

An easy to understand and simple to follow guide to:

Credit Cards



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Introduction

Credit cards. Thin sheets of plastic 3 1/8 x 2 1/8 that carry all sorts of information, power and responsibility. Besides swiping your card as you pay for everyday purchases and charging your holiday, what else do you use your card for? Other than your minimum monthly payment, how much do you really know about your charge cards? If you're an average UK card holder, your answers are "much more" and "very little", respectively.

In order to really understand everything there is to know about credit cards, you'll have to start at the beginning.

History

Ask any child today what people used to make purchases before credit cards and you'll likely get one of two answers. Either "There was a time when there weren't credit cards?" or "I don't know, what?" Believe it or not, there was a time that predated the mantra "Charge it!"

Credit cards were first used in the US in the 1920s when fuel companies issued them to the increasing number of auto owners for gasoline purchases. Credit cards were originally made of celluloid, followed by metal and fibre cards, subsequently followed by paper and finally plastic.

In 1950 the first multiple use credit card was introduced. Diners Club, the universal credit card, could be used at any business that chose to accept it. An annual fee was applied and monthly billing was customary.

In 1958, American Express introduced their credit card in addition to their slogan - "Don't leave home without it"

Bank of America created its own brand of universal credit card in 1958. The BankAmericard eventually developed into Visa.

1966 another card was welcomed into households. The MasterCharge was established by companies that issued credit. This was eventually renamed to the now-popular Mastercard.

All of these credit cards not only revolutionized shopping in the US. By the 1990s the credit card revolution had taken hold in the UK as well. Credit cards became a universally accepted currency.

Eventually the credit card system changed to make the credits to merchants and bills to cardholders easier. Banks and credit unions began issuing credit cards. As sales slips were received by the bank, the merchant's bank account was credited. In turn, they billed and collected from the cardholder.

Visa, Mastercard, American Express and Diners Club are still some of the most popular credit cards available. Virgin & MDNA are newer on the credit scene but gaining in popularity.

Anatomy of Credit Card Cards

The first plastic credit cards were plain in design. They've come a long way. Today identification is very important. In some countries you can even add photo ID to your card. You can also customize the face of your card, sign up for hundreds, if not thousands, of [rewards](#) that are advertised on your card and many other modifications that make your card reflect you. There are numbers on the front, a magnetic strip and signature line on the back. What does all this do, though?

[Merchant cards](#), those issued by department stores, gas retailers and the like, have their own numbering systems. Universal credit cards agreed to follow a numbering system known as ANSI Standard X4.13-1983 in 1983. The numbering system is simple:

American Express

AmEx cards always start with a 37. The 3rd digit stands for type of card. The 4th digit is the type of currency the card represents. Digits 5 through 11 are the account number. Digits 12 through 14 identify it as a particular card on the account and the final digit is a cheque number.

Visa

Visa cards always start with a 4. The 2nd through 6th digits are the bank number. The 7th through 12th digits are the account number. The 13th digit is a cheque number. There are always 16 digits on a Visa card.

MasterCard

Like a Visa, MasterCard always has 16 digits. The first is always a 5. The bank number takes up the 2nd and 3rd spots and may be extended through the 6th digit. The account number takes up the remainder of the digits except the final one, which is for a cheque number.

Carte Blanche and **Diners Club** both start with a 38.

Discover cards always start with a 6.

The magnetic strip on the back is made of very small iron particles, each about 20/1,000,000 of an inch. These particles are sandwiched in a film then magnetized. This process is very similar to that of the manufacturing of cassette tapes.

That magnetic strip is used to store all the information a merchant needs to charge you for your purchase and to be credited for your purchase by the bank. Your account number, name, the bank number, expiration and more are stored on the magnetic strips.

There are three paths on the magnetic strip, each measuring about one-tenth of an inch wide. The ISO/IEC standard 7811, a standardization system used by banks that governs magnetic strip recording, specifies:

Path 1 is 210 bpi (bits per inch) and stores 79 6-bit + parity bit read-only characters.

Path 2 is 75 bpi and stores 40 4-bit + parity bit characters

Path 3 is 210 bpi and stores 107 4-bit + parity bit characters

Most credit cards only use paths 1 and 2. The third path is usually used for PIN (personal identification number), country, currency and account limit. This is the only path that can be read as well as written.

The order and which specific information is stored on each path are also covered by the ISO/IEC standard.

If your card ever stops working and it's not because the account has been locked or closed by the bank, it could be that your magnetic strip is malfunctioning.

There are many theories on magstrip malfunctions, some are true and others are myths. During one episode of the American Discovery Channel television show *Mythbusters* a number of experiments were conducted to prove or disprove many of these theories. Here are some of the conclusions they reached:

Eel skin wallet does not erase magnetic strips.

Magnets do not clear information from credit cards.

Salt water has no effect.

Cell phone use near a credit card does nothing.

Microwaving doesn't erase the card, but does cause an arc effect.

In fact, the stars of the show were unable to erase the credit card information. That doesn't mean the magstrips are impervious to any harm. Scratches, dirt and excessive use of a credit card can make the magnetic strip difficult or impossible to read by store readers.

To replace your credit card once the magnetic strip has been damaged, contact the issuer by calling the phone number on the back of your card. The customer service number also appears on your statement.

Types of Cards

There are four major types of cards that most people often think of as “credit cards”.

