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# OKLAHOMA CENTER for CONSUMER & PATIENT SAFETY

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## Credit Cards – Pitfalls to Avoid

If you think a good credit report and paying your credit card bill on time will keep the interest rates down on your credit cards, you may want to think again. Melanie Mills, an Oregon resident was shocked during the Christmas holidays when her interest rate doubled. "I couldn't figure out what had happened, because I have an excellent credit rating. I have no negatives, I have no late payments, no defaults."

What shocked Melanie Mills is what's called "**universal default.**" Perfectly legal, it's when a credit card company jacks up its interest rate after deciding you're not so credit worthy anymore, and it may have nothing to do with that card. This year, 45% of banks surveyed by Consumer Affairs said they have universal default policies.

What can make the Universal Default Clause take affect depends on the fine print of the terms and conditions. The most common include: if your credit score gets worse, paying mortgage, car loan or other credit obligations even one day late, too much available credit, getting a new credit card, or even inquiring about a car loan or mortgage.

In addition to the Universal Default Clause, there are other things that should be considered. We have collected a number of these resources to help guide you through the comparison process and posted them on our website: [Credit Card Selection](#) A few highlights of suggestions are also listed below:

### Credit Card Selection Tips:

- Compare terms, conditions, rates, etc. – A good comparison was done by CardWeb.com, who analyzed over 10,000 cards offers to identify those with the lowest cost in a group that provided the best terms based on Consumer Report's criteria. None of the 10 cards has a universal default clause, two-cycle billing, or balance transfer fees, all of which can jack up finance charges. All cards have a grace period of at least 25 days and have no annual fees. The information is current as of Aug. 1, 2005 and can be found on our website: [Top 10 Credit Card Comparison](#)
- Be wary of pre-approved offers – "Pre-approved" offers that seem to show up daily in the mail don't really mean anything. If your formal application doesn't meet the criteria, you may still get shot down or, more likely, get a card with a higher interest rate than specified in the offer. Additionally, just because it is pre-approved doesn't mean it is an offer that matches your spending patterns.

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- Finance Charges -- Make sure you understand the balance computation method. There are several ways a credit card company can compute your balance. Before you accept the terms, make sure you understand them. Many common computation methods include: Average Daily Balance, Adjusted Balance, Previous Balance, and Two-cycle Balances.
- Annual Fees and Transaction Fees -- Some cards charge an annual fee -- anywhere between \$15 and \$50 -- while others may not. Many card issuers will waive the annual fee in the first year, then charge you a fee in a year or two. Banks will sometimes waive annual fees if you've charged a certain amount during the year, or sometimes if you just ask.
- Peer feedback -- Ask friends and acquaintances about the cards they use. They will have good and bad experiences to relate, so use this information in your hunt for the perfect card. Before deciding on a credit card, be sure to review all the information about the terms. Make a list of the features that best fit your needs and rank them according to how you plan to use the card.

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