CREDIT CARDS
PAPER OR PLASTIC?

STATE OF MAINE BUREAU OF CONSUMER CREDIT PROTECTION

DEPT OF PROFESSIONAL AND FINANCIAL REGULATION

DEPARTMENT OF
Professional & Financial Regulation
STATE OF MAINE

- OFFICE OF SECURITIES
- BUREAU OF INSURANCE
- CONSUMER CREDIT PROTECTION
- BUREAU OF FINANCIAL INSTITUTIONS
- OFFICE OF PROF. AND OCC. REGULATION

DOWNEASTER COMMON SENSE GUIDE

CREDIT CARDS: PAPER OR PLASTIC?

BY DAVID LEACH, MPA, AND ARIANNA CASTONGUAY

JANET T. MILLS
GOVERNOR

ANNE L. HEAD
COMMISSIONER

WILLIAM N. LUND
SUPERINTENDENT

Maine Bureau of Consumer Credit Protection

Toll-free Maine Consumer Assistance	Maine Foreclosure Assistance Hotline
1-800-332-8529 (1-800-DEBT-LAW)	1-888-NO-4-CLŌZ
TTY users call Maine relay 711	(1-888-664-2569)

Website: www.Credit.Maine.gov

The Maine Bureau of Consumer Credit Protection was established in 1975 to enforce many important consumer financial protection laws, including:

- -Consumer Credit Code
- -Truth-in-Lending Act
- -Fair Credit Billing Act
- -Truth-in-Leasing Act
- -Fair Credit Reporting Act
- -Fair Debt Collection Practices Act
- -"Plain Language" Contract Law

The Bureau conducts periodic examinations of creditors to determine compliance with these laws; responds to consumer complaints and inquiries; and operates the state's foreclosure assistance hotline and housing counselor referral program. The Bureau also conducts educational seminars and provides speakers to advise consumers and creditors of their legal rights and responsibilities.

William N. Lund
Superintendent
November 2017

DOWNEASTER COMMON SENSE GUIDE TO CREDIT CARDS: PAPER OR PLASTIC?

By David Leach, MPA and Arianna Castonguay
Editor: Steven Lemieux, MBA

Maine residents can obtain additional free copies of this booklet by contacting the Bureau of Consumer Credit Protection at 207-624-8527 or toll-free at 1-800-332-8529. Non-Maine residents may purchase the publication for $6 per copy, or at a volume discount of $4 per copy on orders of 50 or more. Shipping fees are included in the prices listed.

Dear Consumers,

Many Americans are comfortable incurring debt for vehicles, personal loans and, of course, credit cards! Modern consumers live in a world of "NOW" – many of us want have the item today and pay for it over time. Too often, however, we forget about the interest we'll pay.

Used responsibly, credit cards can be financial tools. They enable transactions for retail purchases, as well as hotel, airline or auto rental reservations. A credit card can also be a resource if an emergency occurs when you're traveling far from home.

Used irresponsibly, however, credit card balances can be a challenge to pay back. They are revolving loans, not "free cash." In this booklet, you'll learn the importance of not using credit cards to live beyond your means, and avoiding excessive charges for travel, entertainment, or eating out. Whenever you charge a purchase, remember that you will need to pay for it – with interest.

The *Downeaster Common Sense Guide to Credit Cards: Paper or Plastic?* explains how credit cards work. It provides information about how to comparison-shop for a card, and offers advice on how to use "plastic" responsibly.

As authors of this guide, we ask you to, "Think before you charge it!"

Sincerely,

David Leach, MPA
Principal Examiner

Arianna Castonguay
Margaret Chase Smith Summer Intern, 2015

Black Friday

In early November, sales flyers arrive touting incredible prices on toys, flat-screen TVs, and other items. Inside purses and wallets, credit cards shout "Charge it!" For some shoppers, holidays only become reality when the credit card bills arrive. A well-managed balance in early fall can become a staggering, multi thousand-dollar debt over just a few weeks. At a high interest rate, that debt may take years to repay.

Shop within your means. Fit this year's holiday shopping to your budget. Don't sacrifice everyday expenses, such as groceries, clothing, and electricity. Be prepared for unexpected auto and home repairs. Don't max yourself out. Enjoy the holiday season, and always think before you borrow.

Table of Contents

“Plastic” - A Brief History

Consumer credit for consumption of goods and services is still a relatively recent phenomenon. Before the 1920s few credit products were available to consumers. Most people considered personal debt outside of mortgages socially disreputable. Financial institutions were not interested in lending the small amounts desired by households. Merchants saw extensions of consumer credit as unwise investments.

One of the first precursors to the modern credit card was the charge coin, introduced in the 1860s. Charge coins were metal coins that displayed a customer’s account number and had a small hole for a key ring. A charge coin was only valid at the retailer that issued it. Shoppers would charge their purchases to an account at the store, paying their balance off at the end of the month.

By the 1920s, many retailers offered coupon books, allowing consumers to spread payments out over time. A consumer would apply at a store’s credit department. If approved, the store would issue the shopper a coupon book for a limited amount of credit. If the coupon book ran out, the customer would need to apply for a new one.

By the 1930s, charge coins were all but extinct. “Charga-plates,” small metal sheets embossed with a customer’s name and address holding a small paper card on the back for the cardholder’s signature, replaced them. Like charge coins, charga-plates were only valid at individual retailers. The major issuers of charga-plates during the 1930s? Department stores!

Prior to World War II, consumer credit wasn’t a money-maker for businesses. The reason was simple: merchants generally didn’t charge extra for credit. If customers didn’t pay their bills at the end of the month, the store had to carry the debt. For retailers, profit wasn’t about making money from credit sales. Rather, it was about drawing customers away from competing stores.

In 1938, Bloomingdales rolled out a new credit program: the permanent budget account (“PBA”). The PBA allowed shoppers to aggregate credit purchases, paying over six months. Although Bloomingdales cancelled the PBA program a few years later, the idea caught on. By the late 1940s, 75% of department stores offered some type of so-called revolving credit account.