Debit and cheque cards - This is your money. You deposited money into a bank account at some point and purchases made with a debit card take the funds directly from your bank account. There are usually no fees for POS (Point of Sale) purchases made with a debit card. Additionally, you can access cash from cash machines, with little or no additional fees.

You apply for this type of card at your bank, when you open an account. A credit cheque may be required and all but a few consumers will be approved. Your credit limit is usually tied to your current balance unless there is an overdraft account tied to the account.

Store and merchant cards - This is borrowed money. These cards are typically issued by a store or merchant for use in their store only. The retailer usually offers additional discounts for customers that use credit cards they issue. Fees are similar to those of credit cards and typically include annual fees and interest on purchases.

You usually apply for these at the merchant's retail outlet or, with the new strides in technology, on their web site. Credit checks are almost always required.

Credit cards - This is also borrowed money. These cards can be used almost anywhere and are commonly Visa, MasterCard, Discover or American Express. Interest charges and complex webs of fees are usually associated with these cards.

Applying for a credit card may take anywhere from thirty seconds to hours. There are thousands of places to apply for a credit card. If you already have an established relationship with a bank or credit union, that is often a good place to start.

Secured credit cards - This is your money. And it's borrowed money. This account requires you to secure it with something of value, most frequently money in the form of opening a chequing or savings account with the lender. Fee and billing structure is very similar to that of credit cards. These are usually only used to build credit, since you are essentially paying to borrow your own money.

Application for this account type is very much like the credit card process.

For more on applying for a card and understanding the fees involved, refer to the [Understanding Applications and Fees](#) section.

How Credit Cards Work

When you walk into a store or go online to shop and pick out your purchases, the next step is to check out. Regardless which card you choose, there are three basic ways your card may be charged:

1. The merchant may opt for voice authorization, especially if the merchant does few credit card transactions. Voice authorization process is pretty simple - the merchant calls a credit card processor and submits the following information:

- Merchant ID
- Card number
- Date of expiration
- Total charge

If approved, a six digit authorization number is given to the merchant and your purchase can be completed. Periodically, the merchant will send in the authorization numbers and signed charge slips in order to be credited for the total of the slips. The merchant fees are less using this method but the payments from the processing centres takes longer.

2. Virtual Internet terminals are used for online purchases. The online merchant sends the same information to an acquirer. An acquirer collects credit-authentication requests from retailers and supplies them with a guarantee of payment.

3. Electronic data capture (EDC) is a process that people are most familiar with. These are the machines you or a cashier swipes your card through when you make a purchase at a POS (Point of Sale) machine. The POS terminal then calls an acquirer using an internal modem.

Acquirer companies get the transmitted data, either via Internet or POS terminals and checks the validity of the credit card information against a database of credit card information. Data compared includes:

Merchant ID

Credit card number

Date of expiration

Credit-card limit

Purchase total

PIN (Personal Identification Number)

While the PIN is checked at the database, it is not transmitted from the credit or debit card. It is only stored in the database, which is why you are required to input it each time you use this type of card. It is encrypted before transmittal and is not sent back to the merchant. This one-way encoded transmission is for protection of your PIN.

The acquirer gathers the data for each merchant and sends it to the company that issued the credit. The credit card company then transfers funds to the merchant and sends bills to the cardholder, usually once a month.

The processing company doesn't work for free. They make money on each and every credit card transaction. In most cases, the processing company gets both a per-transaction fee and a percentage of each sale.

Costs to Merchants

When you spend £100 at the shoe store, the processor probably received somewhere in the neighbourhood of £0.25 for a transaction fee, plus a small portion of the sale, usually between .02% and 3.5%.

So your £100 shoes put £0.275 or so into the processor's pocket. The merchant may also pay annual or monthly fees for the processor's service in addition to any banking fees. Terminals are offered ranging from free to a couple of thousand pounds.

The fees to the merchant are one reason many retail stores now have a minimum purchase requirement for credit cards. They may even offer a small discount to customers that pay with cash or credit cards.

The business also runs a risk that you will chargeback your purchase. A chargeback is essentially to [dispute](#) the charges. If the card issuer finds your story credible, they are required to refund the purchase price and a penalty fee (usually around £25.)

How Payments are Applied

You probably expect your payments to be allocated to the high interest balance first; but typically this is not so. Nearly all credit cards have a set order of applying payments. Payments are applied to any fees incurred first. After those are paid, zero interest balances are credited. Low interest balances are credited next. Additional payments are applied to higher interest purchases and higher still, all the while the interest continues to build on higher interest balances, transfers and cash advances you make.

Understanding Applications and Fees

Before you go on a shopping spree, you'll have to fill out a credit card application. And that means understanding all those fees. The fine print does matter.

Here's a list of information you'll need to apply for a credit card:

- Name
- Complete, current address and years of residence there
- All other addresses for the past 2 - 5 years
- Phone number
- National insurance number
- Date of birth
- Current employer
- Employer address and years of employment
- Previous employers, including address and phone number, for the past 3-10 years
- Annual gross household income
- Account types, numbers and how long you've had them
- Driving licence

You might also be asked for:

- Identifier from a recent bill
- Mother's maiden name
- Residence type and monthly mortgage or rent payment

If you have more than one authorized user on the account, you'll need all the information listed above for the other applicants, as well.

