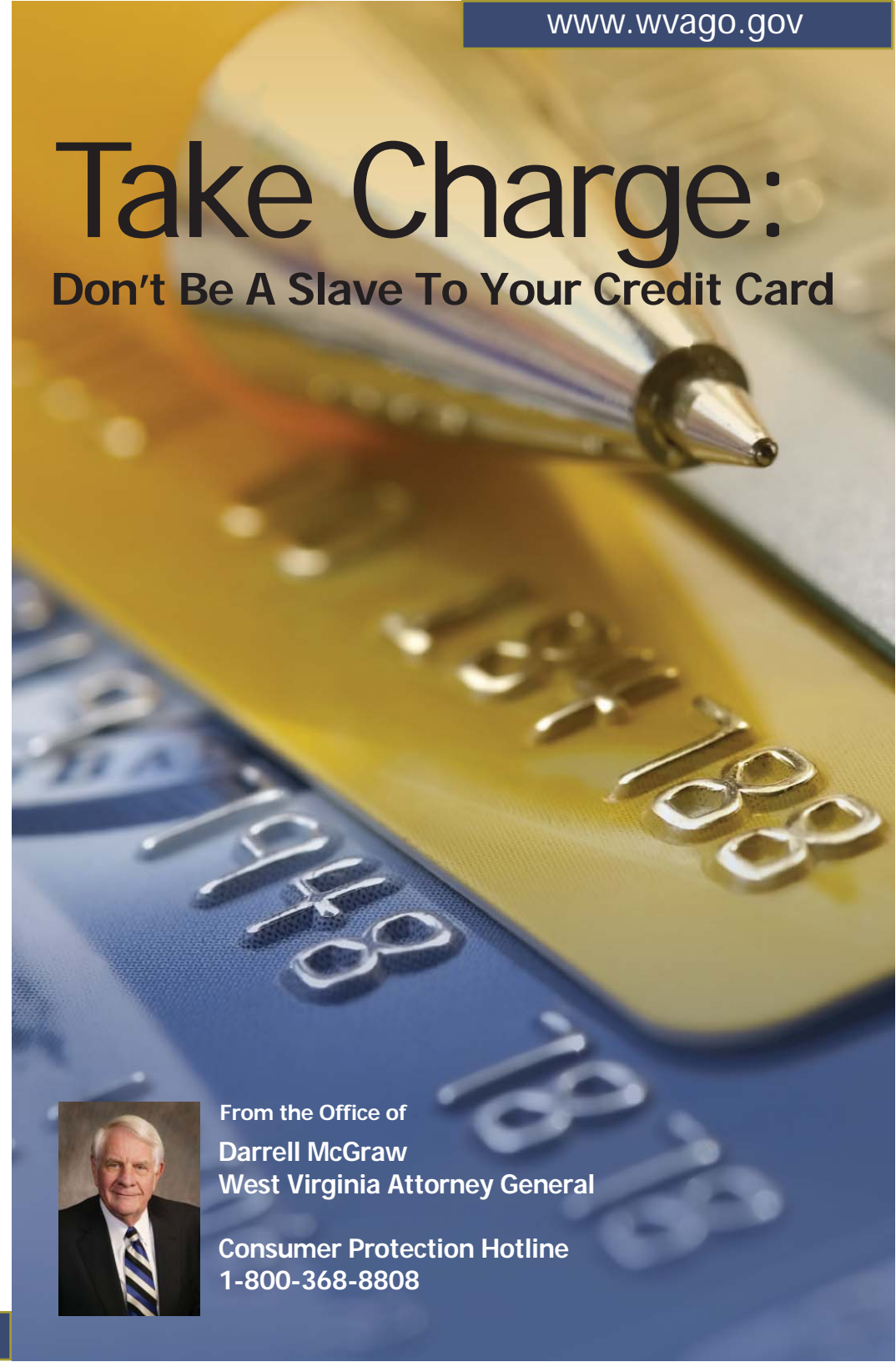
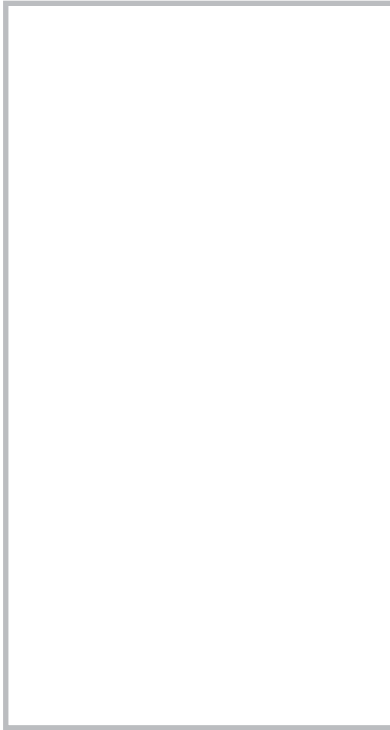


