Jane Walstedt: Now if she’s on the call, I’d like to ask Marzette Bedford Billinghurst, a program analyst in the Women's Bureaus regional office in Denver, to introduce our first speaker. Marzy, are you there? Apparently she’s not, so I'm going to go ahead and introduce Liz Gorham. Dr. Liz Gorham is a native of Rural Soldier, Iowa.

Prior to accepting her current position as family financial management specialist in the South Dakota State University Cooperative Extension Service, she received her B.S. degree from Iowa State University, her M.S. degree from Utah State University, and her Ph.D. in Family Resource Management from Oregon State University. She has been on the Extension staff at SDSU since 1999 and previously at Utah State University for about 25 years.

Dr. Gorham works as a financial counselor helping people get out of debt and informing them of wise practices in the use of credit. Liz--

Liz Gorham: Yes. Thank you.

Jane Walstedt: Yes.

Liz Gorham: I'm grateful to be here. I'm going to talk to you a little bit about selection of a credit card. Have you ever thought about designing a credit card to fit your own personal needs? I don't mean one with the right colors or other design elements, nor the right card sponsor, nor one with a photo of your hero, heroine, or mentor. What if you could determine the terms and features of
your credit card? Let’s first consider the basics. And I hope this is a review for some of you.

Annual fee. Let’s get a card that requires no annual fee. Why should we be made to pay for the privilege of using the card? We might miss the opportunity to run up our air mileage points, announcements of sales or discounted prices on goods or leisure time activity fees. But how many of you travel extensively? Or if you do, have time to take advantage of these offers?

Next, a grace period. Without a grace period for the repayment of the charges to your credit card, you are in essence taking out an instant loan, because interest will start accruing immediately. Most often you have the choice of a 25- to 30-day time period. What you do not have is a 25… is 25 to 30 days to sit and contemplate the payment of your bill after it is received.

Countdown on the grace period starts when it leaves the credit card company’s billing office and ends on the bill’s stated due date. Sometimes an hour is even specified for the arrival of the payment not to be deemed a late payment.

Those who pay off the balance owed in full each month continue to enjoy a grace period. Those who pay only the minimum balance or anything other than the full balance owed cannot take advantage of the grace period. How will you pay your credit card bill?

Interest rate is next. The term to reference is the APR or annual percentage rate. All companies must state their rates in terms of an APR. One thing upon which we can all agree is that we want the lowest possible rate of interest on our credit card. But what is meant by fixed or variable, sometimes referred to as adjustable rate?
Which is best -- the fixed or the variable? If the interest rates are low like they are presently, and they are not likely to go significantly lower, you want to select the lowest possible fixed rate. Another reason for selection of a fixed rate is the ease of budgeting or income to cover your payments. A fixed rate remains constant until the credit card issuer gives written notice within 15 days of a change.

But an adjustable rate is subject to change according to an index used by the credit card issuer, such as the prime lending rate to major banks. The current rate is found in the money or business section of major newspapers.

So when would you select a variable rate? Well when the interest rate is high and probably headed downward, so you could take advantage of a lower APR. If, however, you are sure that you will always pay your balance in full every month, you need not be so concerned about a high or low or fixed or variable rate for the APR. These will not be a factor in your use of the credit card.

Next are computation methods. Many credit card users are unaware of the two basic ways card issuers calculate balances on which finance charges are computed. The two options generally put forth are average daily balance, including new purchases, and two cycle average daily balance, including new purchases. They are similar, with one major exception. The average daily balance is a term listed in both of these methods. It gives the cardholder credit for payment from the day the card issuer receives it [the payment].

To compute the balance due on the average daily balance method, the card issuer first totals the beginning balance for each day in the billing period. So if you start with the first day of the month, and you don't owe anything, you use the card the second [day of the] month for $100, you use the card the fourth of the month for $100, you have a balance for the first day of zero, for the second day, $100, for the [third] day $100 because it continues on, and
then for the fourth day, you will have [a balance of] $200. And then for the fifth day it would be $200 because you’re not going to use it the rest of the month. Then you're going to have $200 for the rest of the month.

