Credit Card Solicitations

Before applying for a credit card it is wise to shop around for the card that best suits your needs. Interest rates, annual fees and grace periods are some of the features that vary from card to card. Thankfully, it is easier than ever to compare different credit card offers and apply for a credit card. Because credit card companies are fighting for your business, the average household receives about thirty credit card solicitations every year. There are also many websites that list hundreds of available credit cards, such as www.bankrate.com, www.cardweb.com and www.federalreserve.gov/pubs/shop/.

What credit card is best for you will depend on how you intend to use the card. If you plan to pay the balance off each month, you generally will not have to pay any interest. Therefore, the interest rate will not be as important to you as the annual fee and length of the time before your due date. On the other hand, if you think you will carry a balance from month to month, the interest rate and how the card issuer computes the finance charge will be important factors for you to consider.

Why do I receive credit card solicitations?

You are receiving solicitations typically because your name is appearing on lists that the credit card companies purchase from credit reporting agencies. These lists contain the names of people that qualify for a credit card based on criteria pre-established by the credit card company.

Can I reduce the number of credit card solicitations I receive?

Yes, you have the right to have your name removed from the lists that credit reporting agencies sell to credit card companies. The right to remove your name from these lists is called the "opt-out" right. Because the credit card companies usually get names of potential customers from these lists, removing your name will greatly reduce the number of solicitations you will receive. To remove your name from the lists you simply need to phone the toll-free number 1-888-567-8688 and exercise your opt-out right. The toll-free number is operated by the three major credit reporting agencies, Trans Union, Equifax and Experian. When calling the number you will need to provide your full name, address, telephone number and social security number. You will have the option to opt-out for two years or permanently. You can have your name put back on the lists at any time by calling the same number.

What is a "pre-approved" credit card solicitation?

A pre-approved solicitation is one where the person that received it has been pre-qualified for credit because the person has met certain pre-established standards set by the credit card company. Because a person's financial situation can change after the solicitation is mailed, the credit card company will re-verify the person's credit worthiness after they receive the completed application back from the consumer. After re-verifying the applicant's credit worthiness, the credit card company will decide to either grant or deny the credit.

What is a secured credit card?

A secured credit card is a credit card that requires the cardholder to deposit funds with the credit card company. The deposited funds act like a security deposit that will be used to pay off the credit card debt if the customer defaults. The required deposit usually equals the credit limit on the card and the company may pay interest on the deposit. Secured credit cards are usually offered to people with poor credit that do not qualify for a "typical" or unsecured credit card. Interest rates charged on secured credit cards are usually higher than the rates on unsecured credit cards.

What is the difference between a fixed-rate and variable-rate credit card?

A fixed-rate credit card is a card that assesses an interest rate that is determined when the account is opened and usually does not change as long as you have the credit card. It is not common but occasionally a credit card company may want to change the interest rate on a fixed-rate account. The company may increase the rate if they notify you in writing before the change goes into effect.

A variable-rate credit card is where the interest rate is tied to, and moves with, an economic indicator or index. The issuer must disclose that the rate may change and how the rate is determined, the index used and what additional amount, or margin, is added to the index to determine the rate. The interest rate can move regularly and without any prior notification.

On either a fixed-rate or variable-rate account, a card issuer may contract for the ability to increase the interest rate without notification if you fail to comply with certain terms of the credit card agreement, such as not making a payment on time.

Fraudulent Solicitations

Beware of advertisements and solicitations that "guarantee" you a credit card or ask you to pay a fee before you get the credit card. These types of solicitations could be scams. No one can guarantee you a regular credit card without first doing a credit check. Credit cards are issued by financial institutions such as banks and credit unions. You should deal with them directly when applying for a credit card, instead of through a third party. Legitimate credit card issuers seldom ask for a payment before the credit card is actually provided to the applicant. When legitimate credit card companies assess an annual membership fee that fee usually does not need to be paid up-front, but rather is assessed on the consumer's first monthly billing statement.

Also, beware of credit advertisements and solicitations requesting you to call a "900" or "976" telephone number. Generally, the solicitation does not disclose the cost of the call and most likely the offer is not legitimate. You will end up paying for the call and will likely never receive a credit card.

What information is required on credit card solicitations?

The Federal Truth in Lending Act requires credit card issuers to disclose specific terms using similar terminology and in a similar format. This information is required so consumers can make informed decisions about their credit practices. The following information must be made available on credit card solicitations and applications:

ANNUAL PERCENTAGE RATE (APR) – is the cost of credit expressed as a yearly rate. In Wisconsin there is no limit on the amount of the APR, however, most credit cards have APR's between 10% and 21%. Federal law requires the APR for purchases to be printed in 18-point type near any introductory rate on solicitations and application forms. The APR for cash advances and balance transfers also needs to be disclosed but does not have to be printed in 18-point type.

The card issuer also must disclose the periodic rate, which is the interest rate described in relation to a specific amount of time, such as a day or month. For example, the monthly periodic rate is the cost of credit per month. The monthly periodic rate is multiplied by your account balance to calculate the finance charge for the monthly billing cycle.

BALANCE COMPUTATION METHOD FOR FINANCE CHARGE CALCULATION – determines the balance the credit card issuer will use to calculate your periodic finance charge. The balance-computation methods are:

Average Daily Balance - is the most common calculation method. This method calculates a balance for each day in the billing cycle by starting with the beginning balance for the day and then subtracting any payments or credits made that day and adding in any purchases or cash advances made that day. The balance for each day in the billing cycle is then added together. The total is then divided by the number of days in the billing period to get the "average daily balance."

