

How to Choose And Use Your Credit Cards Wisely!

**A Special Report
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How to Choose And Use Your Credit Cards Wisely!

Chances are you've received offers in the mail asking if you'd like to open credit card accounts. Frequently, these offers say you have been "pre-approved" for the card, with a line of credit already set aside for your use. And, they usually urge you to accept quickly, "before the offer expires."

Before accepting a credit card offer, you need to understand the card's credit terms and compare costs of similar cards to get the features and terms you want.

Choosing a Credit Card

Credit card offers may seem attractive, but remember a credit card is a form of borrowing that usually involves a "finance charge" – a charge for the convenience of borrowing – and often other charges as well.

Understanding Credit Card Terms

Before choosing a credit card, learn which credit terms and conditions apply. Each affects the overall cost of the credit you will be using.

Under the Fair Credit and Charge Card Disclosure Act, you can compare terms and fees before you agree to open a credit card or charge card (no interest) account.

Be sure to consider and compare the following terms that direct-mail applications and pre-approved solicitations must reveal.

Annual Percentage Rate

The "annual percentage rate," or APR, is disclosed to you when you apply for a card, again when you open the account, and it's also noted on each bill you receive. It is a measure of the cost of credit, expressed as a yearly rate.

The card issuer also must disclose the "periodic rate" – that is, the rate the card issuer applies to your outstanding account balance to figure the finance charge for each billing period.

Some credit card plans allow the card issuer to change the annual percentage rate on your account when interest rates or other economic indicators (called indexes) change. Because the rate change is linked to the performance of the index, which may rise or fall, these plans are commonly called "variable rate" plans.

Rate changes raise or lower the amount of the finance charge you pay on your account. If the credit card you are considering has a variable rate feature, the card issuer must tell you that the rate may vary and how the rate is determined, including which index is used and what additional amount (the margin”) is added to the index to determine your new rate. You also must be told how much and how often your rate may change.

Free Period

A free period – also called a “grace period” – allows you to avoid the finance charge by paying your current balance in full before the “due date” shown on your statement. Knowing whether a credit card plan gives you a free period is especially important if you plan to pay your account in full each month.

If there’s no free period, the card issuer will impose a finance charge from the date you use your credit card or from the date each credit card transaction is posted to your account.

If your credit card plan allows a free period, the card issuer must mail your bill at least 14 days before your payment is due. This is to make sure you have enough time to make your payment by the due date.

Annual Fees

Most credit card issuers charge annual membership or other participation fees. These fees range from \$25 to \$50 for most cards, and from \$75 on up for premium “gold” or “platinum” cards.

Transaction Fees and Other Charges

A credit card also may involve other types of costs. For example, some card issuers charge a fee when you use the card to obtain a cash advance, when you fail to make a payment on time, or when you go over your credit limit. Some charge a flat monthly fee whether or not you use the card.

Balance Computation Method for the Finance Charge

If your plan has no free period, or if you expect to pay for purchases over time, it is important to know how the card issuer will calculate your finance charge. This charge will vary depending upon the method the card issuer uses to figure your balance.

The method used can make a difference, sometimes a big difference, in how much finance charge you will pay – even when the APR is identical to that charged by another card issuer and the pattern of purchases and payments is the same.

Average Daily Balance (including or excluding new purchases)

The average daily balance method gives you credit for your payment from the day the card issuer receives it. To compute the balance due, the card issuer totals the beginning balance for each day in the billing period and deducts any payments credited to your account that day.

New purchases may or may not be added to the balance, depending on the plan, but cash advances typically are added. The resulting daily balances are added up for the billing cycle and the total is then divided by the number of days in the billing period to arrive at the “average daily balance.” This is the most common method used by credit card issuers.

Adjusted Balance

This balance is calculated by subtracting the payments you made and any credits you received during the present billing period from the balance you owed at the end of the previous billing period.

New purchases that you made during the billing period are not included. Under the adjusted balance method, you have until the end of the billing cycle to pay part of your balance and you avoid the interest charges on that portion.

