

Credit Cards: Types and Rights

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This publication outlines the various types of credit cards.

Over half a billion credit cards are in use today with balances totaling more than half a trillion dollars. Consumers pay over \$70 billion in interest and fees on bank cards alone each year. More than 3 billion mail solicitations for credit cards are mailed annually in the United States alone.

This publication describes different types of credit cards and explains what consumers should be aware of when choosing and using credit cards.

Types of Credit Cards

Traditional credit cards identify you as participating in a lender's charge account plan. These are commonly offered by department or chain stores, gasoline companies, airlines, banks, credit unions and other lenders. Some may be used at only one retailer while others may be used at many retailers.

Prestige cards (gold, silver, platinum) have higher credit limits, higher annual fees, and may have perks such as emergency medical and legal services, collision damage waiver insurance for car rentals, and plans to protect against theft.

Affinity cards are linked to a charity or other group and include that group's logo. Part of the annual fee or yearly charges (typically 0.5 percent or 25 cents per transaction) made with this card is donated to the sponsoring organization.

Reward cards offer cash rebates, frequent-flier miles, discounts on goods and services, interest-rate reductions, and other incentives, typically equal to 2 percent to 3 percent of the sum you charge annually. If you choose a card with rewards, be sure the reward is one you'll use. Always read the terms and conditions in the small print as there may be an annual fee or a limit on the amount of the reward earned annually.

Secured cards are higher-interest bank cards offered to people with a poor or nonexistent credit record. An amount of money deposited in an account serves as collateral and is the credit limit for the card. After a year or two the lender may give you an unsecured card if you show you can use the secured card responsibly.

Smart cards are for the amount of money on them. An embedded computer chip keeps track of what you've spent.

For example, a \$20 smart card gives you \$20 of spending power. For about \$20 you can buy a "reader" which allows you to check to see what your balance is at home. There are three kinds of smart cards:

Prepaid disposable single-purpose card. Calling cards are a good example. When you've used all the money, you throw it away.

Prepaid disposable bank card bought at a bank can be used in any store with a terminal.

Reloadable card allows you to add more cash to it. This card can be a credit card, retail debit card and an ATM card all in one.

When Its Not a Credit Card

Travel and entertainment cards such as some American Express cards, Carte Blanche or Diners' Club cards are unlike any of the cards discussed so far. They require the entire balance be repaid within the following billing cycle (usually 30 days). They are not revolving accounts and charge additional fees if not paid in full each month.

Credit Card Marketing and Advertising

Credit card companies use special offers to entice you to use their card. Here are some examples:

Airline ticket offers tempt you with free or low rates. Restrictions often noted in the fine print include number of trips, destinations and time limits.

Some issuers offer a credit card which also is a **calling card**. Usually free minutes or special rates are offered but the offer may be limited to 90 days or just so many minutes per month.

Photographs for identification purposes are offered on some cards.

Other special services such as an **online account center** to check accounts and pay bills, **fraud protection** when shopping on the Internet, and **extended warranties** are offered by some credit cards.

Another marketing ploy is the **transparent credit card** (except for imbedded microchips on a magnetic strip). This card looks very sharp and clean and appeals to people who value prestige and high-tech.

Consumer Credit Card Rights

If you report loss of a credit card to the issuer before it is used by someone else, you owe nothing. But if charges are run up before you report the card stolen, you are liable for \$50. In reality, issuers often waive that fee if asked. If you still have your card but the account number was used without your authorization, you owe nothing.

Billing Errors

You are protected against **billing errors** under the Fair Credit Billing Act. Notify the card issuer immediately in writing if you notice an error on your statement. Just calling won't protect your rights. You must mail the letter within 60 days of when the statement with the error was mailed. The card issuer must acknowledge your letter within 30 days of receiving it, and then has 90 days to resolve the problem. In the meantime you can withhold payment for the disputed item but you must pay the rest of your bill.

If the creditor verifies there is an error and you are right, the disputed charge and any resulting finance charge will be removed. If the charge is held as valid, you can ask for supporting evidence that the charge is legitimate. If you still disagree, you have three choices:

1. Pay the bill including any late charges, keeping negative information out of your credit record.
2. Don't pay and you'll be reported as delinquent to the credit reporting agency. Send a statement with less than 100 words with your side of the story to the credit reporting agency. It must be included whenever someone requests your file.
3. Don't pay and ask your credit card issuer to rescind the charge because you received defective goods or services. If the issuer agrees with you, it will charge the payment back to the retailer's bank and you won't be reported as delinquent. But this will work only if you meet the requirements included below for defective goods.

Defective Goods

If you receive goods that are defective, not what you ordered, came too late or never received, you have recourse if you:

- used a credit card issued by the same store
- used a bank card like Visa or MasterCard or a charge card like American Express (dispute must be more than \$50, bought in your home state or within 100 miles of your mailing address)
- bought by phone, mail order or on the Internet from a company advertising in-state (including a catalog)
- made a good-faith effort in writing to resolve the issue with the seller
- complain about a consumer, not a business, purchase
- haven't paid for the item in full

Make the claim in writing. Include evidence that you tried and failed to resolve the dispute. You are allowed to withhold payment only for the disputed amount. If the issuer agrees with you, you may recover the unpaid amount. If the issuer says you are at fault, you may be reported as delinquent, have the bill turned over to a collection agency, or sued.

Resources Used

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This publication has been peer-reviewed.

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**Index: Financial Management
Credit and Debt**
Issued November 2007

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