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MAXED OUT: Write-Up on the Credit Card Industry

Credit Cards. We see them in online banner ads... We get copious offers for them in the mail... Some use them solely for the rewards, while others rely on them to pay for everyday items without having the cash on hand in order to do so. It is hard to think how a little piece of plastic can ruin financial lives, and because of this, the credit card industry has thrived on hidden fees and extreme interest rates.

A line of credit is essentially a loan granted to individuals wanting to pay for goods or services without prepaying (e.g. using a "debit card") first. A line of credit is how much trust the bank issuing the credit card (such as "Barclay's Bank Delaware", "Chase", "Capital One", etc.) has in the consumer. The credit limit is the amount that can be outstanding at any given time.

You may wonder when you are applying for a credit card why the issuing bank needs your social security number in order to approve the application. This is because the moment you hit submit, your confidential information is submitted (securely of course) and crosschecked with records of your previous lending activity. This history is stored as a number from 300 to 850 (with the lowest numbers being the riskiest consumers). This is referred to in the credit card industry as "FICO" Score, named after the company that developed the algorithm, the Fair Issac Corporation.

There are different terms for the different user habits of credit card use. "Revolving" customers carry a balance after the (usually 30 day) grace period, accruing interest charges, while "deadbeat" customers pay their amount owed in full, so interest rates do not apply to them. Because of this, the credit card industry loves revolvers as that is how they make all their money with interest rates and over-the-limit fees. When choosing a credit card, one must consider whether they will be a "deadbeat" or a "revolver" as some cards are not feasible for both

scenarios. For example, it wouldn't be practical for a deadbeat customer to spend a \$99 annual fee for a low interest rate.

Credit cards are truly risky; one must be careful if they decide to acquire them, as high interest rates coupled with numerous fees (such as late fees, currency conversion fees, over credit limit fees) can turn that \$4,000 vacation into a \$20,000 vacation.

With all the negativity towards credit cards, it is important to note that if used responsibly they can be beneficial. Some credit cards offer cash back or airline miles for certain amount of dollars spent. This means, that if you are a “responsible deadbeat” you can benefit by earning rewards for purchases that you are already paying for. It is important not to be enticed over to reward cards for the “Balance Transfer Promotion” that offer extreme awards for transferring up to \$10,000 in credit card debt. While some people may benefit from a lower introductory APR for the new balance, the fees to transfer a balance normally outweigh the benefits.

Use your discretion when using credit cards. Don't impulse buy, and stick to a budget. These are just some ways to ensure financial stability when using credit.