One of the first recognizable card products was the “Charge-It” program developed by Jack Biggins and issued by the Flatbush National Bank of Brooklyn in 1946. Customers presented the card at local stores. The stores sent the customer’s bill to the bank, which would reimburse the store and charge a fee to the customer.

The first true widespread card was the Diners Club Card—a charge card limited to entertainment and travel purchases. In 1955, Diners Club began allowing its cardholders to use their cards for store purchases. American Express issued the first embossed plastic charge cards in 1959.

In the late 1950s and early 1960s, card issuers authorized and handled all aspects of card transactions, settling with the consumer and the merchant. That changed in 1966, when Bank of America began to allow other banks to use its credit card billing system: BankAmericard, now VISA. Around the same time, a second group of banks formed the InterBank Card Association, now MasterCard. These networks standardized merchant fees, while allowing issuers to set their own interest rates.

Until the late 1960s and early 1970s, credit cards weren't for the "Average Joe." They were an elite product. "Regular" people were considered too risky for card issuers. Retailers backed away from issuing credit. Businesses better able to absorb losses from delinquent borrowers replaced them.

In 1966, Marine Midland Bank in New York ran an experiment to figure out how to promote its credit cards to average consumers. The bank mailed out tens of thousands of credit card applications, plus almost 1,000 "live" (active) credit cards. Only 0.7% of the applications were returned to the bank, but 19% of the cards were in use within two months! The idea caught on. Massive, unsolicited credit card "drops" were legal, and not uncommon. Betty Furness, U.S. President Lyndon Johnson's special assistant for consumer affairs, called the practice "…like giving sugar to a diabetic." The Federal Reserve's Truth-in-Lending Act, passed during the Nixon administration, stopped card issuers from using this controversial tactic.

By the 1980s, the credit card market had grown. Interest rates for other types of credit rose, and so did rates for credit cards. In 1996, Maine Governor Angus King signed a bill into law deregulating credit card usury laws in Maine. The bill eliminated Maine's previous usury limit of 18% annual percentage rate (APR). A new federal law, the CARD Act (see page 15), went into effect in 2010. One important provision of the CARD Act is a prohibition on credit card solicitations on college campuses. According the Federal Reserve, credit card debt is the third largest type of consumer credit indebtedness in the United States, trailing only residential mortgage loans and student loans.

Marquette National Bank of Minneapolis v. First Omaha Service Corp.

This landmark United States Supreme Court decision allowed national banks to offer credit cards to adults across the USA. More importantly, it allowed national banks to set APRs and credit card fees based on their home states' usury laws. As a result, many national banks moved their credit card operations to states with favorable laws and high interest rate ceilings.

Comparison Shopping Made Easy

Here are six things to keep in mind when comparison-shopping for credit cards:

1. The ***annual percentage rate ("APR")*** indicates the amount of interest you'll pay. It is very important for those of you who carry a balance on your card from month to month. A low APR means that less interest will accumulate on the card's outstanding balance. See page 8 for more information.

2. Some credit card companies charge *annual fees* of $50 or more for keeping an account open! Don't dismiss cards with annual fees out of hand, since they sometimes feature extra benefits. Take the time to decide if the costs outweigh the benefits. See page 9 for more information.

3. *Not all merchants accept all cards.* VISA and MasterCard have the highest acceptance levels, followed by Discover and American Express. If you carry more than one card, consider choosing cards processed through different payment networks. Remember, a credit card is of no use to you if the merchant won't accept it!

4. Cards with *rewards programs* can be a great deal. Making purchases using a rewards card could earn you cash back, airline miles, gasoline discounts or other incentives. Keep in mind, many rewards cards feature high annual fees, so shop around!

5. A card issuer's *balance computation method* can have a major impact on how much a credit card costs over its lifetime. Many experts suggest choosing cards using the "average daily balance" computation method (see page 7), which gives the cardholder a chance to pay their balance in full each statement cycle without incurring a finance charge.

6. Choose cards that use *smart chips* rather than cards with magnetic stripes. Chip cards are more secure, and can help better protect you if hackers steal data from a merchant. See page 11 for more information.

When you apply for a credit card, the issuer may surprise you with a high credit limit—$10,000, $15,000 or more! Your credit score is affected by the level of debt you *could* incur (called "potential debt") using lines of credit. *Consider contacting the card provider to lower your credit limit to the amount that makes sense to you.*

Big Plastic On and Off Campus

In the spring of 2002, graduate student and co-author of this booklet David Leach conducted the first credit card study set exclusively in Maine at the University of Maine campus in Orono. Entitled *Big Plastic on Campus* and based on undergraduate students living in residential housing, his study found:

- 92% of students surveyed had been solicited for credit cards on campus
- 86% had been solicited in their own dorm rooms
- 18% had a credit card as a direct result of an on-campus solicitation
- 60% of students had at least one credit card in their own name
- For those with credit cards, undergrads surveyed averaged 1.6 cards per student
- 47% of male undergrads said they were carrying credit card balances of over $3,000 on a monthly basis, compared to only 6% of female undergrads.
- Of students not paying off balances in full each month, first-year students reported an average aggregate credit card balance of $867, while senior students averaged $2,338.
- 18% of card-carrying students made only the minimum monthly payment on their outstanding balances, while 7% reported

Order Your Free Credit Report

You can safely request a free copy of your credit report by phone, Internet or mail. If you make your request online, have your printer ready.

Order by Phone
1-877-322-8228

Order Online
www.AnnualCreditReport.com

Order by Mail

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

(see p. 23 for a request form)

Paper or Plastic?
Types of Payment Methods

You can use credit cards, debit cards, checks, charge cards or cash for most day-to-day purchases. It's up to you to decide which to use. Your choice of payment method may affect your finances more than you realize!

