



Keep Good Credit While Interest Rates Rise

BY TOM GRAVES

Kee an eagle eye on those credit card accounts. Many banks are tightening credit and raising credit card interest rates even for good credit holders, in part due to changes in federal banking laws.

Since last summer, banks have been required to give you 45 days' advance notice on interest rate hikes. While paying off credit card debt, higher interest can hurt. But you are much better off if you have enough credit to consolidate debt to a lower interest account.

Fortunately, U.S. service members are attractive clients to banks, and some are willing to offer premium rates, currently being negotiated between AAFES and NEXCOM and the banks with which they cobrand credit cards.

The issuing banks "are treating our members a little differently because they know what we're doing to serve our country," said Keith Howell, strategic marketing manager with AAFES. "They're going to do their best to keep their rates low."

Once you get one credit card you're bound to receive offers for more, and provided you can manage credit cards responsibly, there are valid reasons to have at least two

credit cards, even if you only keep one for regular use at a time. Having multiple cards also makes it easier to negotiate with banks over late payment fees.

NEW RATES SET SOON

U.S. service members can apply for credit cards at privileged interest rates, and your on-base finance office can help you find ways to get a low interest loan if you need to pay off higher interest credit cards.

In spring 2008, AAFES introduced the Military Star Rewards Card, which is co-branded between AAFES and Chase MasterCard. The annual percentage rate on purchases were locked in at 4.99 percent above the prime lending rate, which means the interest rate was 10.24 percent when the card was first offered, well below what many first-time credit cards charge, which can have rates that often go up to 25 percent or more.

The Military Star Card's lowest fixed rate was most recently set at 9.9 percent, according to reports from AAFES.

The Star Rewards Card also has a point system for cash back, airline tickets or exchange gift cards. Cardholders gain two points for purchases at military exchanges and one point for other stores on or off base.

“The Military Star Rewards program finally allows the exchanges to offer the ultimate convenience to authorized shoppers: two lines of credit and only one card,” said Mike Howard, AAFES chief operating officer.

U.S. Navy service members can obtain a Military Star Card with attractive rates. The NEXCOM website also has information on building credit scores and finding sources of help for financial aid or advice, including finance classes and no and low-interest loans that can help pay off credit card debt. One key point the NEXCOM website makes is that credit mistakes create history that can be replaced by good credit decisions.

USAA offers members a USAA American Express Card or a USAA Platinum Master Card, with competitive annual percentage. There is no annual fee and you build reward points for cash, gift cards and airline discounts.

USAA also offers personal loans at specialized rates with three- or four-year terms, which could give you some time if you need to consolidate credit card debt and pay it off over time at a lower interest rate than your credit cards charge.

Pioneer Financial Services offers loans currently at preferred rates for between \$500 and \$10,000 to U.S. service members with acceptable credit ratings.

BOOSTING YOUR CREDIT CARD RATING

The longer you own credit cards and make on-time payments, the more your credit rating improves.

Late payments can damage your credit, as can having accounts closed by the bank because you've missed too many payments. But opening more than one card over the course of a year or two can improve your credit score. Part of your score depends on your debt-to-credit ratio, as in how much

Credit CARD Act of 2009

The Credit Card Accountability Responsibility and Disclosure Act of 2009 or Credit CARD Act of 2009 is a federal law passed enacted May 22, 2009. Most of the provisions are set to take effect Feb 22.

- Your credit card issuer must notify you 45 days in advance of any change of your interest rate (provision took effect August 20, 2009).
- Universal Default is now prohibited (Credit card companies can no longer increase interest rates and terms for reasons unrelated to a cardholder's payment history on that card. For instance, if a cardholder pays a utility or cell phone bill late, the credit card can no longer increase their credit card interest rate.)
- Double-cycle billing is now restricted. Credit card companies can no longer charge interest on debt paid on time. For instance, they cannot charge interest on a \$2,000 balance if you send in a \$1,900 payment. They can only charge interest on the remaining \$100 balance.

Creditors can only raise your rate under specific circumstances:

- if your rate is tied to a national rate that varies, like the Fed's Prime Rate
- if they previously disclosed to you that your current rate is only temporary (in which case the introductory rate must last for at least six months)
- if you are 60 days late on your payments
- for new credit card accounts, the rate can only be raised after a year has passed.

If the cardholder is 60 days delinquent and the interest rate was increased accordingly, the bank must reverse the rate increase to the original lower rate once the cardholder has paid their bill on time for six months. This provision took effect August 2009.