Take Charge:

Don't Be A Slave To Your Credit Card



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From the Office of
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Message from the Attorney General



Dear Friend,

The American people are deeper in debt than ever before, largely because of an explosion in credit availability. One might say our nation is in a consumer debt crisis. There is no doubt that the predatory practices of some unscrupulous credit card companies have helped to put us in this predicament.

However, simply "tearing up" our credit cards out of fear, misunderstanding, or to escape today's reality is not the solution. Credit cards are now so closely intertwined with the consumer marketplace that we can hardly live without them. Indeed, it is difficult to purchase a plane ticket, reserve a hotel room, or even rent a car without one. The days when our grandparents drove to the county seat each month to pay their bills in person with cash are gone forever. In fact, those who still try to do so are penalized when they apply for a loan because they have no credit history.

So the solution lies in learning how credit cards work, how to make them work for you, and how to avoid the pitfalls that can result from credit card abuse. It is my hope that this booklet will serve as a roadmap to help you navigate the world of credit cards so that they may serve your financial needs and conveniences. In short, it is time for you to "Take Charge" and not be a slave to your credit card.

Sincerely,

Darrell McGraw
West Virginia Attorney General

How We Got In Trouble With Credit Cards



Consumers were lured by the credit card industry into believing that they could buy everything they wanted. Even if they did not have the money to pay for it then.

Before long, customers took on more debt than they could afford and they were maxed out.

The trap set by the credit card companies was a deliberate marketing strategy that was based upon the belief that people would incur more debt as long as their monthly disposable income did not change.

Thus, the 2% minimum payment trap was hatched. Adding fuel to this fire was the new bankruptcy law causing, in many cases, monthly credit card bills to double.

Credit Card Pros

If you learn to master your credit card, you may receive many benefits.

1. **Safety and Convenience** – If you have a credit card, you do not have to carry much cash or any cash at all. If you lose your cash while traveling, your money is 100% gone forever. But if your credit card is lost or stolen, you can call your credit card company and ask that a new card be issued. If a thief tries to make charges on your card, your maximum liability is \$50 under federal law. Also, your credit cards may be used anywhere in the world.
2. **You Can Hardly Live Without Them** – Nowadays it is difficult to purchase a plane ticket, reserve a hotel room, or even rent a car without a credit card. Some companies have established a “no cash” policy. Credit cards are not only safe and convenient, but it is hard to get by without one.
3. **You Can Borrow Money for Free** – Most credit cards have a “grace period” that allows you to avoid interest if you pay the balance in full by the due date. If you only purchase what you can afford to pay for, you may use credit cards as a convenient billing service and never pay a dime of interest.
4. **Credit Cards Can Help You Manage Your Money** – When you use credit cards, you receive a monthly billing statement that provides a complete record of the date, amount, and seller for all of your purchases. The statements can help you budget and track your expenses.
5. **Credit Card Debt Can Create a Positive Credit History** – The timely payment of credit card debt creates a positive credit history that helps you qualify for credit when needed for important things, such as home or car loans. It also helps you qualify for better finance terms on the card you have, as well as special introductory rates, such as zero percent interest.
6. **You Can Get Free Stuff** – Competition in the credit card industry has prompted many companies to offer a wide range of free merchandise and other incentives to get you to sign up as a customer. These freebies can include cash rebates on purchases, future purchase discounts, frequent-flier bonus mileage, two-for-one flights, and free gifts.