Cash

To borrow a phrase coined by Volvo executive Pehr G. Gyllenhammar, "Cash is king." You can use cash just about everywhere to buy just about anything. With cash, you don't have to worry about someone stealing your account number or making online purchases without your consent. You also don't have to worry about having a transaction rejected at the cash register. When you lose a wallet or purse full of cash, you may be out of luck unless an honest person finds it. It's a good idea to take *some* cash with you when traveling. Traveling with large amounts of cash is not a good idea, due to the risk of loss or theft!

Credit and charge cards can encourage spending, so if you are trying to cut back, cash may be the way to go. *People spend 12%-18% more when using credit and charge cards than when using cash.* The more visible the loss of money is, the less likely you are to spend. When you pay in cash, you can feel the money leaving your hands! Swiping a piece of plastic does not give most people the feeling of loss like paying cash.

Debit Cards

Debit cards are linked to a consumer's account at a bank or credit union (usually a checking account). With each swipe of the card, money is taken (debited) from the consumer's account to pay for purchases. In general, debit transactions do not work if there is not enough money in the account to cover a sale. Some banks and credit unions will process these transactions, charging the consumer a fee if they have signed up for overdraft protection. Like credit cards, debit cards are flexible and convenient to use for day-to-day purchases. Unlike credit cards, debit cards do not help build credit. Most banks and credit unions issue a debit card when a consumer opens a checking account.

It can be a challenge to keep track of debit card purchases, since they may take a day or two to clear. Your bank or credit union may not immediately post all transactions. Unlike credit cards, most debit cards don't offer rewards programs.

Debit cards also don't offer the same level of fraud protection presented by credit cards. If you report a lost debit card or fraudulent charge within two days after you learn of the loss or theft, you may be liable for up to $50. If you notify the bank less than 60 days after you learn of the loss or theft, your maximum liability is $500. If you report a loss or theft more than 60 days after learning about it, you may be liable for all money taken from your account and accounts linked to your account.

Credit Cards

Credit cards provide revolving loans issued by banks, credit unions and other financial institutions. They allow consumers to charge purchases and pay for them later, with interest! Each card has a credit limit: a maximum amount of charges (debt) that can be carried on the card at any given time. Each month the consumer is supposed to pay back part of that amount. The minimum payment is usually a percentage of the card's balance, a percentage of the card's balance plus fees or a set amount (*e.g.*, $25).

Although credit cards can provide financial flexibility, there is always risk. Many credit card companies offer rewards to their customers for making purchases, but consumers need to make sure those offerings don't lead to unnecessary spending.

It is not uncommon to see a 2-3% return of total purchases in the form of cash back, gift certificates, air miles or other incentives. If used responsibly, credit cards can help to build a good credit history, saving you money on insurance premiums and future loans. Credit cards also offer protection against fraud and faulty merchandise. But, again, the risks should always be kept in mind.

Credit cards can feature relatively high APRs and account fees, including annual card fees, over-the-limit fees and late payment fees. Late and missed payments have a negative impact on your credit score. Credit card use becomes very expensive if payments aren't made on time!

Charge Cards

Charge cards are also available to consumers. Like credit cards, charge cards extend credit lines to consumers. Unlike credit cards, charge cards require cardholders to pay the card's full balance at the end of every billing cycle. Because the card's balance is due in full at the end of the billing cycle, interest is not charged on purchases. Rather, charge cards often feature fees paid by both cardholders and merchants. Charge card rewards programs tend to be more generous than those offered by credit cards. Responsible use of charge cards can benefit your credit report and score.

Most companies are quite cautious and selective about who can receive their charge cards to. Consumers generally must have excellent credit before being eligible for a charge card. If you have strong financial discipline, a charge card may be a viable option.

How Credit Cards Work

When a card is swiped, information regarding the cardholder's account is sent to a bank handling the credit card transaction. The bank's systems use that information to verify the cardholder's account is in good standing and the account has sufficient credit available to cover the purchase. If the transaction is approved, the bank will send an authorization response. If the transaction is declined, the bank will provide a reason for the denial.

Using a credit card is not like taking out a closed-end installment loan to borrow money for a purchase, where you pay a series of equal monthly installments with a set end date. *Late fees, interest rates and over limit fees can add real costs to using a credit card. Consumers who educate themselves about the repayment features of credit cards are far more likely to avoid getting caught up in a debt trap! Managing the repayment of a revolving open-end debt like a credit card takes attention and commitment!*

Billing Cycles and Computation Methods

Credit cards follow a billing cycle. Each month one cycle will end and another will begin. Billing cycles do not necessarily end at the end of the month. They usually end 30-31 days from the end of the previous cycle. After the period ends, the consumer has a period of time to make their payment. The gap between the billing cycle and the payment due date is called the grace period. Interest generally doesn't accumulate until the grace period ends. In most cases, if you pay your balance in full by the due date, you won't incur a finance charge. If there is no grace period, as in cash advance transactions (see p. 8), the issuer may impose a finance charge from the date the card was first used during the billing cycle or the date each transaction was posted to a consumer's account.

How much a credit card costs depends on a number of factors, including the method the card issuer uses to calculate the finance charge. If a credit card company uses the average daily balance method to calculate finance charges, making payments early in a billing cycle and charges later in a cycle can result in a lower overall finance charge. When using this method, the amount of

Avoid cash advances if possible! When you withdraw cash using a credit card, interest starts accumulating immediately.

interest is based on the amount owed at the end of each day. The longer the charge remains on the balance, the more interest will accumulate. To calculate the balance due, the issuer totals the beginning balance for each day in the billing period, subtracts credits made to account each day. The total is divided by the number of days in the billing period to get the average daily balance. The rate applied to the average balance is 1/365th of the card's APR multiplied by the number of days in the billing cycle.

The adjusted balance method calculates the balance owed by deducting payments and credits made during the billing cycle from the outstanding balance at the beginning of the cycle, then applying the monthly interest rate to the remaining balance. The previous balance method affects the finance charge of the last billing cycle. Interest is applied to the outstanding balance at the beginning of the cycle. Payments and charges made during the current cycle do not affect it.