Some creditors exclude prior, unpaid finance charges from the previous balance. The adjusted balance method usually is the most advantageous to card users.

Previous Balance

As the name suggests, this balance is simply the amount that you owed at the end of the previous billing period. Payments, credits, or new purchases made during the current billing period are not taken into account.

Some creditors also exclude unpaid finance charges in computing this balance. If you do not understand how the balance on your account is computed, ask the card issuer. (An explanation of how the balance was determined must appear on the billing statements the card issuer provides you and on applications and pre-approved solicitations the card issuer may send you.)

The examples on the next page show how different methods of calculating finance charges affect the cost of credit...

	Average Daily Balance(including new purchases)	Average Daily Balance(excluding new purchases)
Monthly Rate	1 ½%	1 ½%
APR	18%	18%
Previous Balance	\$400	\$400
New Purchases	\$50 on 18 th day	\$50 on 18 th day
Payments	\$300 on 15 th day(new balance = \$100)	\$300 on 15 th day(new balance = \$100)
Average Daily Balance	\$270 (((\$400 x 15 days) + (\$100 x 3 days) + (\$150 x 12 days)) / 30 days)	\$250 (((\$400 x 15 days) + (\$100 x 15 days)) / 30 days)
Finance Charge	\$4.05 (1 1/2% x \$270)	\$3.75 (1 1/2% x \$250)

	Adjusted Balance	Previous Balance
Monthly Rate	1 ½%	1 ½%
APR	18%	18%
Previous Balance	\$400	\$400
Payments	\$300	\$300
Average Daily Balance	Not Applicable	Not Applicable
Finance Charge	\$4.05 (1 1/2% x \$100)	\$6.00 (1 1/2% x \$400)

Understanding Costs and Features

Credit terms differ among card issuers, so shop around for the card that is best for you. Which one is best may depend on how you plan to use it. If you plan to pay bills in full each month, the size of the annual fee or other fees, and not the periodic and annual percentage rate, may be more important.

If you expect to use credit cards to pay for purchases over time, the APR and the balance calculation method are important terms to consider. In either case, keep in mind that your costs will be affected by whether or not there is a grace period.

When shopping for a credit card, you probably will want to look at other factors besides costs – such as whether the credit limit is high enough to meet your needs, how widely the card is accepted, and what services and features are available under the plan.

You may be interested, for example, in “affinity cards” – all-purpose credit cards that are sponsored by professional organizations, college alumni associations, and some members of the travel industry.

Frequently, an affinity card issuer donates a portion of the annual fees or transaction charges to the sponsoring organization, or allows you to qualify for free travel or other bonuses.

Using Your Credit Card

Federal law prohibits card issuers from sending you a credit card that you didn’t request. (The issuer may send you a renewal or substitute card without a request.)

Card issuers are permitted to mail you an application or a solicitation for a credit card or to ask you by phone whether you want to receive a card – and to send you one if you say yes.

Credit Card Protections

Federal law protects consumers when they use credit cards. The protections include the following items.

Prompt Credit for Payment

A card issuer must credit your account on the day the issuer receives your payment, unless the payment is not made according to the creditor’s requirements or the delay in crediting to your account does not result in a charge.

To avoid delays that could result in finance charges, follow the card issuer’s instructions about where to send payments. Payments sent to other locations could delay getting credit for your payment for up to five days. If you lose your payment envelope, look on the billing statement for the address for payments or call the card issuer.

Refunds of Credit Balances

When you return merchandise or pay more than you owe, you have the option of keeping the credit balance on your account or requesting a refund (if the amount exceeds \$1.00). To obtain a refund, write the card issuer. The card issuer must send you the refund within seven business days of receiving your request. (Also, if a credit balance remains on your account for more than six months, the card issuer must make a good faith effort to refund the credit balance.)

Errors on Your Bill

Federal law provides specific rules that the card issuer must follow for promptly correcting billing errors. The card issuer will give you a statement describing these rules when you open the credit card account and, after that, at least once a year. In fact, many card issuers print a summary of your rights on each bill they send you.

