

Consumer Information

Resolve to manage your credit cards better this year

MADISON, Wis. (1/13/10)--If you're still looking for New Year's resolution ideas, you could do a lot worse than to consider your credit card behavior. Under the pressure of job insecurity and widespread unemployment, U.S. consumers have actually *reduced* their collective credit card debt. The unprecedented decline in credit card balances outstanding has been *at least* 7.3% per quarter during the past year (Federal Reserve Dec. 7).

Total U.S. credit card debt still exceeds \$888 billion, however--more than at year-end 2006. New Credit Card Accountability, Responsibility and Disclosure (CARD) Act protections, most of which take effect on Feb., require card issuers to communicate better and disclose rates and other information more clearly. This should make it easier for consumers to monitor what they owe. But, new regulations can't prevent people from making poor debt management habits.

Here are some New Year's resolution tips for controlling credit card use, courtesy of the Credit Union National Association's Center for Personal Finance:

1. *Actively manage your account.* Open and examine your credit card statements promptly. Look for unauthorized use, of course, but also look for announcements from the issuer. Under the new rules, you must have 45 days' notice of a change in your card's terms, such as an interest rate increase. If you choose to "opt out" of the change, you will no longer be able to add new charges to your card, and will want time to get a replacement while you pay off the old balance.
2. *Keep your credit score healthy.* This number between 300 and 850 is a measure of your trustworthiness as a borrower. The higher your score, the easier it is to get a loan and, often, the more favorable the interest rate. The most important ways to maintain and improve your credit score is by paying all your bills on time and not taking on excessive debt.
3. *Watch your card balance-to-limit ratio.* It's OK to occasionally "max out" your credit card for important purchases. But over the long term, try to keep your total credit card debt to a reasonable 10% to 20% of your *total* credit limit. If the ratio gets much above 20%, *and you can handle the payments*, ask for a higher limit on your current card or get another one. Don't add new cards too often, though, and don't close several unneeded accounts in a short period--either move can lower your credit score.
4. *Understand the overlimit option.* The CARD Act allows you to choose what you want your card issuer to do when you try to go over your card's credit limit. If you "opt in," you can go over the limit for a fee. If you "opt out," your attempt to go over the limit will be declined. Of course, if you keep your New Year's credit card Resolution No. 3, you can opt out and save yourself the money and grief of excessive debt.

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