contract permits a change in rate or terms, a notice must be mailed or delivered to you at least 15 days prior to the effective date." Carefully read the information in your monthly statement or other mailings from your card company. If you don't want to accept a rate increase or other change, you can contact the card issuer and try to negotiate a better deal but there's no guarantee it will agree. If you decide to close the account, Kincaid says, do so in writing, "and know the rules for canceling the card, such as how long can you continue using the card and making payments under the existing terms."

With debit cards, federal rules generally require that a notice of changes in fees or terms be mailed or delivered at least 21 days before the effective date. Again, read the information that is sent to you and, if you disagree, try to negotiate or shop around for a better deal.

5 Confusion Over Promotional Offers: You're probably familiar with deals like "zero percent interest" on a credit card or "no payment on merchandise until next year" if you put your purchase on your charge card. These offers usually are for limited purposes and time periods, something many consumers don't focus on until they run up unexpected charges. "These offers can be good, but you've got to read the fine print and do the math," adds Kincaid. Example: Some offers may require you to pay the balance in full by the due date or you'll be charged interest on the entire balance, starting with the date of purchase, even if you have been making payments throughout the term of the promotion. 

Just for Teens

Yes, teens can get... or get access to... credit cards and debit cards. Under most state laws, for example, you must be at least 18 years old (a young adult) to obtain your own credit card and be held responsible for repaying the debt. And if you're under 18, you can qualify for a credit card if a parent co-signs, but only the parent can be held accountable for the payments.

Credit and debit cards can be good ways for teens to pay without carrying cash or checks, and they can help teach kids about how to manage money. But teens—and their parents—need to be especially careful to avoid serious debt problems or a bad credit record at a young age.

First, make financial education a priority, especially the lessons about borrowing responsibly.

"Teens need to be aware that a bad credit record can affect their ability to rent an apartment or even find employment after graduation," says Lynne Gottesburen, an FDIC Consumer Affairs Specialist.

Also, understand the alternatives. There are cards with features sometimes described as "training wheels" for young cardholders. One is a credit card with a low credit limit—say, \$300 or \$500—which can keep a teen from getting too deeply in debt. Another is a pre-paid, re-loadable payment card that parents can get for teens aged 13 or older and that comes with parental controls, including spending limits. A debit card also enables a teen to make purchases without paying interest or getting into debt because the money is automatically deducted from an existing bank account. 🏠

JUST FOR SENIORS

Having a credit card is a necessity for most senior citizens. Among the reasons: A credit card can be used to pay for emergency expenses and medicine. And, a card may be required to rent a car or book vacations.

However, debt overload can occur when senior citizens trying to live on limited income run up significant credit card bills and interest charges. The basic advice: Try to keep credit card purchases manageable. If possible, pay off most or all of your credit card bills each month. Consider a debit card as an alternative to a credit card. Also, the elderly often are targeted by swindlers who try to trick them into divulging credit card numbers and other personal information that can be used in a fraud. For tips for avoiding card fraud, see Page 5. 🏠

Card "Clubs" and Other Extras: A Good Deal or Not?

You see them advertised by your bank or credit card company—special credit card or debit card "clubs," memberships and other extras you can sign up for, sometimes free of charge, but often for a fee added to your account or credit card bill. These offers may include services that monitor your credit reports for possible signs of fraud or identity theft, auto club membership and other travel programs, and even discounts on health care products and services. The ads make it all sound so good... but is it a good deal for you? *FDIC Consumer News* offers the following suggestions:

Read and understand the fine print before agreeing to anything. Federal laws require credit and debit card issuers to disclose the fees and terms of their programs, including clubs.

But too many people don't review this information until they need a particular good or service, and by then it may be too late to take full advantage of the program. "Even if something is being offered for free, you still should understand the terms of the program before you sign up," says Joni Creamean, a Senior Consumer Affairs Specialist with the FDIC. She notes, for example, that an extra service may be available free for a year, but if you don't cancel after that, the cost of the program for the next year automatically could be charged to your account, and you may end up paying for a program you no longer want.

Think about whether you really need the service and, if you do, shop for the best deal. Example: If you travel a lot by car or airplane, you may benefit from programs that offer emergency roadside assistance or lost luggage

insurance. But first research whether you already get travel protection under a different program or if you can buy it for less elsewhere. Also, services that monitor your credit reports and alert you to potential fraud may be beneficial but other good options may cost less.