Most companies also charge late fees and over-the-limit fees. Be careful not to spend over your card's limit if you want to avoid extra charges. Some companies allow consumers to make one late payment without being charged a fee, but late payments made after that can be costly. Each company must comply with the CARD Act (see pg. 15) and their cardholder agreement when assessing credit card fees. Check with the card issuer to see what their policies are regarding late fees.

Interest, Finance Charges and Fees

Credit cards are a type of revolving loan. When a purchase is made with a credit card, a consumer is drawing down a line of credit. Each month, a minimum payment must be made on the account – usually around 4% of the card's outstanding balance.

Most credit cards are unsecured: property is not pledged as collateral. Unsecured loans carry greater risk for lenders than secured loans (*e.g.*, auto loans). As such, unsecured loans usually feature higher annual **percentage rates ("APRs")** than secured loans. Dollar for dollar, an unsecured loan like a credit card loan will cost a consumer more than a loan secured by a car, a house or other personal property.

If you want to save money, it's a good idea to <u>pay off your credit card balance in full each month</u> during the card's grace period. If you do, you won't pay interest on what you have borrowed, with a few exceptions. If you wait to make your payment and there is an unpaid balance, interest will accumulate. Interest on credit cards is usually backdated. If a consumer makes a purchase using their card at the start of the month, they'll be charged a month's worth of interest for that purchase. Every credit card has an Annual Percentage **Rate ("APR")**. APR is a measure of the total cost of credit on an annualized basis. APRs on credit card plans may fluctuate over time (variable rate plans). Some adjustments are tied to changes in other interest rates, such as the prime rate or the Treasury Bill rate. APRs on other cards are not explicitly tied to changes in other interest rates. These fixed-rate plans can be adjusted upwards with 60 days notice. Credit card companies require the consumer to pay a minimum amount each month, often around 4% of the outstanding balance on their card.

Some credit cards feature introductory APRs: temporary teaser rates received upon first acquiring a card, much lower than the card's normal APR. Introductory rates usually extend six to twelve months before converting to a higher rate. If you opt for a card featuring a low introductory APR, make sure you know when the temporary rate will expire!

Cash advance withdrawals, in which cardholders withdraw cash from an ATM or financial institution using their credit card, generally start accumulating interest <u>immediately</u>. APRs for cash advances can be significantly higher than APRs for regular purchases. These rates are disclosed to you when you apply for the card, so read everything before signing!

Credit card accounts sometimes come with annual fees. These flat yearly charges act like a membership fee for carrying a particular credit card. Annual fees are generally assessed on or around the anniversary of the date the card was first opened. Many companies today offer "no annual fee" credit cards because they appeal to thrifty consumers.

All credit cards measure

3.375" x 2.125"

Skimming and Shoulder Surfing

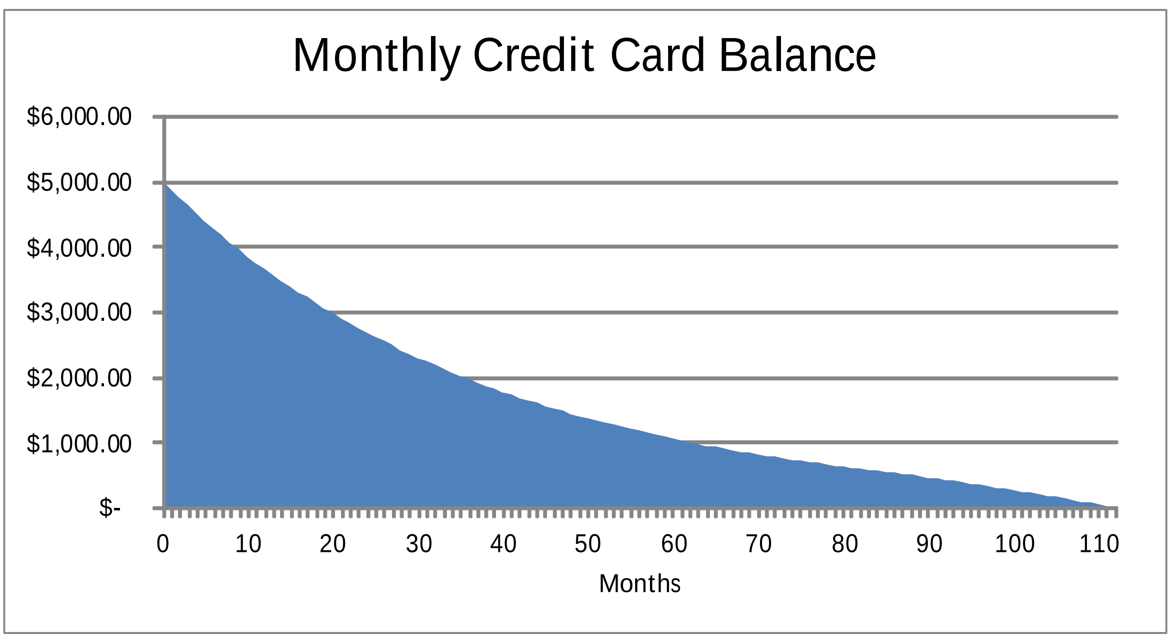
Watch out for shoulder surfers: people watching as you divulge personal information (e.g., pin number). When making a purchase, conceal your credit card number and stand close to the card reader (or ATM keypad), blocking the screen from prying eyes. Remember, anyone could be an identity thief – even a clerk processing a sale.

Be especially alert when someone takes your card to process it, such as at a restaurant. When your card is out of sight, there's a chance a thief could run it through a skimmer, a device that scans and stores credit card data. Skimmers are able to collect all the data needed to create counterfeit cards. Even if your card never leaves your hand, it may still be at risk from skimming. Skimmers can be affixed to gas pumps or ATMs. If a card reader looks odd, is sloppily installed or appears to have been tampered with, don't use it. Find another ATM, or pay with cash or a check!