Credit Score

When you apply for a credit card, the lender will look at your credit record to assess the risk they take when they loan you money in the form of a credit card. Your credit report will include scores for:

- Mortgage and rent
- Utility bills
- Car loan(s)
- Student, equity and other secured and unsecured loan(s)
- Closed accounts
- Defaults
- Foreclosures
- Garnishments
- Bankruptcies
- Tax liens
- Other legal judgments against you

The scores for each of these will appear along with information like:

- Payment history - do you make payments in full and on time?
- Amount owed - how much debt do you currently have?
- History length - how many months or years have you demonstrated your experience managing credit?
- New accounts - do you have any other new accounts?

Overall credit scores that fall below 600 points will typically be viewed as high risk and you'll likely be offered only high interest cards. The closer to 850 your score creeps, the better your offers will become because you show a superior aptitude for managing your debt.

These are the top six causes of lowered credit scores:

1. Poor history paying bills and credit lines
2. Bankruptcy, civil judgment, and being reported to a collection agency
3. Unpaid or late payments in recent history
4. Short term record of credit accounts
5. Multiple accounts opened within previous six months
6. Sizeable debt or large number of open accounts

Your credit report can be adversely affected by too many open accounts or frequent inquiries. Another cause of credit problems includes identity theft. For these reasons, you should check your credit once a year.

You are entitled to one free credit report per year from any of the three credit reporting agencies: Experian www.experian.com, Equifax www.equifax.com, and TransUnion www.transunion.com. You are also entitled to a free credit report if you've been turned down for credit.

Confirm the information on your credit report is correct once you receive it. Most notably, double check the following items:

- Closed accounts - confirm they are listed as "closed" on your report. If you find one or more that are still listed as open accounts, send a letter to the accounting department of the business requesting it be closed. Send a copy of the letter along with a request to add a comment to the account to each of the credit reporting agencies.
- Late payments - if you've made late payments, check that the information is accurate. If a lender lists late payments but you've made all of them on time, contact the credit provider immediately. Again, send a letter to both the lender and all three credit reporting agencies, requesting they add a comment to that account.
- Lines of credit that aren't yours - if these appear you may have had your identity stolen. Contact the lenders immediately and close the accounts. Contact your bank. Identity theft is a crime.

Fees

Once you've gathered everything you'll need to complete an application, take a moment to understand all the fees you might be required to pay. The more you know now, the less you'll be surprised later.

Annual fee is a preset charge that is comparable to a membership fee. This is charged either upon application completion or, more commonly, during the first billing cycle. Ranging anywhere from £5 to £149 per year, you'll be charged each year you keep the account open (regardless of whether you use it), usually on the anniversary of when your account was opened. There are a number of lenders that offer "no annual fee" accounts and these are almost always waived for business cards.

Set up fee is a one time charge when an account is opened. Most lenders do not charge these fees but some still do.

Finance charge is the amount you pay in addition to interest and other fees. Finance charges are calculated in nearly as many ways as there are lenders. Some are calculated as a percentage of your purchases for the month. It may be a percentage of the balance you carry over from one billing cycle to the next. There may be a minimum, ranging from £1 to £20 per month, regardless of how often you use it or charges you make.

Cash advance fee is a specific amount or percentage of a cash advance. When you take money out of your credit card account, it is called a "cash advance." You pay a higher sum or percentage for this service than for straight purchases. Cash advance fees may be flat amounts (£5.00 per withdrawal) or proportionate to the amount advanced (10% of the loan) or subject to a higher interest rate (interest charged 24% instead of the normal credit card rate of 10%). This is a very costly way to borrow cash.

Balance transfer fee is the flat amount or percentage of the balance of another credit card or account that you transfer to the new card. Some banks are now offering this service for free because it allows them to charge you interest on purchases made under another credit plan. Even if they charge you low interest rate for a limited time on balance transfers, they are still making some money.

Late payment fee is just that. Either a flat fee or percentage of outstanding balance charged when you make your payment late.

Over limit fee is usually charged in the form of higher interest rates on purchases that exceed your credit limit. Over limit charges are often penalized at the same high rate as cash advances.

Credit limit increase fee is very rarely charged. Unless you request a credit increase often, you will likely find your limit is automatically increased periodically. The credit card companies want you spending their money and

paying the interest. That's where they make money. It is not in their best interest to charge you so they can lend you more.

Fees for foreign purchases are charged for using your credit card outside the US. These fees are in addition to cash advances made in foreign lands.

Grace period - a time period, usually after the payment due date, during which you can pay your credit card bill without being charged a late or finance fee. Grace periods are usually only offered when you pay the balance in full each month rather than carry a balance. Grace periods are usually not offered for cash advances.

Then there's the big one. Interest. Also called APR or Annual Percentage Rate. This is where things usually get complicated. Not today, though.

Annual percentage rate (APR) - this is the percentage rate your balances are charged per year. To compute your monthly percentage rate, divide your APR by 12.

APR Types

There are four types of interest rates (APRs):

Fixed rate describes percentage charged to purchases at a fixed or set, unchanging rate.

Variable rate describes a rate that will change over time.

The index (other figure your interest rate is based on) is one part of figuring your rate. Another is the margin. A margin is a percentage rate that is set by the lender. It could range from 0% to 10% or more. Finally, there may be a multiple. This is a number your lender chooses, much like a margin but is applied differently. Depending on which of these variables are used in calculating your interest rate, the formula might look like:

Interest Rate = Index + Margin

Interest Rate = Index x Multiple

Interest Rate = (Index + Margin) x Multiple

Examples of some current offers include:

PR (Prime Rate) + 9.99%

There are usually caps on how high or low the interest rate can be. Look for caps that are close together for a better foretelling of your future rates.

