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The Top 5 Secrets To Managing Your Credit Cards—so They Won't Manage You By: R. Sallay

You've probably never heard of Frank X. McNamara, but he revolutionized the way you shop on a daily basis.

One evening in 1949, McNamara—head of the Hamilton Credit Corporation in New York City—was dining out with two business associates. Their topic of discussion: one of McNamara's clients, who was defaulting on a loan because he had shared his gasoline and department-store credit cards with some friends in need. Unfortunately, the friends didn't have the money to pay back what they had borrowed, so the good samaritan was now facing his own financial demise.

As the meal ended, McNamara reached for his wallet so he could pick up the check. To his horror, he realized he had left it at home—and was forced to call his wife so she could bring him the cash he needed to settle the tab.

This fateful meal led to an invention that has transformed how the world handles money to this very day: the credit card. While previously available gasoline and department-store credit cards allowed users to make purchases at a single location, McNamara's personal plight—and that of his well-meaning client—prompted him to create a credit card that could be used in multiple venues. The Diners Club card was born. In its first year, 200,000 consumers signed up for one.

The rest is history. After carefully observing Diners Club's success, American Express and Bank Americard (soon to be renamed VISA) followed suit. Thank McNamara the next time you pay with plastic.

But has McNamara's novel concept become more of a curse than a blessing in your life? Are your credit cards managing you—and is your debt spiraling out of control?

Here are 5 ways to tame the credit card beast.

1. Know Your Limits

If you have a tendency to overspend, limit your extravagances by relying on paper currency instead of plastic. Set spending limits before you leave the house, whether you're shopping for groceries or heading to the mall to buy a new pair of shoes. If you

find yourself reaching for your credit cards, freeze—and don't move an inch until you can answer the following questions:

- Why am I breaking my own rule?
- Am I being self-destructive with my financial health?
- Do I really need this item, or is my ability to say “charge it!” clouding my good judgment?

2. Learn from McNamara's Client

As McNamara's client learned the hard way, loaning your credit cards to even those closest to you is a surefire way to accrue debt. You are giving your spouse, children, other relatives and/or friends carte blanche to spend up a storm—and you are the one who is legally obligated to pay the bills that will find their way into your mailbox at the end of the month. Be extremely selective when passing the plastic to anyone who can run up a bill—and fail to pay you back.

3. Show Interest in Interest

Surveys consistently show that most people make only the required minimum payment on their credit card bills each month, leaving them with an outstanding balance that continues to climb. Not only do additional purchases add up, but you are continually paying interest on your existing and new balances—a sometimes considerable fee that has catapulted many consumers into life-altering debt.

Today, the average American family, for example, owes approximately \$8,000 on its credit cards—and the credit card companies could not be more pleased. If 115 million families owed you money—on which you earn finance charges and late fees every month—you would be positively giddy, too.

Let's say you have an outstanding balance of \$2,000 on a single credit card. Your annual interest rate is 9%, and your credit card company requires you to make a minimum \$30 payment each month. Assuming you do not miss any payments (which would cause your interest rate to rise, as well as add late fees as high as \$40 per month), it would take you 204 months to pay off this balance if you make only the minimum \$30 payment each month—and by then, you will have paid an extra \$1,028.43 in interest. This is how debt begins: A \$2,000 charge winds up costing you \$3,028.43.

4. Switch Cards

If you are still paying an annual fee on your credit card, it's time to make the switch to a card that is not only free, but rewards you for using it.

Assuming you have good credit and can secure a new card, explore your options. Banks offer cards that award cash-back bonuses, airline miles, gasoline rebates and other

perks each time you use them. If you can manage your credit appropriately, keep pace with payments and pay your bills on time, you may as well reap the benefits of your spending habits.

5. Read Your Statements—Carefully

Some consumers pay their credit card bills without carefully reviewing their statements. This is one of the most serious mistakes you can make—especially in an age of identity theft, when someone can use your card to make purchases in your name.

Always keep your credit card receipts, and check them against the bill when it arrives each month. Make sure every charge is accurate, and notify your credit card company immediately if there are any charges you did not make. The company can reverse the charge if it is a simple error—or if someone has used your card without authorization. In the latter case, ask the company to cancel the card, review any additional purchases made since that date and issue a new card with enhanced security features, such as a personal identification number (PIN), to be entered each time the card is used.

In addition, check due dates on credit card bills. You may be used to paying your bill by the 20th of each month, but credit card companies have been shortening the length of time consumers have to pay their balances. Very often, there is no notification of a policy change—or the fine print is buried somewhere on your statement. Note the payment due date each month, and try to pay the full amount to avoid accruing interest or late fees.

Australian Debt Reduction offers all Australian consumers free debt consultations to assist them in getting back on top of their debt. They explain debt consolidation in simple terms and if you have over \$4,000 in debt there are methods available to the Australian public you may not have heard of to help limit the amount of interest paid and rapidly reduce your debt. Visit Australian Debt Reduction at <http://www.australian-debt-reduction.com.au> or contact them directly on 1300 306 272

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