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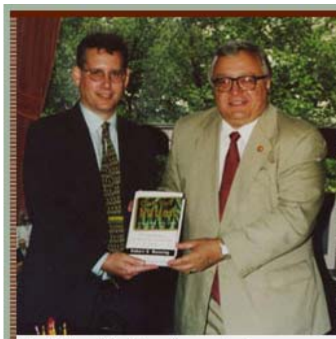

Dr. Robert D. Manning and Congressman John J. LaFalce (D-NY), Ranking Member of the Financial Services Committee of the U.S. House of Representatives, following Dr. Manning's Congressional testimony on credit card pricing policies, November 7, 2001.

How to Survive in the *Credit Card Nation*

by Robert D. Manning, http://creditcardnation.com

Consumer credit cards are one of the most revolutionary advances of modern society. Like the PC and the internet, bank credit cards have profoundly changed how we manage our personal finances and, for most of us, are a convenience that would be nearly impossible to live without. How difficult would life be if we had to provide a cash deposit on a rental car, send a certified check for a hotel room, or bring large amounts of cash on business trips or vacations. Indeed, without credit cards, commerce would flow much less efficiently and "new" economy businesses such as Amazon.com, eBay, LendingTree.com, Orbitz, and Hotels.com would not even exist.

For "convenience" users, that is the 40 percent of households that pay off their credit card balances at the end of the month, the "magic of plastic" is truly miraculous, since it provides free loans and other useful membership services. Various bank reward programs, moreover, offer free gifts and even cash rebates simply for using their credit cards rather than cash. What a deal! That is why the credit card industry disparagingly refers to convenience users as "deadbeats" since they lose money on most of these accounts.

Overall, about three out of five American households don't pay off their balances at the end of the month. These credit card "revolvers" essentially pay for the deadbeats and generate record profits for the credit card industry—over $18.5 billion in pretax profits in 2005—an extraordinary 30.5% increase from 2004!

Although the U.S. Federal Reserve cut interest rates sharply following the recent recession--to a historic low of 2.0 percent in 2001--most credit card "revolvers" experienced only modest relief; finance charges declined from an average of almost 19 percent in 1999 to about 15 percent in 2004 and are rising to over 17.0 percent today. Furthermore, penalty and cash advance fees have soared--from $1.7 billion in 1996 to over than $13 billion in 2005.

Beware of the fine print in your contract with $39 late fee and over limit fees. In real terms – after adjusting for inflation – the cost of borrowing money on credit cards (interest and fees) has nearly tripled since the onset of banking deregulation in the early 1980s. No wonder the largest banks (top ten control 92 percent of the credit card market in 2006) literally flood our mailboxes and e-mail accounts with applications for "easy" money – over five billion were delivered by the U.S. postal service (subsidized by our tax dollars!) in 2005.

So, do you aspire to become a "deadbeat"? Are you interested in stretching your "*Yuppie Food Stamps*?" Do you want to learn how to make the "magic of plastic" work for you rather than inflating the profits of your favorite bank? If your response is "yes" to any of these questions, then now is the time to take a crash course and learn how to survive and prosper in the *Credit Card Nation.*

Top Ten Tips of the *Credit Card Nation*

1. Repeat after me, **<u>I don't pay membership fees</u>**. If you paid a membership fee last year, call your friendly customer service representative and insist that the fee be waived (unless it is an airline frequent flyer program). Otherwise, there are many better deals out there. Check out the range of possibilities at consumer friendly http://cardratings.com

2. If you are a "revolver" **<u>reduce the number of bank credit accounts to a maximum of two</u>**. Keep a high-interest card that has many useful benefits such as free car rental insurance or annual itemized statements and pay these charges off in full each month. The second credit card should be a no-frills, low interest credit card (under 9.9% fixed or 7.9% variable rate) where you maintain a monthly balance.

3. If you are a "convenience" user, **<u>be certain that the "grace" period is at least 21 days</u>**. And, resist frequent flyer reward programs with membership fees unless you charge over $2,000 per month. In general, the best rewards are cash-back programs–at least 1.0 percent of all charges—with some over 2.0 percent after exceeding a specified level. If you choose a "free" gift, make sure that the delivery fees are modest or you will "eat up" your hard-earned points.

4. Call your friendly customer service representative and **<u>DEMAND a lower interest rate</u>**. Believe it or not, you can bargain over the phone. Play hardball and insist on talking to a supervisor, you may even get a free gift! After all, you work hard for your money. Why lose some of it because interest rates are rising. What have you got to lose anyway? You can also contest late fees but don't push it after the "second" refund—send your payments early!

5. Now is the time to **<u>lock in a fixed rate account</u>**, pronto. Interest rates fell so low in the early 2000s that credit card companies established a "floor" whereby finance charges could not fall any lower–even if the U.S. Federal Reserve substantially reduces its lending rate to your bank. Furthermore, interest rates will continue to rise, including home mortgages.

6. **<u>Look out for the classic "bait and switch" maneuver</u>**. If the credit offer sounds too good to be true, it probably is. Make sure that the credit card you receive is the one you applied for. Banks are not obligated to inform you that they changed their minds and will not honor their previous "pre-approved" offer. Many consumers don't realize that they have been duped until they use their new card and it is too late. If you are a victim of this ploy, demand the original terms or cancel the credit card-immediately.

7. **<u>Monitor the low "fixed for life" interest rate</u>** that was the reason you signed up for the credit card or transferred a balance from another credit card. It is not unusual for the 3.9 percentage rate that you started with to jump to 28.9 percent simply due to rising balances on other bank accounts or being late by only one day on a single payment. This is due to the "universal default" provision of your contract which the U.S. Congress has refused to make illegal.

8. **<u>Check for "tiered" interest rates on your account balances</u>**. For example, you may have taken a cash advance that is at the highest rate (at least 19.9%), normal rate for purchases (12.9% to 14.9%), and low introductory "teaser" rates (0.0% to 4.9%). Suddenly, the short-term rate expires and you want to pay it off after it jumps to 19.9 percent. The problem is that your monthly payment is applied to the lower rate balances. You may need to transfer the entire balance to another credit card in order to take advantage of the "magic of plastic."

9. **<u>Cancel your unused bank and retail credit accounts</u>**. You probably don't even remember what you bought with those 10 to 20 percent discounts that enticed you to get those store credit cards. Even so, they are probably still "open" accounts and thus they can negatively affect your credit score since they are viewed as potential debt obligations. Check your free credit report at www.annualcreditreport.com and cancel the most recent accounts first.

10. **<u>Don't even think about a credit card "benefit" program</u>**. Unless you like to literally burn your hard earned cash, these unemployment and disability programs are pricey and not worth the paper that they are printed on. In a word, they are a R.I.P-O.F.F! Use these premiums to pay down the principal of your credit card account balance and warn your friends and family.

So, how well did you learn your lessons? Are you prepared to lower your interest rates and embark on the liberating path to “deadbeat” status? Are you ready to assert your consumer rights and demand better customer service? Do you want to cross the social divide of debt and pursue the empowerment of investing? If “yes,” congratulations and, remember, choose wisely! For more information, Dr. Manning’s practical guide to consumer credit cards—*GIVE YOURSELF CREDIT*--will be published in late spring of 2007.