Introductory rate - A temporary, lower APR that usually lasts for six, nine.

Tiered rate - a variety of rates charged to the same account based on the outstanding balance. A tiered rate credit card APR chart might look like:

10% on balances from £1 to £250

11% on balances from £251 to £500

12% on balances from £501 to £1000
13% on balances over £1001

Credit Card Rewards Programs

There are two sides to every story and the scoop on credit card reward programs is no different. While there are benefits to many of the thousands (or more) of rewards offered there are also scores of consumers that believe there are also disadvantages. Depending on how you plan on using your card, you may want to spend quite a bit of time shopping for a rewards program you like.

Rewards cards work by offering you bonuses in the form of cash, merchandise, additional retail savings, airline tickets and travel vouchers, gift certificates and even college savings. The return rates vary from 1% -10%.

On most merchandise, gift certificate and cash back programs work like this:

- Receive 1 point for each £1 charged
- Points can be redeemed for gift certificates, merchandise or cash back, either credited to your balance or by cheque

With this formula, £5000 in spending will result in £50 worth of rewards. This is a return rate of 1%. Sounds great, doesn't it?

A few rewards credit cards offer 0% interest for an introductory period before raising the interest to 10% or more. Racking up a balance at 0% and earning rewards is great, it can feel like free money. But once the interest rate kicks in, you'll end up paying £41.60 in interest every month you keep a £5000 balance, and that's IF you qualify for a low 10% APR.

If you pay off your balance in full each month, though, you won't be charged interest (most cards only charge interest on balances carried from month to month) and the rewards, no matter how large or small, become free again.

Once you've decided you do want a rewards card, make sure you pay off the balance each month, religiously. Below is a list of some popular rewards programs:

- Charles Schwab's reward program offers point trades for equity trades at a rate of 6500 points for 5 stock trades in addition to cash back or travel rewards
- Discover offers 5% cash back on all fuel purchases
- Amazon.com credits 3 points for every £1 spent at their online store and 1 point for each pound spent elsewhere - points are redeemed for Amazon.com gift certificates at a rate of 2500 points for £25
- CitiBank offers a Upromise card that rewards users with 5% of all supermarket, gas station and drug store purchases funnelled into a Upromise education savings plan
- Starbucks offers a card that works as a credit card and rechargeable Starbucks card, offering store credit instead of cash back
- Toys"R"Us rewards program rebates Toys"R"Us, Kids"R"Us, Babies"R"Us and Imaginarium purchases by 4% and offers 1% cash back on all other purchases

- Bass Pro Shops credit cards accrue points at the rate of 1 point per pound spent. Points can be redeemed for Bass Pro Shops merchandise.
- NASCAR credit card rewards include access to driver-introduction Red Carpet area and even the chance to be Crew Chief for a Day
- Chase offers a home card that applies 1% of all purchases directly to your mortgage principal
- HSBC offers credit cards for those who would like to help environmental and special causes. HSBC makes a donation to your cause of choice with each purchase, in addition to offering cash back and gift certificate incentives. Some of their causes include:
 - RSPCA
 - Cancer Research UK
 - NSPCC
- All major airlines and cruise lines, as well as most nationwide hotel chains offer rewards cards with miles, cruise money or nights-stay incentives
- All major automobile manufacturers offer rewards programs with 3% incentives toward the purchase of their make vehicle or 1% cash back bonuses

Some rewards cards require an annual fee, ranging from £5 to £50. If you don't receive the annual fee in the form of rewards from points earned by interest free purchases, the card is costing you money.

Choosing the Right Card

The key to choosing a credit card is evaluating how you will use it.

Will you use it to consolidate debts? A balance transfer card is a great choice for those who have racked up considerable high-interest debt and want to start paying it off. Merging all of your debt to one low interest rate credit card can save you hundreds, even thousands, of pounds per year. Look for a card that doesn't charge balance transfer fees in the first 6 months. If you believe you will be able to pay off the balance in less than a year, look for a card with a 12 month, 0% introductory rate, and **confirm** the 0% rate is for balance transfers in addition to new purchases.

If you have more debt than you'll be able to pay off in a year, transfer the high interest accounts to your new card and pay it off in the first year, making minimum payments to other, low interest accounts. Make sure you pay off the balances transferred and avoid using the card for new purchases.

A 12% credit card balance of £8000 will cost you £960 in interest alone during one year. If you can transfer that credit card balance to a 0% card for a year, you'll be able to pay off an additional £960 in other debt in 12 months.

Apply for a new balance transfer 0% interest rate card in month 11 if you still have interest bearing loans and other credit cards. Also make sure you close the account after you've paid off or transferred the balance.

Do you pay off your balance in full each month? A rewards account will offer you bonuses for spending. The requirements for rewards cards are usually less stringent than low interest rate ones and for good reason - the rewards are the selling point.

Many retailers, manufacturers and travel companies offer their own rewards cards that offer a higher return rate. If you can't find one of those you believe you will find useful, go for a cash back rewards card. A cheque is better than an account credit because you have more flexibility spending cash rather than credit.

Be careful about signing up for a rewards program with an annual fee. Also, if your interest rate is more than the reward rate (and it is), you are only getting a good deal on a rewards program if you pay off the balance in full each month.

Will you carry a balance from month to month? A low interest rate card is what you want for revolving credit accounts. The lower the APR or annual percentage rate, the better.