If you sign up for a program, make sure it continues to meet your needs. Keep copies of the application you sign and send in as well as any promotional literature and updates you receive. "This documentation may be crucial to your case if the program doesn't fulfill its disclosed purpose," Creamean explains. And, if you decide to cancel, be sure to follow the procedures specified by the company in its literature in order to avoid delays that can trigger membership or other costs. 🏠

A Reader's Guide to Credit Card Mailings (and the Fine Print)

Card solicitations and monthly statements don't have to read like mysteries. Here's how to understand the fees and rules... and avoid the pitfalls.

Card Solicitations

You're Pre-Approved: This doesn't mean you're guaranteed a card. It means that you have received a firm offer of credit based on criteria established by the company for what it wants in a customer. You must apply for the card and the company will conduct a full credit check. **Tip:** If you don't receive the card or the terms you were offered, ask the bank for the reasons.

APR (Annual Percentage Rate): The interest rate charged if you carry a balance on your card. **Tip:** If you usually carry a balance, shop around for a card with a low APR. If you pay off your balance in full every month, the APR is less important than a card's other costs or features. Also, find out if the interest rate is fixed or variable and whether different interest rates apply to different events (such as if you get a cash advance from a teller machine or pay your credit card bill late).

Introductory Rates: Also known as "teaser rates," these are very low interest rates offered to entice you to open a new account. But as explained in the fine print, the introductory rate may increase dramatically after six months or so. **Tip:** Understand the terms of the offer. That low introductory rate may only apply to balances you transfer to your card from other loans or cards you have and not to any new purchases.

Grace Period: The number of days before the card company starts charging you interest on purchases. **Tip:** If you plan to avoid interest charges by paying your balance in full most months, make sure your card's terms permit that. It's getting harder to find credit cards that give several weeks of interest-free purchases.

Some cards have no grace period, meaning you'd *always* pay interest from the date of purchase.

Balance Computation Method:

How the card company will determine the balance on which you may be charged interest. **Tip:** If you expect to carry a balance most months or if your card offers a short or no grace period, the balance calculation method could be a big factor in your finance charges. Perhaps the most common method is the "average daily balance" approach, where finance charges are calculated on the daily average for the billing period. Other calculation methods may be more costly, including one called the "two-cycle" system where, if you pay in full one month but only pay part of the bill the next month, you'll be charged interest for both months instead of just one.

Annual Fee: Yearly charge for use of the credit card. **Tip:** If you expect to pay your balance in full most months, look for a card with a full grace period and no annual fee. However, if you plan on carrying a balance or you're looking for club perks, then a card with an annual fee and low APR may be a better choice.

Other Fees: May include fees for late payments, charges above your credit limit, cash advances, balance transfers from another card, and certain purchases. **Tip:** Shop around for the features you want and for the lowest cost.

Rewards: Incentives for using the card, such as cash back or bonus points toward airline travel or the purchase of a car. **Tip:** Be aware of the rules and restrictions, including limits on how much you can earn or deadlines for taking advantage of a reward. Also, compare the likely value of the

Stopping Solicitations

Some people want to be on marketers' lists for new product offers, but others don't. If you want to reduce the number of offers for credit cards and other financial products, call toll-free 888-5-OPTOUT (888-567-8688) to remove your name from marketing lists provided to creditors and other companies.

bonuses with the potential costs of the card.

Card Statements

Transactions: Open your bill immediately and check your transactions. If there is a mistake, you can dispute the charge and withhold payment for that specific amount. **Tip:** To be protected by the Fair Credit Billing Act, you *must* send a letter to the creditor that is received within 60 days after the creditor sent you the statement with the inaccuracy. Your letter also must be sent to the address the creditor has specified for billing inquiries.

Periodic Interest Rate: If you carry a balance, check the periodic interest rate on the statement, to make sure what you are being charged is what was disclosed to you. **Tip:** Pay close attention. Notice of a change is usually provided in your monthly statements, so read the fine print.