Then you divide that by the… to compute the balance due, the card issuer first totals the beginning balance for each day in that billing period. Then next any payments credited to the account are deducted on the day received. New purchases may or may not be added to the balance, depending on the plan, but cash advances typically are added. The daily balances are summed for the billing cycle and the total is then divided by the number of days in the billing period. The result is the” average daily balance”--including new purchases--the most commonly used computation.

However, this **two-cycle average daily balance** is also available, and it is simply the sum of the average daily balances for not one but, guess what, two billing cycles. The two cycle average daily balance is used primarily to backcharge interest on a previous balance on which consumers did not pay finance charges (because their balance was zero) to begin with, but neither did they pay off the current balance due in full. The method affects only those consumers who always or sometimes carry over a balance.

You can learn which computation method your current credit card issuer utilizes by referring to the… what is known as a Schumer box. It is a… by law is found… information found in a box that reveals the computation method as well as the annual fee, the grace period, and other fees. Some card issuers include this information on their billing, or you can call the issuer’s 800 number to request this information.

There are additional features on many credit cards. There is a minimum monthly payment. Now the minimum monthly payment is a suggested payment. It is the lowest dollar amount that a cardholder is required to pay
each month to the financial institution that issued the credit card. Some statements refer to the minimum as the “cardholder amount due,” but that amount is not the total owed.

Generally, the minimum monthly payment is equal to 2% of the new balance or $10, whichever is greater, but this is changing. We hope that they are going to be taking out more money, because if they take out more money for the minimum, you will pay it off faster and you’ll save interest dollars. The lower the payment, the longer it will take for you to pay off that balance and the more finance charges you will incur.

If a cardholder does not pay anything or pays less than the minimum, late fees will be charged. The credit card issuer may be… may also cancel the card. In addition, there are… there may be a negative report sent to a credit bureau. That report could affect the cardholder’s ability to obtain credit in the future.

Now some precautions. Beware of the universal default clause. I'm going to say that again -- universal default clause. Even if you make a credit card payment on time, the credit card bank can raise your interest rate automatically if you’re late on payments elsewhere, such as on another credit card or on a phone card, car or house payment, or simply because the bank feels that you have taken out too much debt.

It is increasingly becoming a standard clause in credit card agreements. According to credit card executives, the logic behind the universal default is that the bank is not being unreasonable in raising the rates when it has reason to believe that the risk of being repaid by the customer has increased.

In summary… well I'm going to say one other precaution. Some cards allow cardholders to skip a month of payment without penalty. That’s what they say anyway, but they… especially at holiday time. Although this sounds like an
issuer is providing a break to the cardholder, interest will be charged during this period, and more in finance charges will be owed than before. So it’s just that you don't have to pay it [you can skip a payment] that month, but you will have to pay more the next month.

In summary, will you choose a credit card with no annual fee but with a grace period, one that in the current market offers the lowest fixed APR and the average daily balance computation method? Which credit card 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 may be more important than the annual percentage rate and balance computation method. If, however, you expect to carry a balance monthly on your credit card purchases, the APR and the balance computation method are very important terms to consider.

In either case, costs will be affected by whether or not the credit card issuer provides a grace period. Well you can't get all the terms you might want in your designer credit card, but you can decide how you will use your card and determine the priority for selection of the terms you will accept.

Once you have selected a credit card, keep abreast of the changes that are announced either as enclosures with your bills or as a separate mailing. These announcements are not junk mail. Terms and conditions may change to the point that you decide that it is time to shop for a different card.

If you could do it all over again, what terms and features would you include in a card especially designed for you? There’s no reason why you actually can't do it for yourself. Maybe you will now have more insight into credit card terms and features and what you need to consider in selecting a card.
So now when you go shopping for a credit card, you will want to keep in mind which card terms and features are best suited for your spending and repayment habits. Thank you.

Jane Walstedt: Thank you very much, Liz. That was a lot of information in a very short time. I know we give our speakers only ten minutes each, but I want to remind the listeners that we do post the calls in three formats on the Wi$e Up Web site. It’s posted first in MP3 as the audio version, because we edit the transcript, so it takes a little longer for the transcript to get up there. But you can relisten to the call on the Web site in the audio format, the one that comes up the soonest.