Do you use your card only occasionally and pay it off regularly? A tiered interest rate card is something you should consider. Look for one with a low

interest rate for small balances; you can live with high interest for higher balances.

Will you make purchases at mainly one business? A store credit card (usually Visa or Mastercard with the retailer's logo) is issued by the specific merchant. They usually offer 0% interest on all purchases made in their store. Be careful, though. While 0% is enticing, the fine print usually states that only purchases at their store are interest free - other purchases are often charged much higher rates.

Only need credit for a one-time purchase? Store credit might be the way to go. These credit accounts are only good at the particular business. A Best Buy card, for example, can't be used anywhere but Best Buy. A variety of retail establishments offer special promotions where you can buy a new TV or whatever they sell and pay no interest for several months. However, once the promotional period expires they will charge all the interest you would have paid for the entire purchase, not just the remaining balance, if not paid in full.

Always, always read the fine print.

Credit Card Security

While identity theft and credit card fraud are crimes that have been on the rise as of late, there are some simple steps you can take to prevent your victimization.

Avoid writing down your personal identification number (PIN) if at all possible. If you can't memorize it, keep it written in a place separate from your card. When choosing a PIN number, choose one that is different than your other PINs and codes.

Keep your PIN secret. No one, not even bank employees or cashiers, should ever need it. And only enter it on a PIN pad. If possible, cup your hand over the PIN pad to shield peeping Toms from looking over your shoulder and discovering your secret number.

Sign the back of your card as soon as you get it and insist that cashiers check it against your receipt. If you aren't comfortable putting your John Hancock on your credit card, write ASK FOR ID in the signature space. And use permanent ink, like a ball point.

Never lend your credit card to others. Charges made by others on your account, even if you didn't authorize them but lent your card to someone for another purpose are not fraudulent. You will be responsible for whatever charges incurred.

You wouldn't leave £1000 unmanned, don't leave your card unsupervised, either. It only takes a moment for a dishonest cashier or restaurant employee to [skim](#) your card and make you a victim.

Report lost or stolen credit cards to your bank immediately. Most cards have a toll free, 24-hour service centre that take reports. How will you know who to call or what account number to report stolen or lost?

Make copies of all credit cards, both front and back. Keep these in a safe place in your home and/or office. If you prefer digital file keeping, document the phone numbers from the back of the card, your account number and your PIN.

Check statements for unauthorized charges as soon as you receive them. If you find charges that are incorrect, file a [dispute](#) with the issuer. If you find charges that are unauthorized, it's possible your account has been compromised and you should call the issuer to have it addressed immediately.

Mail payments from the postal office; do not leave them in your mailbox. Post boxes are safest just before pick up.

Throw away receipts after you've compared them against your statement. If you have access to a paper shredder, shred them first. If you don't, tear them up into very small pieces and either burn them or dispose of them in separate bags or trash cans.

Using Your Credit Card Online

Online e-commerce (electronic commerce) is more popular than ever, with millions of Internet purchases each day. The convenience is unmatched.

- No waiting in line
- No need to search for a parking spot
- Shopping during rush hour without battling traffic
- Gift suggestions for anyone and everyone
- Introverts don't have to interact with people
- Confidentiality (your office mate won't overhear your conversation)
- Credit card security

While cyberspace is a big, vast place of the unknown, it is usually a very safe place to send secret information like your credit card data. The Internet was originally invented by the United States Department of Defense, in fact.

Only shop on secure web sites. Not sure if the merchant offers encryption protection? Look for one of these three security features:

- If the web site of the checkout page begins with https:// instead of the usual http://, then the web site is secure.
- If there is a small lock or key symbol in the bottom right or left corner of your web browser window, then the web site is secure.
- If a warning pops up before you can proceed to checkout that asks if you want to continue to the secure page, then the web site is secure.
- If none of these are apparent, it's best to call to place your order because the web site may not be secure.

Choose a credit card with online safeguards or shopping guarantees. UK law limits your liability for unauthorized use of a credit card to £50. Some credit card companies offer 100% coverage. Some companies offer one-time use credit card numbers, valid only for one purchase. They do not issue a new card; they simply substitute numbers on your card for other numbers.

Use only one card for online shopping. If you buy a lot online, you may even want to dedicate a single card for this purpose. It will make reviewing your transactions easier and you'll more quickly identify any problems.

Be wary of vendors without a privacy and security policy posted. A reputable business will clearly state how they protect your information and whether or not they will share, sell, barter or give away your email address, name or any other information. If they don't have it posted somewhere on their site, you should not assume they will maintain confidentiality or protect you.

Provide only what is needed. Before entering your driver's license or any other personal information ask yourself this "If I went to the store to make this

purchase, would they need this information?" If the answer is anything but an absolute YES, then they should not need the info for an online purchase.

Use different usernames and passwords at the different sites you shop at. At the very least, choose an original password for each site. If OnlineWidgets.com's database is compromised you don't want the thieves to access your OnlineGadgets.com account information because you chose the same login and pass code.

Find what others have said. Before buying something from an unknown merchant, ask around. You might have a friend or co-worker who's dealt with them in the past. You can research vendors at many sites including bizrate.com and reviews.cnet.com. You can see what other consumers say about their service, policies and read about difficulties their customers have had. You might be able to find out more by looking up the business on the Better Business Bureau's web site at www.bbb.org.

