Ten Things to Think about *Before* Getting a New Credit Card . . .

1. Don't apply for a credit card until you are ready. Unfortunately, bankruptcy may not have permanently resolved all of your financial problems. It is a bad idea to apply for new credit before you can afford it.

2. Avoid accepting too many offers. There is rarely a good reason to have more than one or two credit cards. Having too much credit can lead to bad decisions and unmanageable debts, and it will lower your credit rating. This can make it harder for you to get other lower interest rate loans. Avoid accepting a credit card just to get a discount at a store or a "free" gift.

3. Remember that lenders are looking for people who run up big balances, because those consumers pay the most interest. You may find that credit card companies are pursuing you aggressively by mail and phone even though you filed bankruptcy. Do not view this as a sign that you can afford more credit. The lender may have a marketing profile telling them you are someone who is likely to carry a big credit card balance and pay a good deal of interest. Or they may see you as a good credit risk because you cannot file a Chapter 7 bankruptcy again for quite a few years.

4. Interest rate is important in choosing a card, but not the only consideration. You should always try to get a card with an interest rate as low as possible. But it is rarely a good idea to take a new card just because of a low rate. The rate only matters if you carry a balance from month to month. Also, the rate can easily change, with or without a reason. Remember that even the best credit cards are expensive unless you pay your balance in full every month. And other credit terms can add to your your cost, like annual fees, late charges, over-the-limit fees, account set-up fees, cash advance fees, and the method of calculating balances. Sometimes a credit card that appears cheaper is actually more expensive.

5. Beware of temporary "teaser" rates. A teaser rate is an artificially low initial rate that applies only for a limited time. Most teaser rates are good only for six months or less. After that, the rate automatically goes up. Remember that if you build up a balance under the teaser rate, the much higher permanent rate will apply when you repay the bill. This means that the permanent long-term rate on the card is much more important than the temporary rate.

6. If your rate is variable, understand how it may change. Variable interest rates can be very confusing. Some variable rate terms can make your rate go up steeply over time. Read the credit contract to understand how and when your rate may change. And don't be misled by advertisements that claim "fixed rate", as this may mean the rate is fixed only until the lender decides to change it again.

7. Check terms related to late payment charges and penalty rates of interest. Most credit card contracts have terms in the small print for late charges or penalty interest rates that increase if you make even a single late payment. Try to avoid cards with late fees as high as $25-35 or penalty interest rates of 21-24% or higher. Even if you are not having financial problems, these terms may become important, because they apply equally to accidental late payments.

8. Get a card with a grace period and learn the billing method. It is important to understand how you will be billed. Look for a card with a grace period that lets you pay off the balance each month without interest. If the card does not have a grace period and interest will apply from the date of your purchase, a low interest rate may actually be higher than it looks. The terms of the grace period are also important, as it may not apply to balance transfers and cash advances. And look out for different interest rates that may apply depending upon the type of charge: these usually include a higher rate for cash advances.

9. Don't accept a card just because you qualify for a high credit limit. It is easy to assume that because a card offer includes a high credit limit, this means the lender thinks you can afford more credit. In fact, the opposite may be true. Lenders often give high credit limits to consumers hoping that they think will carry a bigger balance and pay more interest. You must evaluate whether you can afford more credit based on your individual circumstances.

10. Always read both the disclosures and the credit contract. You will find disclosures about the terms of a credit card offer, usually in small print on the reverse or at the bottom of the offer. Review these carefully. However, the law does not require that all relevant information be disclosed. For this reason, you must also read your credit contract, which comes with the card. This will include terms such as late payment fees, default rates of interest, and a description of the billing method. Since these terms are not easy to understand, you may want to call the lender for an explanation. Or better yet, refuse credit with too many complex provisions, because those terms are likely to work to your disadvantage.

. . . or Using One you Have

1. Establish a realistic budget. Before using a credit card after bankruptcy, try paying cash for a while. This will help you learn how much money you need each month to pay the basic necessities. Don't forget to budget for the payments on any debts you reaffirmed in your bankruptcy.

2. It is important not to use credit cards to make up for a budget shortfall. Credit card debt is expensive. Sometimes credit cards are so easy to use that people forget they are loans. Be sure to charge only things you really need and plan to pay the balance off in full each month. If you find you are constantly using your card without being able to pay the bill in full each month, you need to consider that you are using cards to finance an unaffordable lifestyle.

