



DELRAY CREDIT COUNSELING
Debt Consolidation and Credit Counseling

Build or Re-build Credit with Secured Credit Cards

You will learn:

- The definition of a secured credit card.
- What are the benefits of a secured credit card.
- Who benefits from a secured credit card.
- Where to apply for a secured credit card
- How to compare secured credit card offers.

WHAT IS A SECURED CREDIT CARD?

A secured credit card is a credit card that is tied to a savings account at your bank. A secured credit card functions like any other credit card. Your merchants (the store and service providers) where you present your card for payment see it as a credit card. They have no idea if the card is secured or unsecured. Anyone applying for a secured credit card must deposit anywhere from \$300.00 - \$10,000.00 into an account (savings, CD, money market, etc.) The card issuer will issue a credit limit equal to 50% - 100% of the deposit. For example, if you deposit \$3,000.00 into a savings account and pledged the savings account as security for payment to the secured card issuer, the issuer subject to any other qualifying criteria will issue a credit limit between \$1,500.00 and \$3,000.00.

BENEFITS OF A SECURED CREDIT CARD

- Helps establish credit for those individuals who do not have credit experience.
- On time payments reported to the credit bureaus positively reflects on your credit report. As you continue to build a positive credit history, you will be able to use credit to purchase big ticket items in the future such as a car or house. Positive credit history also may have an impact on getting a job or even a promotion.

- Be able to book travel such as hotel, airfare, and car rental with your own credit card.

WHO BENEFITS FROM A SECURED CREDIT CARD?

Today, credit cards are a part of everyday life. You need a credit card for almost anything from writing a personal check to booking an airline flight. If you don't have a credit card, transacting everyday business is very difficult. While anyone can benefit from a secured credit card, there are two distinct groups; people with no credit history and people who have had credit issues in the past and need to re-establish good credit.

What comes first the chicken or the egg? In order to get credit you must have credit. That is the problem with those that do not have a credit history. Today, fewer and fewer creditors want to be the first to take a chance and extend credit to a person who has never demonstrated they could handle it. Often times to get started, a person (parent, co-worker, etc.) with an established credit history will be required to co-sign as a condition of extending the credit. A co-signor agrees to be equally liable for the repayment of any credit extended.

One of the biggest groups is the young adult. Most young adults fall into the no credit history group. One of the provisions in the Credit Card Holder Bill of Rights is young adults between the ages of 18 and 21 cannot obtain a credit card without their parents permission and co-signature (Joint liability) on the account or the young adult must document their own income to support the line of credit for which they are applying. A secured credit card would be a way for a parent and young adult to establish credit for the young adult while maintaining control of the credit limit. The next largest group who benefits from a secured credit card are people with bad credit.

Millions of people fall behind on their credit obligations on an annual basis. While each person has their own set of circumstances that led them from good credit to bad credit, the reasons usually boil down to loss of job, divorce, death of a breadwinner, extended illness, identity theft, and financial mismanagement. Regardless of the circumstances, an individual needs to get on a path of re-establishing good credit. While those without credit had problems of getting a creditor to be the first to extend credit, those that have had credit in the past and fell behind have a much more difficult time of getting creditors to extend credit again. It's like the old saying, once bitten, twice shy. While some secured credit cards have some minimum requirements, most can be met. Some secured credit providers do not have any requirements except the security deposit.

WHERE TO APPLY FOR A SECURED CREDIT CARD

Secured credit cards are offered through banks, credit unions, and some traditional credit card companies. Of course the internet has a bunch of creditors who will provide secured credit cards. With so many choices where do you start? The first place to check is the bank(s) where you currently have a checking or savings account. Someone at the bank may know you and hopefully you have an asset at that bank like a savings account or certificate of deposit (CD) that can be pledged for collateral. Another place to inquire are

local credit unions. Credit unions in general have a little less red tape and you can save in some of the fees other card issuers may impose. (More on this in the next section.) The last resort really would be online; however, if you do shop online for a secured card, make sure you go directly to a creditor's web site or a well known trusted portal like bankrate.com. Once you have identified the potential creditors you wish to evaluate for a secured credit card pick up the applications and the terms and conditions so you can evaluate the best place to make application.

HOW TO COMPARE SECURED CREDIT CARD OFFERS

Now it is time to compare the terms and conditions or offers of each potential secured creditor. The devil is always on the details. Just because there is a nice colorful brochure flashing zero fees doesn't mean that is the best offer. How do they "get you"? Learn and compare the following items on a credit offer:

1. Annual Percentage Rate – This is the rate of interest the creditor charges on outstanding balances on an annual basis. For example an APR 18% is 1.5% per month. As you would suspect the issuer with the lower APR is more attractive than the creditor with the higher APR. Also pay attention to purchase APR and cash advance APR. The APR on a cash advance is almost always substantially higher than a purchase of goods and services.
2. Application Fees – How much money is the creditor charging you in the form of an application fee? This can range from \$0.00 to \$100.00. Again the obvious answer is the lower the fee the better.
3. Miscellaneous fees. – Look out for processing fees, maintenance fees, etc. A common ploy done by some secured credit card providers is to offer a \$500.00 line of credit. They charge you a \$100.00 Application fee, a \$150.00 processing fee, \$50.00 insurance fee, and an annual fee of \$75.00 Add all of that up and your account has been charged \$375.00 in fees against the \$500.00 limit. That's a whopping 75% APR without charging a thing. As you can see the fees are just as important to review as the APR.
4. In what situations will the security deposit be garnished (Take from your deposit that secures the card.)? You need to know what circumstances your security deposit is at risk. Make sure you ask them. You don't want to be sacrificing your security deposit on a late payment that is 15 days past due.
5. Make sure the creditor reports your payment history to all of the National credit bureaus. Let's keep in mind one of the reasons you are obtaining a secured credit card is to establish or re-build your credit history. If the secured creditor is not going to report to the national bureaus, you would lose one of the major benefits of a secured card.
6. How long does it take to qualify for an unsecured card or a credit limit increase that does not require additional funds to secure? Each creditor should have a policy as to when they review you account to upgrade to unsecured status. Try and find an account that will review your payment history every 6-12 months. If you maintain a satisfactory pay history, the credit issuer may increase you credit limit by half of your initial deposit without requiring the additional deposit. For

example, if you have a \$500.00 initial credit line with a \$500.00 deposit. Your credit limit could be increased to \$750.00 with \$250.00 being unsecured.

7. What other requirements are required in order to be eligible for the secured card? Some examples of other requirements would be proving you have a checking or savings account in good standing, you haven't filed for bankruptcy protection in the last 12 months, provide copies pay stubs or tax returns to document the income you receive to determine if you have the capacity to make the monthly payments.

Regardless of which card you get or even how many it is important to remember to use a credit card as needed not to purchase things with money you do not have. Making payments over time should be reserved for mortgages, car payments, and student loans.

Compliments of
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