You must notify the card issuer in writing at the address specified for billing errors when you find an error, and you must do so within 60 days after the first bill containing the error was mailed to you. (For this reason, keep your credit card receipts and promptly compare them when your bills arrive.)

In your notification letter, include your name, your account number, the amount of the suspected error, and the reason why you believe that the bill contains an error. The card issuer, in turn, must look into the problem and either correct the error or explain to you why the bill is correct. This must occur within two billing cycles and not later than 90 days after the issuer receives your billing error notice.

During the period that the card issuer is investigating the error, you don't have to pay the amount in question.

(For further information, write: "Credit Billing Errors," Public Reference, Federal Trade Commission, Washington, D.C. 20580.)

Unauthorized charges

Under federal law, if your credit card is used without your authorization, you can be held liable for up to \$50 per card.

If you report the loss before the card is used, federal law says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you will owe for unauthorized charges is \$50. This is true even if a thief is able to use your credit card at an automated teller machine (ATM) to access your credit card account.

To minimize your liability, report the loss of your card as soon as possible. Some companies have toll-free numbers printed on their statements and 24-hour service to accept such emergency information.

For your own protection, you should follow up your phone call with a letter to the card issuer. The letter should give your card number, say when your card was missing, and mention the date you called in the loss.

Disputes about Merchandise or Services

If you have a problem with merchandise or services that you charged to a credit card, and you have made a good faith effort to work out the problem with the seller, you have the right to withhold from the card issuer payment for the merchandise or services.

You can withhold payment up to the amount of credit outstanding for the purchase, plus any finance or related charges. If the card you used is a bank card, a travel and entertainment card, or another card not issued by the seller of the defective merchandise, you can withhold payment only if the purchase exceeded \$50 and occurred in your home state or within 100 miles of your billing address.

If these conditions do not apply to you, you may want to consider filing an action in small claims court – an informal legal proceeding that can be used to settle disputes. While the maximum amounts that can be claimed or awarded differ from state to state, most small claims courts hear cases involving amounts ranging from \$25 to \$2,000.

Some states have recently raised their limits to \$5,000. Check your local telephone book under your municipal, county, or state government headings for small claims court listings.

Follow these six suggestions:

1. Shop around for credit card terms that are best for you.
- 2. Make sure you understand the terms of a credit card plan before you accept the card. Review the disclosures of terms and fees that must appear on credit-card offers you receive in the mail.**
3. Pay bills promptly to keep finance charges as low as possible.
- 4. Keep copies of sales slips and promptly compare charges when your bills arrive.**
5. Protect your credit cards and account numbers to prevent unauthorized use. Draw a line through blank spaces above the total when you sign receipts. Rip up or retain carbons.
- 6. Keep a list of your credit card numbers and the telephone numbers of each card issuer in a safe place in case your cards are lost or stolen.**

Where You Can Go For Help

The following federal agencies are responsible for enforcing federal laws that govern credit card transactions. Questions concerning a particular card issuer should be directed to the enforcement agency responsible for that issuer.

State Member Banks of the Reserve System
Consumer and Community Affairs
Board of Governors of the Federal Reserve System
20th & C Sts., N.W.
Washington, D.C. 20551

National Banks

Comptroller of the Currency
Compliance Management
Mail Stop 7-5
Washington, D.C. 20219

Federal Credit Unions
National Credit Union Administration
1776 G St., N.W.
Washington, D.C. 20456

Non-Member Federally Insured Banks
Office of Consumer Programs
Federal Deposit Insurance Corporation
550 Seventeenth St., N.W.
Washington, D.C. 20429

Federally Insured Savings and Loans, and Federally Chartered State Banks
Consumer Affairs Program
Office of Thrift Supervision
1700 G St., N.W.
Washington, D.C. 20552

Other Credit Card Issuers
(includes retail/gasoline companies)
Division of Credit Practices
Bureau of Consumer Protection
Federal Trade Commission
Washington, D.C. 20580

This information is provided by:
Bureau of Consumer Protection Office of Consumer & Business Education (202) 326-3650

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