Safeguard your computer. A firewall, in essence, provides a protective barrier between your computer and hackers. Identity thieves won't be able to obtain your personal information you send, and that includes protecting the addresses of the sites you visit. Anti-virus software will help detect and remove Trojan horses, worms and unwanted spyware from your computer, but you must keep it updated. The hackers and thieves are always building better mice; it's up to computer users to keep updated with the better mousetrap. If you don't have any of this software installed, you can still take steps to keep your PC safe.

Clear your cache often. Here's how.

For AOL browsers:

Click "Preferences" from the "My AOL" menu, on the AOL toolbar

Click "WWW"

Look for the "Temporary Internet Files"

Click "Delete Files", and then click "OK"

For Microsoft Internet Explorer (MSN IE) browsers:

Click "Tools" from the menus along the top of the browser window

Click "Internet Options"

Click the "General" tab

Find "Temporary Internet Files"

Click "Delete Files"

Check "Delete all offline content"

Click "OK"

Click "OK" again

For Netscape browsers:

Click Edit from the menus along the top of the browser window

Click "Preferences".

Find "Advanced"

Click the + sign in front of "Advanced"

Click "Cache"

Click "Clear Memory Cache" from the right side
Click "OK" on the dialogue box
Click "Clear Disk Cache"
Click "OK" on the dialogue box
Click "OK" again

Do not send credit card information via email. Ever. Email is not secure or encrypted. While it's very unlikely anyone would ever get hold of your email, one of the trillions sent each day, if they do your information, and often identity, is compromised. In addition to credit card numbers, essential information that should never be sent via email includes driver's license details, banking account numbers, usernames, passwords. If you ever receive email requesting any of this information, it is a [scam](#).

Telephone Credit Card Use

Some shoppers believe a telephone credit card purchase is the safest way to buy. This is not always the case. Follow these tips when using your credit card on the phone:

- Never give your credit card number out unless you initiated the call
- Always ask the teller to repeat the card number
- Confirm the total you expect to be charged
- Do not use a cordless or cellular telephone to make purchases. Radio wave interceptors can capture these conversations from miles away.
- Provide only the information that would be necessary to purchase the same item in person. This almost never includes bank account information or driver's license number.
- Don't be afraid to ask if the conversation is being recorded, who has access to the recordings and exactly what their privacy policy is.

Tips for In-Person Purchases

When shopping in person at a mall, grocery store, car dealership or any other place you use your card, follow these tips to keep your credit safe:

- Keep your credit card in sight. It only takes a brief moment to make an imprint of your card and an imprint is as useful for online or telephone purchases as plastic.
- Don't sign a receipt with blank spaces. If there is an unknown cost to be determined later, cross out the line and request a new receipt and separate charge once the new costs are revealed.
- Request the carbons from manual credit imprinting machines.
- Make sure the total is clear on your receipt. If an unscrupulous employee decides to add a zero somewhere you'll have clear evidence to the contrary.
- Tear up any unneeded copies, like duplicate receipts and carbons, into very small pieces and deposit them into trash containers away from the retailer.
- Before leaving the cashier, make sure you received your card back. Double check the name, make sure the card is yours.

- If you have a dispute, do not send or give your original receipt to the merchant. Make a quality colour copy of it or visit them in person with the original.

Disputing Charges

Sometimes you will find charges on your credit card bill that aren't supposed to be there. There are laws in place to instruct and protect you, merchants and the credit card issuer on disputed charged. The laws pertain only to disputes of errors in billing. Billing errors include:

- Unauthorized charges over £50
- Charges for products or services you didn't order, receive or weren't delivered as promised
- Mathematical errors
- Failure to credit payments or returns
- Sending your bills to an address that is not current if you've provided them with a change of address at least 20 days before the end of the billing period
- Charges for the wrong amount or that list an incorrect date

If you find any of these discrepancies on your credit card bill, there are specific steps you must take to claim your rights under the law. You must send a letter to the credit card issuer's billing inquiries address within 60 days of the first bill with the error. Don't send the letter to the address you send payments to - check the back of your statement for the address for billing inquiries.

In your letter, include your account number, name, address and an explanation of the error. Include copies (NOT originals) of any documentation of the error like a sales receipt, sign-up agreement or letters to the merchant. Keep a copy of the letter you send to the creditor. Send your letter via Royal Mail Recorded Signed For, Second Class.

Your letter might look like this:

Date

Your Name and Complete Address

Your Account Number

Name of Lender

Complete Address

I am writing to dispute an error on my account in the amount of £_____. I believe the error was made because (description of problem). I request the error be corrected, that finance and other charges related to the disputed amount be credited and that I receive an amended statement.

I am enclosing copies of (support evidence like receipts) that verify my position. Please inspect and correct this matter and the billing error as soon as possible.

Sincerely,
Your name
Enclosures: (list your supporting documents)

The credit company is required to recognize and reply receipt of your complaint within 30 days. They are additionally required to resolve the problem within two billing cycles or 90 days, whichever is shorter. During this time, you are permitted to withhold payment of only the disputed amount. You are still required to pay the remaining balance according to your credit card agreement.

If the credit company determines you really do owe the disputed amount, they must inform you in writing promptly why you owe it. You will be required to pay the disputed amount and any finance charges or fees associated with the charge. While you can dispute their decision, they can begin the process of collections for the amount you owe and any fees and interest.

If the creditor determines you should not be responsible for the disputed amount they must explain in writing what steps have been taken to correct the problem. In addition to the disputed amount, the creditor is required to remove any fees and interest associated with the error.