Records: Retain your credit card statements and any significant inserts received with your statement. You never know when you might need to refer to them. **Tip:** Note the date a payment was mailed, the check number and the amount paid. See our article on the back page for guidance on how long to keep these records. 🏠

Fighting Fraud: Simple Ways to Protect Yourself

Federal laws and industry practices will cover all or most of your losses if a thief uses your credit card or debit card for unauthorized purchases or withdrawals, especially if you promptly alert your card issuer to any problem. But even if you're fully protected against loss, you should take some simple precautions.

Protect your credit and debit cards and card numbers, including any PINs (personal identification numbers). For example, never give your credit card or bank account information in response to an unsolicited phone call, no matter how nice or official the person may sound. Never write your PIN on your card or on a piece of paper in your wallet.

If you are not interested in credit card solicitations that arrive in the mail, "don't just throw them away—shred or tear them up first," says Joan Rinehart, an FDIC Senior Consumer Affairs Specialist. "Thieves often look for credit card solicitations in the trash and try to use them to get credit cards and make purchases in someone else's name."

Check your card statements as soon as they arrive and promptly report any suspicious transactions.

Finally, if your card is lost or stolen, immediately contact the fraud departments at the three major credit bureaus (Equifax at 800-525-6285, Experian at 888-397-3742, and TransUnion at 800-680-7289) so they can set up roadblocks if a thief tries to open or change accounts in your name. ■

Credit Cards and Debit Cards... At a Glance

	Credit Cards	Debit Cards
<i>Payments</i>	Buy now, pay later.	Buy now, pay now.
<i>Interest Charges</i>	Yes if you carry a balance or your card offers no "grace period."	No.
<i>Other Potential Benefits</i>	Freebies, such as cash rebates and bonus points good for travel deals. Some purchase protections.	Easier and faster than writing a check. Avoid debt problems. More cards now offering freebies. Some purchase protections.
<i>Other Potential Concerns</i>	Fees and penalties. Also, not all cards offer grace periods (time to repay without incurring interest). Over-spending can cause debt problems.	Fees on certain transactions. You may overdraw your account if you're lax about recording debit card transactions.

For More Information About Credit Cards and Debit Cards

The FDIC and the other federal banking regulators listed on Page 7 have publications, Web sites, staff and other resources that can help answer your questions about credit cards and debit cards. The FDIC's Web site includes a special page devoted to credit cards at www.fdic.gov/consumers/consumer/ccc/index.html.

The Federal Trade Commission works to prevent unfair business practices. For more information, including consumer brochures and procedures for filing a complaint against a nonbank lender, call toll-free 877-FTC-HELP—that's 877-382-4357—or go to www.ftc.gov.

Other consumer information from the federal government, including publications available from the Federal Citizen Information Center (call toll-free at 888-878-3256 or go to www.pueblo.gsa.gov) and the Web site FirstGov for Consumers (www.consumer.gov).

Your financial institution will have staff who can answer your questions. Call the local or toll-free number for the customer service department as listed in your phone book, on your monthly statement or on the back of your credit card or debit card. These institutions also may have useful Web sites:

Setting the Record Straight: Basic Facts about FDIC Insurance

We know that most bank customers have a pretty good idea about how FDIC deposit insurance protects them if their insured bank or savings association were to fail. But recently, we've received a surprising number of questions from consumers who seem to have some disturbing misperceptions about how FDIC insurance works. For example, we've heard from many people who mistakenly believe the FDIC takes years to send insurance checks after a bank failure. Others say they've heard that depositors really only get back 10 cents on the dollar if the bank fails. Martha Reed, the manager of the FDIC's toll-free consumer call center, adds, "We're even being asked if it's true that the FDIC has 99 years to pay depositors."

"The FDIC is proud of its long record of quick—and full—payment of insurance," says Kathleen Nagle, a supervisor with the agency's Division of Supervision and Consumer Protection. "We're concerned that misperceptions can lead to unnecessary worries for consumers." That's why *FDIC Consumer News* is taking this opportunity to set the record straight on some basic facts.

- **All deposits within the \$100,000 insurance limit are always fully protected.** If your insured bank or savings association were to fail, rest assured that every penny of your insured funds is safe. In fact, nearly all of the depositors at FDIC-insured banks are *fully protected*, because either their funds total less than \$100,000 or they qualify for additional coverage under the insurance rules. "If your accounts are fully insured, you can relax, because your money is safe," says Hugh Eagleton, a Senior Consumer Affairs Specialist with the FDIC.