How Long Will it Take to Pay off Your Credit Card Balance?

Many people are unaware of how much credit card charges may cost over time. Carrying balances from month to month can result in accumulation of an *enormous* amount of interest. Imagine taking a three-week vacation to Europe. The trip is all-inclusive and costs $5,000. You decide to charge it all on your credit card and pay it off little by little. If your card features a minimum monthly payment of 4% of the balance or $25, whichever is greater, at 18% APR, your first minimum payment will be $203. If you continue to make the minimum monthly payment, it will take you *112 months*, more than nine years, to pay off your vacation. <u>If you were 33 when you took that vacation, you'd be 42 when you finished paying</u>. You will have paid $2,727.50 in interest on that $5,000 vacation by the time you finish making payments!

Starting Balance	APR	Monthly Payment	Finance Charge	Total of Payments	Time to Payoff
$5000.00	18%	Greater of $25 or 4% of balance	$2893.93	$7,893.93	112 months



Credit Card Security Features

Credit cards feature a number of elements designed to help provide security for cardholders, and the help merchants determine whether a card is authentic.

Stripe vs. Chip

Your credit card contains at least one of two different types of technology: a magnetic stripe and/or a smart chip. Cards with magnetic stripes and cards with smart chips store information in different ways.

Magnetic stripes are located near the signature line on credit and debit cards. The stripe is a plastic film filled with magnetic particles. It stores three "tracks" or information. The first and second tracks contain information about the cardholder's account, including account number, expiration date of the card and cardholder name. The third track contains other information, which may include a PIN number, authorized amount or information relevant to rewards/loyalty programs. Magnets are able to erase magnetic stripes.

The first "smart" card using a chip microprocessor was introduced in Europe in 1984.

EMV (Europay, MasterCard and Visa) is the *global standard* for credit card smart chip technology. Smart chip technology is gaining traction in the United States. By the end of 2015, 70% of all new credit cards issued in the U.S. will contain smart chips. The first wave of cards equipped with smart chips also feature magnetic stripes.

So, what makes cards enabled with EMV technology so special? They can store a lot more information than traditional magnetic stripe cards. Magnetic stripes hold less than two kilobytes ("kb") of data—less than a typewritten page. Smart chip cards can hold up to 10 megabytes ("mb") of data: more than 500,000 times the data stored on a typical magnetic stripe card. Every time you use an EMV card at a store, the card creates a unique code for the transaction. The code only works once. It can't be used a second time. If someone manages to steal information from a transaction in which the card was physically present, the data is useless. EMV technology is a step in the right direction, but it isn't a perfect solution to credit card theft. Transactions in which the card was not present will still be at risk from data breaches.

A credit card number alone is enough to figure out which payment system a card uses.

Travel and entertainment cards begin with 3, VISA with 4, MasterCard with 5, and Discover with 6.

The Luhn Formula

The account number embossed on your card may seem random, but it's not. It's easy to determine whether a credit card number is valid using the Luhn algorithm, a simple formula used to validate identification numbers. The Luhn algorithm has three steps:

Card Number:	8	1	4	0	1	1	2	0	6	1	1	3	5	4	1	1
1. Multiply Every Other Digit, starting with the first, by 2:	16	1	8	0	2	1	4	0	12	1	2	3	10	4	2	1
2. Add the digits of any numbers greater than 9 together:	1 +6								1 +2				1 +0			
	7	1	8	0	2	1	4	0	3	1	2	3	1	4	2	1

3. Find the sum of the resulting numbers: 7+1+8+0+2+1+4+0+3+1+2+3+1+4+2+1= 40

If the sum is divisible by 10, the card number is valid!

The switch to chip technology is well underway in the United States. Countries in other parts the world transitioned to EMV cards years ago. If you plan to travel, make sure your credit card will work when you arrive at your destination. Many locations still accept magnetic stripe cards, but if not, you may be out of luck!

Card Security Codes

Credit, debit and charge cards all feature card security codes ("CSCs"). The CSC protects you (and the merchant) in transactions where the card is not physically present (*e.g.*, Internet or telephone orders), called "non-present transactions." Merchants cannot keep CSCs for any extended period of time. In most cases, each time a card is used for an online or telephone order, the company will ask for the card's CSC.

MasterCard, VISA, Discover and Diners Club cards all feature three-digit CSCs on the back of their cards to the right of the signature line. American Express cards use a four digit CSC on the front of the card above the card number on the right hand side.

Additional Security Features from Different Issuers

VISA cards feature a three-dimensional hologram of a dove on the front or back of the card and a signature panel that displays the word "VOID" if tampered with. MasterCard cards feature a hologram of a globe with text reading "Mastercard" repeating in the background. Like VISA, MasterCard cards have a tamper-evident signature panel.

American Express cards display "AMEX" in glowing letters under a blacklight. Some feature magnetic strips embedded with a hologram. Discover-cards display glowing text when exposed to a blacklight. Some feature a hologram of a globe pierced by an arrow on the front of the card. Many have a holographic magnetic stripe that changes color and appears to move when tilted.

Protect Yourself
from Identity Theft!

Fre

Gone Phishing: Identifying and Avoiding Consumer Scams

A guide to detecting and avoiding scams and identity theft. Learn what to do if you've been scammed and how to fight back!

"Some people use one half their ingenuity to get into debt, and the other half to avoid paying it.

-George Prentice

Safe Shopping Online

Shopping online is quick, easy and convenient, but it carries risk. Here are seven tips to help you reduce that risk and keep your credit card information safe and secure when shopping online.

- Check out the seller and make sure the site is legitimate. Only buy from trusted retailers. Look for reviews before doing business with online retailers you've never heard of.

- Enter your credit card details only on secure sites. Look for web addresses beginning with "https" and make sure your browser is displaying a padlock symbol or digital security certificate to ensure that the information you are sending to the site is encrypted.