- Creditors can only close your account after providing 30 days' notice
- If you have balances with different APRs (for example, if part of your balance is due to a cash advance and part is from purchases), any amount you pay over the minimum must be applied to the balance with the higher APR first.
- Creditors must send you a credit card statement at least 21 days before your payment is due (provision took effect August 20, 2009).
- Creditors may not charge an extra fee for consumers to make payments by web or by phone, unless you are making a payment on the day it is due or on the day before and need expedited service.
- Requires penalty fees to be reasonable and proportional to the omission or violation (takes effect August, 2010).
- A cardholder can only go over a credit card's spending limit (and incur overlimit fees) if they "opt in" to allow overlimit transactions on their account.
- Creditors are required to provide details about how long it will take to pay off a balance if you only make the minimum payment required, and how much interest will accrue during that time.
- Restricts fees a creditor may charge in connection to a "sub-prime" credit card.
- Requires a credit card issuer who increases a cardholder's interest rate to periodically review and decrease the rate if indicated by the review (takes effect August 22, 2010).
- Many fees on Gift Cards and Stored Value Cards have been banned, and gift cards cannot expire in less than five years. (This provision takes effect August 22, 2010).
- No one under 18 may be approved for a credit card, unless they are fully emancipated under the law. They may be added to their parent's accounts.
- Adults under 21 may not get a credit limit greater than \$500 or 20 percent of their annual income, and college students may not be offered incentives to sign up for a credit card.

Sources: www.govtrack.us/congress/bill.xpd?bill=h111-627&tab=summary and
http://en.wikipedia.org/wiki/Credit_CARD_Act_of_2009

you owe compared to how much you would owe if you maxed out your cards. The higher the ratio is the better your score.

If you owe \$400 on credit cards, but have a combined credit limit of \$4,000, you would have a 1-to-10 debt-to-credit ratio, which would punch up your credit rating and help you get preferred rates on home loans, car loans or other credit cards.

If you maxed out all your cards and are only making minimum payments on them, your debt-to-credit ratio would be closer to 1-to-1, which would be a warning sign to potential lenders.

GET LATE FEES RESCINDED

Late payments will also ding your credit, so it's better to pay less money on time than more money late. Banks also charge late fees, and those have shot up from \$10 to \$15 just a few years ago to \$40 to \$50 or more, depending on the bank's credit card policy.

A few years ago, banks charged late fees only if the payment was more than two weeks late, but now a payment even a day or two late can incur a fee, so if you pay by mail, it's best to send it early.

If you have more than one credit card and usually pay on time, an

occasional late fee can be negotiated to zero. Call the bank customer service number on the back of the card and tell the bank representatives that you normally pay on time. Tell them that you know this payment was only a few days late. Say that you would like to use this card in the future, but that this level of customer service is unacceptable. If they do not volunteer to rescind the fee, ask them to, and state that you are prepared to close the account if they want to keep the fee in place.

Most of the time, the bank will rescind the fee, and that will help protect your credit rating. They may call your bluff and retain the fee, so be ready to close the account, and make sure that they note that it was closed at the cardholder's request. You still need to pay off any outstanding balance, including any late fees. Whether or not the bank rescinds the fee, you made your point about exorbitant late fees.

BACK IN THE BLACK


If you find yourself behind in payments on more than one card, put them all away in a safe place and start paying off as much as you can on the one with the highest interest rate, while making minimum payments on the others. Once the first card is paid off, focus on the one with the next highest

interest rate, and so on, until you can climb out of debt. Chart your progress so you can anticipate when you will be out of credit card debt. Even if it's a long way off, it's good to see the light at the end of that debt tunnel.

Even an installment loan with initial up front costs can save you money in the long-run if the interest rate is a percentage point or two better than your credit card rate. Having a term to pay off the loan also lets you know when the debt will be amortized.

"Credit card minimum monthly payments often cover little more than periodic interest," states an article in Pioneer Financial Services' website Learning Center. "It can literally take years to take off a credit card balance. Without a fixed term, an important component of an installment loan, the borrower does not have a plan to get out of debt."

Fortunately, your on base finance office has resources for you to get help in getting credit card debt paid off. These may come in the form of low or no-interest loans, consolidation loans and educational resources about financial planning.

By avoiding spending sprees and keeping a close watch on your credit card purchases, you can make your credit cards help to establish or improve your credit rating. So avoid buying now and paying a whole lot more later. 

Military Credit on the Web

www.aafes.com

Find information on the AAFES Military Star Rewards Card, good at AAFES exchanges and anywhere MasterCard is accepted. Cardholders build rewards points for gifts and travel opportunities.

www.navy-nex.com/military_star/buildingcredit.html

Find information on the Military Star Card as well as resources for building credit and sources for help in credit repair.

www.pioneermilitaryloans.com

A division of MidCountry Bank, Pioneer Military Lending's website includes its Learning Center with articles about credit and loan options.

www.dodcommunitybank.com

A service of Bank of America, DoD Community Bank offers financial services at military installations overseas. Its services include automated payments, car loans and signature loans.

www.annualcreditreport.com

Obtain a credit report online for free, and other credit reporting sources on a fee basis, through Equifax, TransUnion or Experian.

www.usaa.com

Look under the products and services menu for information on how to obtain a USAA American Express Card, A USAA Platinum Master Card, or personal loans.