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CAUTION: Credit Card Perils Still Persist

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Credit Card Accountability, Responsibility and Disclosure Act ("The Card Act"), was supposed to protect consumers. Yet, credit card companies have found new ways to circumvent the law. Let us explore the fundamentals of credit scores and ways credit card companies seek to exploit consumer's trust with potential irreversible harm to their credit score.

SOME BACKGROUND ON FUNDAMENTALS OF CREDIT SCORES

Credit score is a number used by lenders to ascertain if we are eligible for a loan, cell phone use, rental place, leased/financed car, a job, bank account or credit cards, among other things.

Types of credit scores vary; nonetheless, FICO score is usually the most widely used. Depending on different factors in your credit criteria, we all receive a FICO score from three major credit bureaus, namely TransUnion, Experian and Equifax. A FICO Score ranges from 350 to 800, with 725 or above bestowing upon us the best lending rates and terms and 560 or lower penalizing us harshly with relatively lower rates and worse terms.

Our credit score encompasses various factors determining our FICO score, most notably such factors are as follows:

- **PAYMENT HISTORY:** The better off we have paid our loans on time and less late payments or delinquencies or even bankruptcies we have, the better candidates we are for new loans. In fact, we are more trustworthy to creditors to pay them their money back. Hence, payments history, roughly, accounts for 35% of the whole FICO score.
- **AMOUNT OWED:** Naturally, the more we owe, the greater risk we are to lenders. Relatively greater amount of debt signifies borrowing spending habits not often associated with conservative use of funds and thus greater risk of delinquency or bankruptcy. As such, amount owed, roughly, represents 30% of the whole FICO score.

- **LENGTH OF CREDIT HISTORY:** The longer our credit history, the more information lenders have to sift through to ascertain what kind of credit risk we pose to them. Consequently, length of credit history, roughly, accounts for 15% of the whole FICO score.
- **TYPES OF CREDIT USE:** If we use our credit card for buying Starbucks coffee every day or so and we only pay the minimum payment every month, that might spell trouble. This means we are spending on "unnecessary" items and rack up more debt while not paying down our debt. As such, types of credit use, represents roughly 10% of the whole FICO score.
- **NEW CREDIT:** The more we have applied for credit within a relatively short period of time, the more credit risk we are. We are desperate for money and we might not be able to pay it back. New credit, hence, represents roughly 10% of the whole FICO score.

STILL TRAPS FOR THE UNWARY CREDIT-CARD USERS

1. ELIMINATING DOUBLE CYCLE BILLING BUT PROPPING UP INITIAL INTEREST BILLING, INSTEAD

The CARD ACT sought to eliminate the practice of double-cycle billing by credit card companies. Double-cycle billings involved credit card companies computing interest charges based on the previous TWO billing cycles. Double-cycle billing would effectively punish credit card users who carried some interest. This practice was rather tangible and perceptible by most of us, even if we did not know its exact name.

In fact, this is how double-cycle billing works, to a great extent oversimplified: Let us assume you carry $1000 and you pay it off in two months. Nonetheless, after you pay it off, you receive a bill showing you still money to the credit card company for the interest they charged you for the past two months. Credit card companies all abandoned such practice in the months leading to the Card Act.

Nonetheless, Double-Cycle Billing has been replaced with Initial-Interest Billing. Initial-Interest Billing is even worse and more diabolical than Double-Cycle Billing.

Initial-Interest Billing starts charging interest on purchases since we made them. Such practice is effective on credit cards which do not have a grace period for interests. Therefore, if you start the month with zero balance and make 10 purchases, from the first purchase, credit card companies, under such practice, might start charging interest. If you pay off your credit card in full the end of the month, then the credit card company will give you credit the following month, however, if you only pay the minimum monthly payment or anything below the full balance, the credit card company employing this practice will pocket the interest.By the third month, if we do not pay off the card, then we cannot fathom what the charges are and where they came from.

Of course, Initial-Interest Billing is the most detrimental to those who always carry interest on their cards.

2. ELIMINATING DRASTIC SIGNIFICANT CHANGES OF CREDIT TERMS, BUT CUTTING CREDIT LIMIT MORE FREQUENTLY AND WITH MORE POTENCY

Credit Card companies are required to provide at least a 45-day notice to consumers before making "significant" changes to credit card terms. Nonetheless, credit card companies have nefariously instead been cutting consumers' credit limits surreptitiously and damaging consumer credit score even more than before.

Let us say you owe $7,000 on your credit card and your credit limit is $10,000. Therefore, you have used 70% of your credit limit. If you pay down your debt to $5,000, credit card companies are likely to cut your credit to somewhere near your new balance, let us say $5,500. Now, with your $5,000 balance, you are utilizing a little more than 90% of your credit limit.

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