Adjusted Balance - is usually the most advantageous method for cardholders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included. This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.

Previous Balance - is the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Two-cycle Balance - is a method that makes use of your last two month's account activity. Read your agreement to find out if your issuer uses this approach and, if so, what specific two-cycle method is used.

MINIMUM FINANCE CHARGE – is assessed in place of the "normal" finance charge if the normal finance charge is less than the minimum finance charge. The normal finance charge is calculated by applying the interest rate to the outstanding balance. The minimum finance charge is a flat amount, which is usually one dollar or less.

GRACE PERIOD – is a period during which you can avoid a finance charge by paying your balance in full. There is no grace period on new purchases if you carry a balance from month to month. Not all credit cards have a grace period, however, if the card has a grace period, the issuer must mail your bill at least 14 days before the due date.

Occasionally, a credit card company and merchant may offer so-called "Interest-Free Financing," which is essentially an extended grace period, normally ranging from 90 days to 2 years. However, if you do not pay off the purchase before the end of the interest-free financing period, you will be responsible for the finance charges from the date of the purchase. You may be required to make payments during an interest-free financing period. If payments are required, the agreement may state that the card issuer can hold you responsible for all past and future finance charges if you are late with a payment or do not make the required minimum monthly payment.

ISSUANCE OR AVAILABILITY FEES – may be charged for participating in the credit card plan, which may include approval, opening or annual membership fees. Annual membership fees are common and typically range from $15 to $50 and are billed directly to the customer's monthly statement.

TRANSACTION FEES – are assessed for certain types of transactions, such as cash advances and balance transfers.

> Cash Advance Fee – is charged when the credit card is used to obtain cash. There is no grace period for cash advances, therefore, interest begins accruing from the date of the advance. In most cases, both finance charges and transaction fees are assessed on cash advances.
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> Balance Transfer Fee – is charged for transferring an outstanding balance from one card to another. A fee to terminate the old account may also be charged by the card issuer that you transferred the balance from. The fee may be a flat sum or a percentage of the transfer.

OTHER CHARGES – are the different types of fees the card issuer may assess, such as application fees, late fees or overlimit fees.

> Application Fee – is charged for processing the application. In most cases, the fee is charged to the customer's first monthly statement as a cash advance.
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> Late Fee – is assessed when the minimum payment is not received by the payment due date. The credit card issuer can also assess a late fee if a payment less than the required minimum payment is received before the payment due date.
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> Overlimit Fee – is assessed whenever an account balance exceeds its credit limit during the billing cycle. This could be caused by a late fee or finance charge as well as a purchase by the customer.

TEASER OR DISCOUNTED INTEREST RATES – are low introductory interest rates that last for a short period of time and may only apply to certain types of transactions, such as new purchases or balance transfers. If the credit card issuer offers low introductory interest rates, the issuer must disclose the APR that would otherwise apply to the account. For a fixed-rate account, the issuer must disclose the rate that will apply after the introductory period expires. For a variable-rate account, the card issuer must disclose a rate based on the index or formula applicable to the account. After the introductory period expires, the credit card issuer increases the interest rate and the entire outstanding balance may be subject to the higher rate.

Sample Credit Card Disclosure Table

	Visa Platinum
ANNUAL PERCENTAGE RATE for purchases*	A fixed rate of 8.9% (0.02438% daily periodic rate).
Other APRs*	Balance transfer APR: a fixed rate of 8.9% (0.02438% daily periodic rate). Cash advance APR: a fixed rate of 8.9% (0.02438% daily periodic rate). Penalty APR: Your rate may increase to 19.8% (0.05425% daily periodic rate) or 25.9% (0.07096% daily periodic rate) based on the conditions specified below. *See explanation below.
Grace period for repayment of the balance for purchases.	You will have a minimum of 25 days without a finance charge on new purchases if the total New Balance is paid in full each month by the payment due date on your periodic billing statement.
Method of computing the balance used in calculating finance charges for purchases.	Average daily balance (including new purchases).
Membership Fees	Annual Membership fee: none.
Minimum finance charge	For each billing period that your account is subject to a finance charge, a minimum total FINANCE CHARGE of $0.50 will be imposed.
Miscellaneous Fees	Cash advance fee: 3% of amount of the cash advance, but not less than $5. Balance transfer fee: none. Late payment fee: $29. Over-the-credit-limit fee $29.

Returned check fee: $29

* If your account is five or more days past due twice within any six-month period, all rates will change effective with the beginning of the second billing period in which you were past due. If we do not receive your minimum monthly payment as calculated by the terms of your account for two consecutive billing periods, all rates will change effective within two billing periods of the delinquency. In either case, the new rate will depend on your purchase APR at the time of this change. If your purchase APR is less than or equal to 10.9%, all rates will change to a 19.8% ANNUAL PERCENTAGE RATE (0.05425% daily periodic rate). If your purchase APR is greater than 10.9%, all rates will change to a 25.9% ANNUAL PERCENTAGE RATE (0.07096% daily periodic rate). Although rates are not subject to change during the introductory period for purchases, we will consider one occurrence of being past due during the introductory period toward the above criteria.