- Check your browser settings. Turn off auto-complete to keep your browser from storing your card number.

- Never save your card number. One-click checkout is convenient, but letting companies save your credit card information makes it easier to steal. If you don't want to give up one-click shopping, use a very strong password for your account. Your password should be at least 10 characters long, and should include a mix of upper and lowercase letters, numbers, and symbols.

- **Don't use debit cards when shopping** online. Credit cards are safer. They carry stronger consumer protections and aren't linked to your checking account.

- Never send credit card details via email, or post them on social media. Ever.

- Avoid public computers. Browse and comparison shop, but wait until you're in a secure setting to make your purchase. Public computers often contain malicious software ("malware") designed to capture users' personal information. The computer may also store personal information in its cache, making it easier to steal.

- Be cautious when using public Wi-Fi. Public and business Wi-Fi networks may be infected with malware. Even if the network is legitimate, Wi-Fi operates on public airwaves. It's not difficult for third parties to view packets of data over public Wi-Fi. It's like tuning into a CB conversation. Never enter financial information when using a public network. There's no way to guarantee that your information will stay safe.

Credit Cards and Consumer Rights

The CARD Act

The Credit Card Accountability Responsibility and Disclosure Act of 2009 **("CARD Act")** was signed into federal law in May 2009. It establishes "fair and transparent practices" in the credit card market. Under the CARD Act, consumers must receive written notice of APR increases at least 60 days before the increase takes effect. Card issuers can't increase a cardholder's APR within the first year, unless an introductory rate is expiring or the card has a variable rate. Issuers also can't change the APR on existing balances, with one exception: if the cardholder has not made at least the minimum payments for two months in a row, and the issuer provided a 45 day notice in writing, the issuer may change the APR. The issuer must also review the account once every six months to determine whether factors leading to the increase have changed.

The CARD Act limits late fees to $25 for the first missed payment. Additional missed payments within the next six months may be subject to late fees up to $35. <u>Over the limit fees are only permitted if a cardholder opts-in to them</u>. Card issuers cannot require cardholders to pay fees above 25% of a card's total credit line within the first year an account is open. This limit does not apply to late and over-the-limit fees.

Card issuers must set consumers' payment due dates on the same date each month. If a cardholder make a payment greater than the minimum required, issuer must apply the difference between the minimum and the amount paid to the balance with the highest interest rate first. They must then apply the rest to the balance bearing the next highest rate of interest, and so on.

Monthly statements must describe how long it would take the cardholder to pay the full balance on their card only paying the minimum each month. It must also state what the total amount paid over the lifetime of the balance would be if the consumer made only the minimum payments. The monthly statement has to show how much the consumer needs to pay each month to pay off the balance in three years if no new transactions are made. It must also list the total amount that would be repaid under such a payment schedule. Monthly statements must disclose any late fees.

Card issuers cannot market on or near college campuses. Applicants under the age of 21 must prove they can make their payments, or have a co-signer who is 21 or older.

The FACT Act and Credit Reporting

The Fair and Accurate Credit Transaction **Act ("FACT Act")** protects against identity theft and increases consumer access to credit reports. Under the FACT Act, you can request a free credit report from each of the three major consumer reporting agencies (Equifax, Experian and TransUnion) every twelve months. Our agency suggests you request a credit report from one of these "credit bureaus" every four months to keep up to date on your credit. Credit bureaus must also provide consumers with their credit scores upon request (for a fee).

The FACT Act and Fraud Alerts

The FACT Act allows consumers to place three types of fraud alerts on their credit reports. This allows the credit bureaus to help mitigate harm stemming from identity theft. If a consumer suspects there is fraudulent activity on their credit report, they can place an initial alert. To do so, they must notify the credit bureau that they are a victim of fraud or a related crime. The credit bureau will place an alert on the consumer's file and include the alert on the consumer's credit score for 90 days. When one of the three major credit bureaus issues an initial alert, they notify the other two.

An extended alert is initiated if a consumer reports identity theft to a credit reporting agency. As with an initial alert, the credit bureau must notify the two major credit

Liability and Billing Errors

The **Fair Credit Billing Act ("FCBA")** protects consumers of loss or theft of a credit card. A consumer's maximum financial liability (per card) under the FCBA is $50. The maximum $50 card liability covers loss or theft, as well as unauthorized charges. Many card issuers will not assess the maximum charge against cardholders.

To dispute a billing error within 60 days of seeing the error, send written notice to the billing error address found on your monthly statement. Identify the transaction in your letter. Don't pay for the disputed goods or services in question. The card issuer will acknowledge receipt of your letter within 30 days of receiving it, and will research your query. The issuer must resolve the case within 2 billing cycles (not more than 90 days), and respond to you in writing.

Disputes about the quality of goods and services are not billing errors. If you have a problem with goods or services paid for with a credit or charge card, always make an effort to resolve the dispute with the seller first! If you can't resolve the issue with the seller, you may be able to take legal actions against the card issuer. You can only do so if the purchase was in your home state or within 100 miles of your billing address and the transaction was greater than $50.

reporting agencies when an alert is placed. Extended alerts last seven years. When a credit bureau issues an extended alert, they must exclude the consumer from prescreened credit and insurance offers for five years, unless the consumer requests otherwise.

Service members who deploy can place active duty alerts on their credit files. These alerts remain in effect for one year, and exclude the consumer from prescreened credit or insurance offers for two years.

There are other provisions of the FACT Act that take further steps in preventing identity theft. For example, on printed receipts, no more than the last five digits of a credit or debit card number are allowed to be represented (this is called "number truncation").

Marketing and the FACT Act

Businesses cannot use consumer reports for marketing solicitations among affiliates, unless they tell the consumer they will share information for that purpose. You have the option to opt out of affiliate marketing for a period of five years. When the five years is up, the business may approach you about receiving solicitations.