Your Gold Card Has A Silver Lining

Credit Card Cons



Sometimes it is best not to pay your credit card bill in full. It is a little known secret that federal law provides special protections when you make purchases with your credit card. For example, if you purchase a household appliance on your credit card and it turns out to be defective, you can dispute the charge with the credit card company if the merchant fails or refuses to remedy your complaint.

However, you can only dispute the charge if you still owe a balance. If you have already paid off the charge in question, you lose your dispute rights. Credit card charges must be disputed in writing (a call to customer service will not do it) and you must first make a good faith effort to resolve your complaint with the merchant.

Once you have filed your complaint, the credit card company is required to place your charge “in dispute” **and you are not obligated to pay the disputed amount** (you must still pay your other charges) until your credit card company completes an investigation. If your company finds that your complaint has merit, you will experience true consumer empowerment – the charge will be removed from your account and the purchase will be “charged back” to the merchant.

The perils of credit cards are more widely known than the benefits and are frequently discovered through painful learning experiences.

1. **It Is Too Easy To Spend Money That You Do Not Have** – The credit card industry is known for showering us with new credit card offers each day and doing everything possible to encourage impulse spending. Credit cards seem like free money and make it easy for us to spend money that we don't have. The convenient billing service and interest-free money that credit cards promise can evolve into a nightmare of escalating fees.
2. **Your Credit and Reputation Can Be Ruined** – Even if you had excellent credit before, your credit rating can be ruined if you default on your credit accounts. Bad credit can even result in loss of employment opportunities because many prospective employers will ask to check your credit before hiring you.
3. **Credit Card Companies Target Young Adults** – Like the tobacco companies, the credit card industry aggressively markets its product to the young, especially college students, in order to shape the desired behavior – total reliance on credit cards at an early age. Credit card use, like tobacco use, can be equally addictive. One can cause death, while the other can result in financial ruin. Studies show two-thirds of college students have at least one credit card. The credit card marketers know that parents will bail their children out (i.e., pay the bill) because they don't want their kids' credit to be ruined early in their career.
4. **Mandatory Arbitration Clauses** – Buried in the fine print of almost every credit cardholder agreement is a “mandatory arbitration clause.” These clauses require you to give up your right to sue the credit card company in a court of law if a dispute arises. Instead, you must agree to let all disputes be resolved through a costly private legal system that is biased in favor of the company. These clauses also prohibit you from participating in class action suits.

Watch Out For “Land Mines”

Even as you try to reap the benefits of credit cards while avoiding the pitfalls that you can see, watch out for land mines that may cause your interest rates to explode. Here are just a few.

1. **Universal Default Clause** – Almost all major cardholder agreements contain a little known clause called a “universal default clause” that triggers an explosion of your interest rate if you default or are late on a debt owed to someone else. For example, if you are late on your electric bill or car payment, your credit card company may jack up your interest rate even if you have never been late on your credit card payments. Likewise, almost all major credit cardholder agreements contain a clause that states the company can change the terms and conditions of the cardholder agreement any time for any reason.

2. **Subprime Credit Cards** – If you get in trouble and ruin your credit, you will likely still qualify for a subprime credit card. These cards are geared towards consumers with no credit or bad credit histories and are even more fee driven than mainstream or “prime” credit cards marketed towards persons with good credit. Consumers who use subprime credit cards will find that their line of credit is very low, often \$500 or less. You may also be charged a stiff annual membership fee of \$150, monthly fees, and, because of the deceptively low credit limits, you can be charged over the limit fees. Thus, if you get in trouble with credit cards but find you must still have one, you will pay more for less.