3. If you get into financial trouble, do not make it worse by using credit cards to make ends meet. If you find that you are using credit cards to get through a period of financial difficulty, it is likely that additional credit will only make things worse. For example, if you use cash advances on your credit card to pay bills, the interest due will only add to your debt burden sooner rather than later.

4. Don't get hooked on minimum payments. Credit card lenders usually offer an optional "minimum payment" in their monthly billing. These are usually set very low (usually 2% of the balance), barely covering the monthly interest charge. If you pay only the minimum, chances are that you will be paying your debt very slowly or not at all, and you may think you are managing the debt when you are really getting in over your head. For example, if you make only the monthly minimum payments to pay off a $1,000 balance at a 17% interest rate, it will take over 7 years pay your debt! If you are also making new purchases every month while making minimum payments, your debt will grow and take even longer to pay off. This means that your monthly interest obligations will increase and you will have less money in the monthly budget for necessities.

5. Don't run up the balance based on a temporary "teaser" interest rate. Money borrowed during a temporary rate period of 6% is likely to be paid back at a much higher permanent rate of 15% or more. Also be careful about juggling cards to take advantage of teaser rates and balance transfer options. It takes a great deal of time and effort to take advantage of terms designed to be temporary. Remember that all teaser rate offers are designed to get you locked into the higher rate for the long term, because that is how the lender makes the most money.

6. Avoid the special services and programs credit card lenders offer to bill to your card. You are likely to get many mail offers and telemarketer calls from your credit card lender about special services such as credit card fraud protection plans, credit report protection, travel clubs, life and unemployment insurance, and other similar offers. These products are generally overpriced. It is best to throw out and refuse these offers, or at a minimum, treat them with a high degree of caution. And avoid "free trial" offers as you will be billed automatically if you forget to cancel the service.

7. If you can afford to do so, always make your credit card payments on time. Be careful to avoid late payment charges and penalty rates if you can do so while still paying higher priority debts. Bad problems get worse fast when you have a new higher interest rate and late charge to pay during a time of financial difficulty. Most lenders will waive a late charge or default interest rate one time only. It is worth calling to ask for a waiver if you make a late payment accidentally or with a good excuse.

8. Know exactly when the grace period ends. The grace period usually ends on the payment "due date," which may change every month. Many lenders do not mail bills until late in the grace period, so your payment may be due quite soon after you receive the bill. This also means that the grace period may be less than a full month, usually about 20-25 days. Some lenders are slow in posting payments or have strange rules about deadlines (like payments received after 10:00 a.m. on the due date are considered late). Try to mail your payment well before the due date so there will be no question it gets there on time. Paying credit cards on time not only saves you interest and late fees but is a good way to improve your credit rating after bankruptcy.

9. Beware of unsolicited increases by a credit card lender to your credit card limit. Some lenders increase your credit limit even when you have not asked for more credit. Avoid using the full credit line as your debt can easily spiral out of control. And going over the credit limit even by a few dollars can be very costly as you will likely be charged an over-the-limit fee and a higher penalty interest rate.

10. If you do take a credit card and discover terms you do not like: Cancel! You can always cancel any credit card at any time. Although you will be responsible for any balance due at the time of cancellation, you should not keep using a card after you discover that its terms are unfavorable.

Beware of Credit Offers Aimed at Recent Bankruptcy Filers

"Disguised" Reaffirmation Agreement

Carefully read any credit card or other credit offer from a company that claims to represent a lender you listed in your bankruptcy or own a debt you discharged. This may be from a debt collection company that is trying to trick you into reaffirming a debt. The fine print of the credit offer or agreement will likely say that you will get new credit, but only if some or all of the balance from the discharged debt is added to the new account.

"Secured" Credit Card

Another type of credit marketed to recent bankruptcy filers as a good way to reestablish credit involves "secured" credit cards. These are cards where the balances are secured by a bank deposit. The card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account. They may be useful to establish that you can make regular monthly payments on a credit card after you have had trouble in the past. But since almost everyone now gets unsecured credit card offers even after previous financial problems, there is less reason to consider allowing a creditor to use your bank deposits as collateral. It is preferable not to tie up your bank account.

Credit Repair Companies

Beware of companies that claim: "We can erase bad credit." These companies rarely offer valuable services for what they charge, and are often an outright scam. The truth is that no one can erase bad credit information from your report if it is accurate. And if there is old or inaccurate information on your credit report, you can correct it yourself for free.