"Never spend your money before you **have it."**

-Thomas Jefferson

Opting Out—Your Rights!

You have the right to opt out of prescreened lists prepared by credit reporting agencies. There are also ways to stop phone calls from telemarketers and all junk mail. Take control when it comes to preapproved credit, insurance offers and junk mail!

National Credit Card Opt Out
1-888-567-8688.

Do-Not-Call List
1-888-382-1222 | donotcall.gov

To stop junk mail, submit a request containing your full name and address to:

Mail Preference Service
Direct Marketing Association
P.O. Box 643
Carmel, NY 10512

Grade Your Credit Card Usage

A+

You do not have a credit card, so never run the risk of "run-away" interest or unexpected fees. Or you have one card and pay the balance in full each month! Odds are your card has a low APR (12.9% or less).

A

You have only one or two cards and almost always pay your balances in full each month. Because your cards have low APRs, you pay little in interest to credit card issuers each year.

B

You have one or two cards, and pay your balance off in full more than half the time. You never let your balances rise above a third of your cards' credit limits, which helps your credit score. The APRs on your cards are

C

You carry three or four credit cards and rarely pay off your balance in full. Your balances may rise above one-third of your credit limit, but not above 50%. Your APRs are relatively high, but not excessive (16% to 19.99%).

If you use credit cards to increase your standard of living or have high balances due to medical expenses you may be a good candidate for licensed

D

You carry several credit cards and <u>never</u> pay balances in full. Your balances are often above 50% of the card's credit limits. Most of your cards feature APRs above 20%.

At this level, your monthly interest may consume your disposable income. You may have a hard time covering basic necessities and have little money

F

You are awash in credit cards and credit card debt! Your total credit card balances may approach or exceed your annual gross income. Your cards carry APRs of 20% or higher, and you are regularly charged late fees and/

Glossary of Terms

Accrued Interest: Interest that has accumulated since the most recent payment on a debt.

Acquirer: An institution that processes and settles a merchant's credit card transactions.

Affinity Card: A credit card issued by a financial institution bearing the name and logo of a merchant, educational institution or other organization. Affinity cards often feature discounts or other perks on products or services from the branded institution.

Amortization: The gradual paying-down of debt by installment payments

Annual Fee: A fee some credit card issuers assess cardholders on a yearly basis for the use of a credit or charge card.

Annual Percentage Rate (APR): The total cost of credit expressed in a yearly percentage rate. APR includes non-interest charges.

Authorized User: A person granted use of a card who is not contractually responsible to the card issuer for repayment of the card's balance.

Balance Transfer Fee: A fee charged for the transfer of a balance from credit or charge card to another. This fee is assessed by the receiving card issuer.

Cardholder: A person who holds a credit, debit or charge card issued by a financial institution.

Cardmember Agreement: A contract stipulating the terms and conditions associated with a credit or charge card, including APR, repayment terms and credit limit. An advance copy of this agreement must be made available to the applicant before the card is issued.

Cash Advance: When a cardholder uses their credit card to withdraw cash. In general, cash advance transactions are assessed a finance charge immediately, sometimes at a rate significantly higher than the card's normal APR. Many card issuers also assess a separate fee for cash advances.

Chargeback: Repayment of purchase price after a customer successfully disputes an item on their card statement.

Closed-End Credit: A type of credit in which proceeds are disbursed in full when the loan closes, to be repaid by a specific date. Most closed-end accounts feature periodic payments, although some require a single payment at maturity.

Co-Branded Card: A card issued by a financial institution and sponsored by a retailer or other secondary institution, generally displaying the sponsoring institution's name and logo.

Collateral: Something pledged as security for the repayment of a loan, forfeited in the event of default.

Card Network: A system that implements card-based transactions, acting as an intermediary between card issuers and merchants. Major card networks in the U.S. include MasterCard, VISA, Discover, and American Express.

Credit Limit: The highest balance a card issuer will allow a cardholder to charge on an account.

Credit Line: The funds a credit cardholder can draw from on an open-end credit account.

Credit Reporting Agency: Any person or company that engages in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties. The three largest credit reporting agencies in the United States are Equifax, Experian and TransUnion.

Credit Score: A statistically-derived representation of a consumer's creditworthiness, expressed as a number (300-850). In general, higher the consumer's credit score, the greater their perceived creditworthiness.

Default: Failure to make timely payment on an account.

Delinquency: Failure to make a payment on an obligation when due.

Discount Fee: A fee paid by merchants to acquirers to cover the cost of processing credit cards.

Finance Charge: The total cost of credit including interest and fees, but not including charges incurred in a comparable cash transaction.

Foreign Transaction Fee: A charge assessed on credit card purchases made in foreign countries.

Grace Period: The period of time after the end of a billing cycle a cardholder can pay their balance in full, avoiding finance charges. Most credit cards feature grace periods of 25 days.

Interchange Fee: A fee paid by a merchant to a card issuer and card network for accepting credit cards. Most interchange fees are not directly paid by consumers; however, some consumer transactions may feature reverse interchange fees paid by the institution that issued the consumer's card. Interchange fees are set by the credit card networks, and average 2% of the purchase price of any given transaction.

Late Fee: A fee charged by a creditor when a borrower fails to make a timely payment.

Merchant: A person or business that buys and sells goods for profit.

Minimum Payment: The smallest payment a creditor will accept without declaring an account as delinquent.

Open-End Credit: A pre-approved loan that allows one to draw upon a line of credit up to a set limit. Open-end accounts may be repaid prior to payments coming due. See also *Revolving Loan*.

Over-the-Limit Fee: A fee assessed for charges made above a cardholder's approved credit limit.

Prepaid Card: A card issued by a financial institution, preloaded with funds. Prepaid cards function similar to gift cards.

Previous Balance: The outstanding balance at the end of a card's previous billing cycle.

Principal Balance: The balance of a debt, not including interest and fees.

Returned Payment Fee: A charge assessed on a cardholder's account if a payment is returned unpaid.