- **Most depositors have access to their insured funds within one business day after a bank failure.** In most cases, the FDIC will arrange for another institution to acquire a failed bank and its insured deposits. When that happens, the failed bank's depositors will become customers of the healthy bank, and they will have prompt access to their insured funds by check, automated teller machine, debit card and other services. With certain types of deposits—primarily 401(k) and other employee benefit plans, living trust accounts, and bank CDs (certificates of deposit) placed through brokers—the FDIC may take longer to complete the insurance determination. "The additional time is needed because the FDIC must ask the depositor for more information before we can accurately determine the depositor's insurance coverage," explains Martin Becker, a senior specialist with the FDIC division that handles insurance claims.

- **Even in the rare cases when the FDIC cannot find a buyer for a failed institution, payments to insured depositors begin within a few days.** In fact, the goal of the FDIC is to begin mailing checks representing insured deposits within one business day. As noted above, payments for certain types of accounts may take longer.

- **The only depositors who may lose money or may wait a long time for an FDIC payment are those who have uninsured funds... but they still get all of their insured money promptly.** The overwhelming majority of depositors at failed institutions are within the insurance limit and get quick access to all their money, as described previously. But there are situations in which large-dollar depositors knowingly

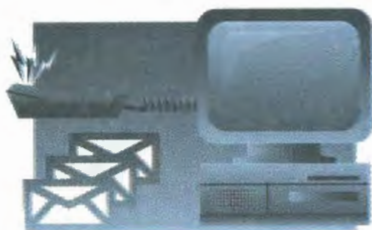
or unknowingly exceed the insurance limit, and they may lose some or all of their uninsured funds if their institution fails.

The exact amount a depositor would get back on uninsured funds depends on such factors as the cost of the bank failure and how much the FDIC recovers by selling the bank's assets. The average FDIC payment to uninsured depositors at institutions that failed during the 10 years from 1992 to 2001 was about 65 cents of the uninsured dollar. But it's important to understand that each bank failure is unique and the amount of uninsured funds that would be recovered, if any, may differ. And in rare circumstances, all uninsured funds may be reimbursed.

And how long is the wait before uninsured depositors know how much, if anything, they will receive? Typically about two or three years, because that's usually how long it takes for the FDIC to sell an institution's assets and determine how much money, if any, is available to pay to uninsured depositors. When it's possible, the FDIC makes periodic payments to uninsured depositors as it sells assets and distributes the proceeds. Again, because each bank failure is unique, the timing of payments, if any, may differ.

For more information about FDIC insurance, including how to make sure all of your deposits are fully protected, start at our Web site at www.fdic.gov or call or write the FDIC as listed on the next page. Information about payments to uninsured depositors for each failure dating back to October 1, 2000, also is posted on the Web at www.fdic.gov/bank/individual/failed/dividends.html. ■

For More Information



The **Federal Deposit Insurance Corporation** insures deposits at banks and savings associations and supervises state-chartered banks that are not members of the Federal Reserve System. The FDIC's services include a toll-free consumer assistance line, answers to written questions, and informational material. Toll-free phone: (877) ASK-FDIC or (877) 275-3342. The phone line is staffed Monday through Friday, 8:00 a.m. to 8:00 p.m., Eastern Time. Recorded information is available 24 hours a day. The toll-free TTY number for hearing-impaired consumers is (800) 925-4618. Home Page: www.fdic.gov. Mail: 550 17th Street, NW, Washington, DC 20429.

For questions about deposit insurance coverage: Contact the FDIC Division of Supervision and Consumer Protection at the address and phone numbers above, by fax to (202) 942-3098, or by e-mail using the Customer Assistance Form on the Internet at www2.fdic.gov/starsmail/index.html. The National Credit Union Administration (listed below) insures deposits at federally insured credit unions.

For other questions, including those about consumer protection laws, or complaints involving a specific institution: First attempt to resolve the matter with the institution. If you still need assistance, write to the institution's primary regulator listed on this page. Although the FDIC insures nearly all banks and savings associations in the United States, the FDIC may not be the primary regulator of a particular institution. Other regulators are listed below. To submit a complaint about an FDIC-supervised institution, contact the FDIC Division of Supervision and Consumer Protection as listed above. For inquiries involving problems or complaints related to the FDIC, contact the FDIC Office of the Ombudsman at the mailing address and phone numbers listed above, by fax to (202) 942-3040, or by e-mail to ombudsman@fdic.gov.