It's rare for a creditor to not follow procedure but if they do, if they don't respond to a complaint in a timely manner or take more than two billing cycles to resolve it, they are penalized. Failure to follow settlement procedure results in their inability to collect the disputed amount, finance charges or fees related to it. This applies even if it is determined you should have originally been responsible for the debt.

Billing errors should not be mistaken for disputes about quality of products or services purchased. Using a credit card does offer you the same dispute rights against the creditor as you have against the seller. These rights require that the purchase is more than £50, within 100 miles of your current billing address and that you've made a reasonable effort to settle the dispute with the seller.

Credit card companies must abide by a few other rules as well. They are required to give notice in writing when an account is opened. They must provide a statement every billing period that you owe them or they owe you more than £1. The bill must be sent at least two weeks (14 days) before payment is due.

All payments or credits, like refunds, must be credited to your account the date they are received or before additional charges would be incurred. They cannot hold onto your payment until finance or other fees are accrued. Any credits or refunds more than one pound must be credited (or refunded, if you send a written request) within 7 business days.

Scams and Schemes

Even if you take all precautions when shopping online, by telephone and in person, you could still be the victim of credit card fraud.

Stolen cards pose two fraud threats - not only do most thieves charge as much as possible soon after they've lifted your cards, they will often call the credit card issuer and submit a change of address. That way, when you call to report the card stolen, the new card will be sent to their address.

One safeguard banks and credit card issuers have begun taking is sending inactive credit cards. These usually require that you call an automated telephone number and input your account number and PIN, mother's maiden name or some other identifying indicator.

Another safeguard is to send the PIN separately from the credit card.

Skimming is a term used to describe the act of copying information from a credit card, usually while you wait nearby. Imagine you give your credit card to a cashier at a store to pay your bill. The unscrupulous employee then runs the card through an official credit card terminal but claims it wasn't read. They inform you there is another credit card machine that works better, so they run your card through that terminal. One of the two machines could be a skimming machine and they've just stolen your credit card information.

The copied card details are often sold on black markets to swindlers who clone the cards. The cloned cards are sold and thieves begin charging whatever their heart desires. This process can take place in 24 hours.

Another similar skimming scam happens at ATMs when you deposit or withdraw money. The fraudsters install a magnetic reading device to the card slot of the ATM in addition to a keypad monitor or even a bogus keypad. When you use your debit card, the skimmers receive your credit card account information from the magnetic strip (see the [Anatomy of Credit Cards](#) section) and your PIN.

Credit card companies have become more savvy storing credit card information, making skimming much more difficult. The introduction of CVV2 (Visa) and CVC2 (Mastercard) have put a damper on skimming reports. CVV2 and CVC2 credit cards have the information printed on the card rather than encoding the data on a magnetic strip.

Another new type of credit card, called EMV, is embedded with a small computer chip instead of printing or magnetic strip storage. Computer chips are read at POS terminals. With the better mousetrap, though, comes a better mouse. Readers / writer devices for the new EMV chip is readily available for just over £1000. A small investment for a crook that stands to make many thousands stealing your card information.

Chargeback fraud occurs when a cardholder [disputes](#) charges for purchases, claiming they were without authorization even though the purchase was legitimate. This type of fraud is also called cyber shoplifting and first-party fraud

Travelling Abroad

Acceptance of credit cards varies around the world. While nearly all developed countries accept credit and debit cards in one form or another, the ways they are accepted and fees for use abroad varies widely.

Before you board a plane, railcar or boat to trek across the world, check the currency exchange rate as well as international rates on your credit card. Some cards charge no additional fees for worldwide use while others charge 1% or more on all international purchases; still others don't work outside of the UK at all. If you plan on travelling outside the UK often, make sure you review the international use fees when you [check out card offers](#).

Consider taking more than one card. Depending on where you travel, hotels and car hires may block part of your credit line to guarantee against additional expenses they might incur. Some cards aren't accepted everywhere – Visa isn't accepted everywhere you want to be and some souvenirs are priceless but you might not be able to buy it with Mastercard.

Cash speaks volumes no matter what the language. Carrying too much cash, however, can pose a large risk for being robbed. This is especially true in places you are unfamiliar in.

It's a good idea to contact your credit card company before you take off to let them know where and when you will be travelling. Otherwise they might think the international charges are due to your card being stolen.

Another option is to pick up a few prepaid debit cards and/or traveller's cheques. This card type will allow you to load as much money as you like onto a credit-like card, complete with Visa, Mastercard or American Express logo. In addition to making purchases, you can also withdraw cash from ATMs. These cards do take a week or more to arrive once you've applied for an account, so you'll have to think ahead.

Traveller's cheques can be used instead of cash and may even be available in a foreign currency, but not all businesses will accept them and those that do may charge a fee. Follow the precautions recommended by the cheque issuer in case your traveller's cheques are lost or stolen. For example, you'll be instructed to sign the top of each cheque as soon as possible after you purchase them; otherwise, anyone who obtains the cheque can use it.

US and Canada

Credit cards are most prominent in America and Canada. They are accepted almost everywhere. They average three cards per adult, after all. You can pull out cash from almost any of the millions of cash machines and at grocery stores.

Germany

The use of credit cards in Germany is not as widespread as in the US, although many shops and restaurants accept credit cards from Diners Club, American Express, Carte Blanche, Visa and Mastercard.