Retailer Card: A card issued by a retailer or group of retailers good for use only at the retailer's own stores.

Revolving Loan: An account requiring monthly payments of less than the full amount due. The balance not paid in full is generally subject to a finance charge.

Risk-Based Lending: When lenders offer consumers interest rates or other terms based on the predicted risk a consumer will fail to repay their loan.

Secured Credit Card: A credit card secured by collateral.

Shoulder Surfing: Using direct observation of a person (*e.g.*, looking over their shoulder) to obtain personal information.

Skimmer: A device used to illegally scan a credit card, capturing and recording information stored on the card's magnetic stripe.

Zombie Debt: Alleged debt that is old, defaulted on or not owed, but is haunting the presumed debtor.

Publications

Be sure to check out other free booklets from the
Bureau of Consumer Credit Protection:

Downeaster Common Sense Guide: On The Money: A Young Person's Guide to Personal Finance – This booklet covers a range of topics, including the basics of budgeting, banking, and credit.

Downeaster Common Sense Guide: Debt Collection – Learn about your rights in a consumer debt collection action, and how to deal with collectors. This booklet also provides guidance in spotting prevalent debt collection scams and contains ample "cease contact" and "debt validation" letters.

Downeaster Common Sense Guide: Automobile Buying and Financing – From calculating "how much vehicle" you can afford, to vehicle research, shopping for the best APR and deciding on the best loan term for your needs, this booklet is a comprehensive guide to purchasing and financing a vehicle.

Downeaster Common Sense Guide: Gone Phishing – Identifying and Avoiding Consumer Scams – This guide is all about helping consumers defend themselves against being scammed. It details tactics and hooks used by scammers, offers advice to consumers so they can protect themselves, and explains how to report the scams to authorities.

Downeaster Common Sense Guide: Credit Reports and Credit Scores – Learn the basics of credit, gain insight into how credit reporting and scoring work, and discover the impact your credit has on your ability to borrow with this publication from the Bureau of Consumer Credit Protection.

Downeaster Common Sense Guide Finding, Buying and Keeping Your Maine Home – This guide is a resource for first time homebuyers, and provides an overview of the mortgage lending process, types of mortgage lenders and loans, and other related topics.

Downeaster Common Sense Guide to Student Loans — A comprehensive guide for the prospective college student on the world of educational loans. This book covers loan types, the FAFSA process, how to apply for scholarships and grants, and the rights of a student debtor in the repayment/collection process.

Downeaster Guide to Elder Financial Protection – This booklet arms seniors with information to protect their finances in the 21st Century. It includes tips on spotting and stopping elder financial abuse and exploitation, in addition to information on registering for the Do-No-Call List, the Do-Not-Mail List and the credit card (mailing) Opt-Out List. The Downeaster Guide to Elder Financial Protection also features a resource page containing contact information for "must know" consumer protection agencies in both Maine State and federal government.

Downeaster Common Sense Guide: High Interest/High Cost Loans— This booklet explains the costs associated with expensive loans, including: payday loans, pawn loans, buy-here-pay-here auto loans, private student loans, and more!

These guides are free to Maine residents. Out-of-state orders are $6.00 each, or at a volume discount of $4.00/copy on orders of 50 or more (shipping included).

To order, call 1-800-332-8529 (in-state) or 1-207-624-8527 (outside of Maine).

EQUIFAX Experian TransUnion

Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies, Equifax, Experian and TransUnion.

For instant access to your free credit report, visit www.annualcreditreport.com.

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.

Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 0 1 2 3 4 5 6 7 8 9

Social Security Number: ☐☐☐ - ☐☐ - ☐☐☐☐

Date of Birth: ☐☐ / ☐☐ / ☐☐☐☐
Month Day Year

Fold Here Fold Here

First Name M.I.

Last Name JR, SR, III, etc.

Current Mailing Address:

House Number Street Name

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Previous Mailing Address (complete only if at current mailing address for less than two years):

House Number Street Name

Fold Here Fold Here

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Shade Circle Like This → ●

Not Like This →

I want a credit report from (shade each that you would like to receive):
- ◯ Equifax
- ◯ Experian
- ◯ TransUnion

◯ Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

31238

Your request will be processed within 15 days of receipt and then mailed to you.

Consumer Protection Resources

Maine Bureau of Consumer Credit Protection	1-800-332-8529 TTY Maine Relay 711
Maine Bureau of Insurance	1-800-300-5000
Maine Bureau of Financial Institutions	1-800-965-5235
Maine Office of Aging and Disability Services	1-800-262-2232
Maine Office of the Attorney General (Consumer Hotline)	1-800-436-2131
Maine Office of Professional and Occupational Regulation	1-207-624-8603
Maine Office of Securities	1-877-624-8551
Maine Public Utilities Commission (Consumer Assistance Division)	1-800-452-4699 TTY 1-800-437-1220
Maine Real Estate Commission	1-207-624-8524
Legal Services for the Elderly	1-800-750-5353
Consumer Financial Protection Bureau (CFPB)	1-855-411-2372
Federal Reserve Consumer Hotline	1-888-851-1920
Federal Trade Commission Consumer Response Center	1-877-382-4357
Federal Trade Commission ID Theft Hotline	1-877-438-4338
Credit Card (Solicitation) Opt-Out Service (Automated Line)	1-888-567-8688
Internet Crime Complaint Center (IC3)	www.ic3.gov
National Credit Union Administration (NCUA) Consumer	1-800-755-1030
U.S. Department of Veterans Affairs	1-800-729-5772
U.S. Postal Inspection Office — ask for the Portland, ME Field	1-877-876-2455

NOTES

NOTES

3rd Printing | November 2017

Bureau of Consumer Credit Protection
35 State House Station | Augusta, ME 04333-0035
www.Credit.Maine.gov

Interested in a digital copy of this guide or other Bureau booklets? Scan to visit the Bureau's publications page. Mobile data rates may apply.