3. **Bogus Open End Credit** – Beginning in the 1990s, many national finance companies discovered that they could make expensive big-ticket items seem affordable by placing them on revolving charge “private label” credit cards. At first, products like satellite dish systems, water treatment systems, or mechanical beds were marketed door-to-door to consumers who mainly opened an account because of the deceptively low monthly payment amount that would be owed. Consumers eventually discovered that the purchase was financed on a high-interest credit card that would never be paid off unless they made much higher monthly payments. This type of financing, characterized by some as “bogus open end credit,” has largely disappeared from door-to-door sales, but is still used to finance items such as ATVs or motorcycles when purchased at a dealership.

4. **Zero Percent Financing On Purchases, Balance Transfers, Same As Cash** – The credit card industry markets many special promotional offers, such as zero percent financing on purchases and balance transfers for up to one year. The offers are real, but the path is full of land mines that can lead to financial disaster. If you make one late payment or go over the limit once on the new account, the zero percent financing can be replaced with a 20% plus interest rate that is applied to the balance you transferred, as well as any purchases you made on the new credit card. “Same as cash” promotional offers are set up much the same way.

5. **Cash Advances and Credit Card Checks** – The credit card industry pushes these products because interest on cash advances and credit card checks usually runs from the day of the purchase. With these products, there is no grace period during which consumers may pay the bill and avoid all interest charges, thereby eliminating one of the pros of credit cards, interest free money. Also, you have no federal rights to dispute charges on these purchases.

6. **International Travel** – Although your credit card may be used all over the world, credit card companies have different rules for purchases made in foreign countries. The right to dispute charges may not apply in foreign countries. So, do not use your credit card or cash to buy time shares or other products of dubious value from fast-talking salespersons while traveling out of the country.

Attorney General's "Watch-Out" List For Wise Credit Card Use



1. Do not use credit cards to buy things that you cannot afford; credit cards are not a substitute for cash.

2. When shopping for a card always look for a deal that offers you a "grace period" so you can avoid interest by paying the full balance by the due date.

3. Always look for the credit card that offers the lowest interest rate and the least fees. Cards with annual fees should be avoided at all costs.

4. Never use credit cards for cash advances. Cash advances accrue interest from the date the cash is provided even if your card has a grace period.

5. Never use credit card checks or debit cards to purchase big-ticket consumer products or services because you have no rights to dispute the charges if the goods or services are not as promised.

6. Always try to pay the balance in full before the due date to avoid any interest charges. However, do not pay the portion of the balance that represents purchases of major consumer goods or services until you are sure that the goods or services are satisfactory. Once the balance for these purchases is paid, you lose your right to dispute the charges under federal law.

7. Do not buy credit card protection plans or other similar products because you are already protected under federal law.

8. When using credit cards, BEWARE OF LAND MINES!

Helpful Resources

Where to File a Complaint or Obtain More Information about Credit Cards

**Office of the West Virginia Attorney General
Consumer Protection Division**
1-800-368-8808 or (304) 558-8986
consumer@wvago.gov
www.wvago.gov

Federal Trade Commission
1-877-382-4357
www.ftc.gov

Office of the Comptroller of the Currency
(If the credit card company is a national bank)
1-800-613-6743
www.occ.treas.gov

Federal Deposit Insurance Corporation
(If the credit card company is a state-chartered bank)
1-877-275-3343
www.fdic.gov

Center For Responsible Lending
(919) 313-8500
www.responsiblelending.org

National Consumer Law Center
(617) 542-8010
consumerlaw@nclc.org
www.nclc.org

Consumer Federation of America
(202) 387-6121
cfa@consumerfed.org
www.consumerfed.org

For Legal Assistance

Mountain State Justice
(For low income persons)
Charleston, WV
1-800-319-7132
(304) 344-3144

West Virginia Bar Lawyer Referral Service
(304) 558-7991

Legal Aid of West Virginia
(For low income persons)
1-800-642-8279

National Association of Consumer Advocates
(202) 452-1989
www.naca.net