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Breaking Down Credit Card Fine Print

Posted: October 25, 2010 9:16AM by Megan Mollmann

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Every batch of mail usually arrives with its token number of credit card offers, advertising in bold, color print "introductory rate" and "cash-back rewards". While solicitations can usually be spotted a mile away, understanding the terms of a credit card agreement can be a much murkier ordeal.

Through the Credit Card Act of 2009, sweeping reforms have enforced stricter guidelines on credit card companies and demanded more transparency. Despite eliminating the old tricks of high-interest penalties or confusing billing, don't take these credit card terms at face value. They should trigger you to take a deeper look and read the fine print. (For more, see *Everything You Need To Know About Credit Card Rates*.)

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0% Interest Rates
A 0% introductory rate, or 0% APR, means you don't have to pay any interest on your balance for a certain period of time. The catch is the word "intro" indicating that at some point the offer will expire and default to a higher interest rate. Ken Lin, CE0 of credit score tracking website Credit Karma, says, "It's building a habit and a psychological dependence and preference for using this particular credit card." However, the new law mandates that credit card companies make intro, or also referred to as teaser rates, available for at least six months.

Get Cash Back
Bonus rewards or cash back programs are promotional campaigns by the banks to sign up more card user and incentivize spending. But you have to spend first - at a sufficient level - to get the payback, and the amount that must be charged in order to earn a reward can often be in the thousands.

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Transfer Balance Fees
When you sign up for a new card, the credit card companies typically offer free balance transfers from your old credit card at a 0% interest rate - a grace period where lower interest rates are extended. However, what is spelled out in the fine print is that many credit providers have a 3-5% surcharge on the amount of the transfer.

You're Approved Up to $20,000
Receiving an offer for a sky-high spending limit may not be exactly what it seems. According to Lin, 90% of people who receive credit card promotions must have their credit pulled again after the fact to be approved. Given the approval process can take three to six months, an applicant's status is also subject to change. (To learn more, see *Consumer Credit Report: What's On It?*)

Interest Rates Up To 10%
Interest rates are not dictated by the bank or credit card company, but rather, they are based on an individual's credit score. On no-fluff credit cards, Lin says with a credit score of 750 or above, you should expect to pay somewhere in the ballpark of 8-10%. In addition, consumers also should watch ambiguous language, such as using the words "up-to" or "as low as", as they reflect a wide range of possible outcomes for the applicant.

Outcomes of the Credit Card Act
For the most part, experts say tightening the strings on credit card companies

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had a positive effect on the consumer, such as wins like eliminating finance charges for previous billing cycles or mandating bills are sent at least 21 days in advance.

Another positive change, says Howard Dvorkin, a personal finance expert, is requiring credit card companies to provide the duration (10, 20, 30 years) it will take to pay off a bill statement if you only make the minimum payment. "Before, you only saw you were making a $40 payment on a $5,000 bill," he says. "Now, it might say it will take you 30 years to pay it off."

The Bottom Line

But some critics say, as banks lower credit limits on card holders, those carrying balances on their cards are put at a disadvantage. For instance, if a borrower has a debt of $500 on a $1,000 credit limit and the credit limit is knocked down to $750, this shrinks the line of available credit. And in turn, since about one-third of your credit score is based on available credit, the card holder can expect the credit score take a hit. (For more, see *5 Keys To Unlocking A Better Credit Score*.)

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