Avoid High Cost Predatory Lenders

Don't assume that because you filed bankruptcy you will have to get credit on the worst terms. If you can't get credit on decent terms right after bankruptcy, it may be better to wait. Most lenders will not hold the bankruptcy against you if after a few years you can show that you have avoided problems and can manage your debts.

Be wary of auto dealers, mortgage brokers and lenders who advertise: "Bankruptcy? Bad Credit? No Credit? No Problem!" They may give you a loan after bankruptcy, but at a very high cost. The extra costs and fees on these loans can make it impossible for you to keep up the loan payments. Getting this kind of loan can ruin your chances to rebuild your credit.

Mortgage Loans

If you own your home, some home improvement contractors, loan brokers and mortgage lenders may offer to give you a home equity loan despite your credit history. These loans can be very costly and can lead to serious financial problems and even the loss of your home. Avoid morgage lenders that:

- charge excessive interest rates, "points," brokers' fees and other closing costs
- require that you refinance your current lower interest mortgage or pay off other debts
- add on unnecessary and costly products, like credit insurance
- make false claims of low monthly payments based on a "teaser" variable interest rate
- include a "balloon" payment term that requires you to pay all or most of the loan amount in a lump sum as the last payment
- charge a prepayment penalty if you pay off the loan early
- change the terms at closing
- make false promises that the rate will be reduced later if you make timely payments
- pressure you to keep refinancing the loan for no good reason once you get it

Small Loans

It is always best to save some money to cover unexpected expenses so you can avoid borrowing. But if you are in need of a small loan, avoid the following high cost loans:

Payday loans – Some "check cashers" and finance companies offer to take a personal check from you and hold it without cashing it for one or two weeks. In return, they will give you an amount of cash that is less than the amount of your check. The difference between the amount of your check and the cash you get back in return is interest that the lender is charging you. These payday loans are very costly. For example, if you write a $256 check and the lender gives you $200 back as a loan for two weeks, the $56 you pay equals a 728% interest rate! And if you don't have the money to cover the check, the lender will either sue you or try to get you to write another check in a larger amount. If you choose to write another check, the lender gets more money from you and you get further into debt.

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Auto Title Loans - For many years, pawn shops have made small high-interest loans in exchange for property. A new type of "pawn" is being made by title lenders who will give you a small loan at very high-interest rates (from 200% to 800%) if you let them hold your car title as collateral for the loan. If you fall behind on the payments, the lender can repossess your car and sell it.

Rent-to-Own - By renting a TV, furniture or appliance from a rent-to own company, you will often pay three or four times more than what it would cost to buy. The company may make even more profit on you because the item you are buying may be previously used and returned. And if you miss a payment, the company may repossess the item leaving with you no credit for the payments you made.

Tax Refund Anticipation Loans - Some tax return preparers offer to provide an "instant" tax refund by arranging for loans based on the expected refund. The loan is for a very short period of time between when the return is filed and when you would expect to get your refund. Like other short-term loans, the fees may seem small but amount to an annual interest rate of 200% or more. It is best to patient and wait for the refund.

What You Can Do To Avoid Problems

- **If you don't want it, don't get it.** If you have doubts about whether you really need the loan or service, or whether you can afford it, don't let yourself get talked into it at the last minute by a salesperson using high-pressure tactics. You can always walk away from a bad deal, even at the last minute.

- **Shop around.** You may qualify for a loan with normal rates from a reputable bank or credit union. Don't forget that high-cost lenders are counting on your belief that you cannot get credit on better terms elsewhere. Do not let feelings of embarrassment about your past problems stop you from shopping around for the best credit terms.

- **Compare credit terms.** Do not consider just the monthly payment. Compare the interest rate by looking at the "annual percentage rate," as this takes into account other fees and finance charges added on the loan. Make sure you know exactly what fees are being charged for credit and why.

- **Read before you sign.** If you have questions, get help from a qualified professional to review the paperwork. A lender that will not let you get outside help should not be trusted.

- **If you give a lender a mortgage in a refinancing deal, remember your cancellation rights.** In home mortgage refinancings, federal law gives you a right to cancel for three days after you sign the papers. Exercise these rights if you feel you signed loan papers and got a bad deal. Don't let the lender talk you out of canceling.

- **Get help early.** If you begin to have financial problems, or you are thinking of consolidating unmanageable debts, get help first from a local nonprofit housing or debt counseling agency.

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Using Credit Wisely After Bankruptcy

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