France

Many small merchants in France refuse to accept debit cards for transactions under €15.25 (about £20 US) because of the fees charged by merchants' banks and credit card processors per transaction. In France, there is no differentiation between debit and credit cards.

Italy

Visa, Mastercard and an Italian card issuer called CartaSi are common credit cards in Italy. Credit card use in Italy is much less common than in the UK so you should plan on occasionally pulling out cash from cash terminals.

Russia

There are many cash machines in Moscow, St. Petersburg and major Siberian cities and big city shops and restaurants usually accept cards as payment. As soon as you head to smaller towns, however, you'll find it much harder to use your credit card.

Visa and MasterCard are accepted almost in any ATM. American Express and Diners Club are much less common.

China

As in Russia, stores and restaurants in large cities in China widely accept Visa, Mastercard, American Express and Diners Club. Smaller cities and towns will likely accept cash only, so stop by a branch of the Bank of China to make a withdraw before venturing out of the city.

Japan

Major credit cards including Visa, Mastercard, Diners Club and American Express are accepted in most major cities. Japanese tourism groups suggest that you bring cash with you when you travel into the rural countryside.

Traveller's cheques are also accepted in various places throughout Japan. Some Japanese cash machines do not accept foreign credit cards but international cash terminals are usually found in postal service offices throughout the country. Several department stores and airports also have automated teller machines that will accept your credit cards.

Use it Wisely

Once you have firmly grasped one line of credit, you might feel confident to add to your credit card collection. Don't be too anxious. Asking for credit affects your credit score negatively, especially if you're turned down.

Pay your balances off in full each month if at all possible. The worst thing you can do if you have sizeable debt is to make minimum payments. Here's why: By paying 2% of a £1000 debt each month (£12.30 per month), while accruing interest at a rate of 14%, it can take over 13 years to pay off that credit card. Making payments of just £5 more per month will reduce the pay off time to 6.5 years. The interest cost of the credit over 13 years is £954, compared to £356 is you pay it off in 6.5 years. Still better, paying off £1000 in 3 years will cost you only £31.27 per month and £125 in interest over the life of the loan.

Credit cards can be almost everywhere you want to be and you shouldn't leave home without them. Use them wisely and the card often is the key. But be careful, because your credit really is priceless.

Credit Card Statistics

A June 2006 survey of UK residents found that:

Four million people say they always run out of money at the end of the week or month.

35% of adults, about 14 million, rely on their overdrafts to get by each month
Two million people start the month in their overdraft, even after they have been paid.

The hardest subject to discuss with their partners is finances and money, according to 74% of UK couples.

One in three couples (32%) regularly lie to their partners about how much they spend.

28% of married people claim they have suffered a financial crisis at some point in their lives

27% of couples argue about finances.

10% of unmarried people say their finances are out of control.

41% of unmarried people claim they have suffered a financial crisis at some point in their lives

Money is a substantial cause of worry and anxiety.

Nearly half of the adult population in the UK has symptoms of MSS (Money Sickness Syndrome). Symptoms include:

- Mood swings and irritability
- General nervousness and apprehension
- Forgetfulness, decreased concentration and a feeling of disorientation
- A pattern of making poor choices
- Negative thoughts including suicidal or hopelessness

Over 10m people have suffered problems in their relationships because of worries about money.

UK consumers are the most indebted and over-extended population in Europe. Within the UK, the Scots population is the most over-debted.

Under-30s in the UK have acquired the highest level of unsecured debt.

The average individual under 30 owes about £8,000; 46% of their debt comes from student loans, the remaining debt is from credit cards and overdrafts.

Bankruptcy in the under 30 age group jumped to 18.7% in 2005, up from about 8% in 2001.

41% of 25-34 admit to overspending on their debit cards.

59% of 16-24s confess to going over budget when they use a debit card.

94% of 16 year olds believe it is important to know how to manage money

53% of 16 year olds have been taught how manage money

One quarter of the UK population (25%) have no idea how much they spend in a week

Just over one quarter of Brits (26%) have no idea of their monthly cash flow.

Just over half (51%) of them know their credit card balance
Just under half (46%) do not know what interest rates they receive on savings or pay on their credit cards.
Approximately 4 out of 5 people do not know that the term APR refers to the costs of a loan, including interest.
Four out of every ten do not understand mortgages
One third say they lack confidence in their financial affairs.
Less than one third could calculate the interest on £2000 over two years

Fun Credit Card Quotes and Trivia

Modern man drives a mortgaged car over a bond-financed highway on credit-card gas. ~ Earl Wilson

CREDITOR, n. One of a tribe of savages dwelling beyond the Financial Straits and dreaded for their desolating incursions. ~ Ambrose Bierce

Creditors have better memories than debtors. ~ Benjamin Franklin

Money is just the poor man's credit card. ~ Marshall McLuhan quotes

Money isn't everything - there's credit cards, money orders, and travellers's' cheques. ~ Unknown

Whoever drinks on credit gets drunk more quickly. (Armenian proverb)

Nothing seems expensive on credit. (Czech proverb)

Credit is better than money. (Gypsy proverb)

Sweet tongues buy horses on credit. (Hawaiian proverb)

He who drinks on credit, gets drunk twice. (Serbian proverb)

A pig bought on credit grunts all the year. (Spanish proverb)

Don't be fooled by how clean the turban is, the soap was probably bought on credit. (Turkish proverb)

Buying on credit is robbing next year's crop. (American proverb)

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