The **Federal Reserve System** supervises state-chartered banks that are members of the Federal Reserve System. Phone: (202) 452-3693. Fax: (202) 728-5850. Home Page: www.federalreserve.gov. Mail: Division of Consumer and Community Affairs, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

The **Office of the Comptroller of the Currency** charters and supervises national banks. (The word "National" appears in the name of a national bank, or the initials "N. A." follow its name.) Phone: (800) 613-6743. Fax: (713) 336-4301. Home Page: www.occ.treas.gov. E-mail: consumer.assistance@occ.treas.gov. Mail: Customer Assistance Group, 1301 McKinney Street, Suite 3710, Houston, TX 77010.

The **Office of Thrift Supervision** supervises federally and state-chartered savings associations plus federally chartered savings banks. (The names generally identify them as savings and loan associations, savings associations or savings banks. Federally chartered savings associations have the word "Federal" or the initials "FSB" or "FA" in their names.) Phone: (800) 842-6929 or (202) 906-6237. Home Page: www.ots.treas.gov. E-mail: consumer.complaint@ots.treas.gov. Mail: Consumer Affairs Office, 1700 G Street, NW, Washington, DC 20552.

The **National Credit Union Administration** charters and supervises federal credit unions, and insures deposits at federal credit unions and many state credit unions. Phone: (703) 518-6330. Fax: (703) 518-6409. Home Page: www.ncua.gov. E-mail: pacamail@ncua.gov. Mail: Office of Public and Congressional Affairs, 1775 Duke Street, Alexandria, VA 22314.

Your state government also may offer assistance and publish useful information. Contact your state's Attorney General's office, consumer protection office or financial institution regulatory agency as listed in your phone book or other directories, or visit your state's official Web site.

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On the Internet

Consumer information from the FDIC is available at www.fdic.gov.

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Your Bank Records: What to Keep, What to Toss... and When

Bank statements, credit card bills, canceled checks, ATM receipts... You know these documents can come in handy. But you may be saving some bank records too long and others not long enough.

FDIC Consumer News can't tell you when it's safe to throw away certain financial documents—that's for you to decide, perhaps after talking with your accountant or attorney. But we *can* tell you that it's important to develop a plan for managing all this paperwork. Maybe the most compelling reason: Federal tax rules require you to have receipts and other records that support items on a return for as long as the IRS can assess you additional tax. "Under most circumstances," says Rick Cywinski, an FDIC tax policy manager, "the IRS can assess a tax up to three years from the date you filed your tax return, but it's six years if the IRS suspects you underreported income by more than 25 percent," something he says can happen to even the most honest person if you make a serious blunder.

We offer the following record retention system as a reasonable approach for many people:

Canceled checks: Those with no long-term significance for tax or other purposes probably can be destroyed after about a year. But canceled checks that support your tax returns, such as charitable contributions or tax payments, probably should be held for at least seven years—long enough to cover the six-year tax assessment period that starts when you file your tax return for the year the check was written. And, keep indefinitely (for other tax reasons) any canceled checks and related receipts or documents for a home purchase or sale, renovations or other improvements to a property you own, and non-deductible contributions to an Individual Retirement Account.

Deposit, ATM, credit card and debit card receipts: Save them until the transaction appears on your statement and you've verified that the information is accurate.

Credit card and bank account statements: Save those with no tax or other long-term significance for about a year, but save the rest for up to seven years. If you get a detailed annual statement, keep that and discard the corresponding monthly statements. Be sure to mark closed deposit accounts as such, so your heirs don't waste time wondering what happened to the money.

Credit card contracts and other loan agreements: Keep for as long as the account is active, in case you have a dispute with your lender over the terms of your contract.

Documentation of your purchase or sale of stocks, bonds and other investments: Retain these while you own the investment and then seven years after that.

Finally, before tossing away any document that contains a Social Security number, bank account number or other personal information (especially financial information), shred it to avoid becoming a victim of identity theft. 🏠

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