

Don't Believe These 7 Credit Card Myths

They sound sensible, but acting on them can cost you!

We've all heard some of them, and we've probably believed more than a few, but living by a credit card myth can cost you a lot of money in fees and hurt your credit rating. Here are seven of the most pervasive credit card myths to watch out for:

ASSIGNMENT

1. Read over this article.
2. Prepare a 7 slide PowerPoint summarizing each of the credit card myths, the logic, and the reality.
3. Email/share.

Myth No. 1: Writing 'See ID' on the signature line on the back of your cards will stop a credit card thief cold and absolve you of any liability if a thief uses it.

The Logic: The "Ask for ID" or "See ID" prompt reminds salespeople to confirm that the name on the credit card matches that of the person holding it. And why write your signature in that little white space when it could be copied and used on checks, legal forms or other documents? There are even reports of law enforcement personnel recommending this precaution.

The Reality: An unsigned credit card is invalid, technically, according to the agreements that card issuers have with retailers. Moreover, many clerks don't even check for signatures at all, meaning that they're unlikely to see "See ID" on the back of your card, even if it is there.

If you do give a clerk an unsigned card or one with "See ID" written instead, they're supposed to have you sign the back of the card and check the signature against your driver's license or passport. This may trip up the fraudster a bit -- after all, a thief is unlikely to be able to mimic your signature on command -- but that's only if the cashier bothers to take the time to compare that signature to the one on the driver's license.

So what about the liability issue? Does writing "See ID" absolve you if the card is taken and used? No, because "no matter what's on the back, you're only liable for up to \$50 charged when a card is stolen, and some companies waive that for their cardholders," says Lauren Zeichner, an attorney with Consumer's Union. "Writing 'Ask for ID' might encourage a retailer to ask for your ID, but it has no legal bearing."

Myth No. 2: There's no credit limit on your American Express card, so you can buy anything you want.

The Logic: Years of powerful advertising from American Express have probably locked at least one of their messages in your mind: "No preset spending limit." So when the AmEx arrives in the mail, you

can activate it and buy tickets to Maui -- or your own Gulfstream jet to take you there, right? After all, there's no limit on your account.

The Reality: AmEx has changed; it no longer issues only charge cards -- the type that allow you to rack up a lot of debt, as long as you pay off the entire debt every month. They issue credit cards, too, which allow you to carry a balance.

In addition, when you inspect the marketing info from American Express, the phrase "no preset spending limit" usually comes with an asterisk. In the fine print, you'll find wording to the effect that this "... does not mean unlimited spending. Your purchases are approved based on a variety of factors, including current spending patterns, your payment history, credit record and financial resources known to us."

"There is no preset spending limit. It's dynamic. It can change based on your financial situation and how you use the card," says Mona Hamouly, a spokeswoman for American Express. "We have customers who make extremely large purchases with their cards, but that may be part of their profile."

In other words, if you don't already make high-dollar purchases with your credit cards, expect AmEx to question why you're suddenly buying \$6,500 designer shoes when you stated on your application that you earned just \$30,000 a year. "The best thing to do when you're going to make a purchase that's out of the ordinary for you is call and let us know, so we can discuss the details," says Hamouly.

Myth No. 3: You need one of each of the big cards -- Visa, MasterCard, American Express and Discover -- in your wallet because you may be stuck someplace that accepts one and not the others.

The Logic: People do wonder if the place they're going will take the card(s) they have. The rivalry between American Express and Visa has perpetuated this for years, as evidenced by TV spots for Visa that showed flashy restaurants and exclusive hotspots " ... that don't take American

Express." Some places are picky: Go to a Sam's Club, and you can only use Discover and its own branded card, while only American Express is good at rival retailer Costco.

The Reality: "If you have two of the big four, you're not likely to have any problems," says Linda Sherry, national priorities director for Consumer Action in Washington, D.C., "and millions of people just get by with one. It's much simpler."

"Although their advertising can make you want all these great cards, it's probably not great financial sense to have them all," says Sherry. "Remember: All those cards with your name on it don't make you rich and powerful, and in the end, you could become poor because of them."

Myth No. 4: You can give your credit score a boost by paying more than you owe.

The Logic: Paying more than you owe does temporarily bump up the amount of available credit on your card. It's also true that using a smaller percentage of the credit available in your accounts -- known in the industry as keeping a "low utilization ratio" -- helps your credit score. Lastly, it's thought that early credit scoring models may have given people a boost when they paid a personal or car loan a month early, so some may think that the same thing would apply to their plastic.

The Reality: "Even though you may be below zero on an account, it's assumed that's a temporary situation," says Roslyn Whitehurst, a spokesperson with the credit bureau Experian. "Whether you've got a credit of \$100 or \$1,000, it still shows as a zero balance for scoring purposes."

Myth No. 5: Using your debit card wisely can help your credit score.

The Logic: Debit and credit cards look alike, both bearing Visa, MasterCard or other logos. They're treated virtually the same by retailers. Thus, both should have an impact on credit scoring.

The Reality: "Having a bank account with a debit card and maintaining it properly shows that you're a responsible consumer," says Sherry. "But it is not taken into account" in credit scores, she says.

Myth No. 6: Retailers can set a minimum amount you can charge on a credit card when you buy something from them.

The Logic: In a small store or restaurant, it's not uncommon to find a sign that says, "\$5 minimum for credit card purchases." If this wasn't allowed by the credit card companies, surely they'd crack down on it.

The Reality: Retailers who set minimum charges are breaking their agreements with the card companies. Because retailers pay interchange fees -- which vary, but average about 2 percent of the sale -- plus possible transaction fees on each credit card purchase, it's easy to see why a store owner would want to discourage lots of small credit card sales. But when they do so, they risk losing their ability to accept cards. "You're allowed to charge any amount on your card, even a penny," says Zeichner. "The problem is that the retailer wants you to charge enough to make it worth his while."

If you need to use a card for a small transaction that's against store policy, you can object, although you may be invited to take your business elsewhere. The other thing to do is contact the credit card company. "We want to know about retailers who do this," says Matt Towson, a spokesman for Discover Financial Services. "It violates our contract with them."

Myth No. 7: If you go over your credit limit and pay it back before the due date, you'll be fine.

The Logic: Lots of people go over their credit limits. After all, credit card companies don't want to embarrass you and lose you as a customer, so they rarely decline your purchase. As long as you're a good customer and you keep the overage reasonable, they won't hit you with an over-the-limit fee.

The Reality: It's true that credit card companies don't want to decline your purchase when you go over your limit. And if you're buying something that puts you a few dollars or more over the top, there's a good chance they'll give you the green light. But remember, every time you pass that credit limit, even for a short period, you could give the issuer a reason to boost your interest rate to penalty rate levels -- sometimes more than 30 percent.

You've also triggered one of those nasty fees that can eat up your account. Taken over time, those fees can add up and hinder your ability to draw down your debt. "It just makes sense for the company," says Sherry. "They know you don't want to have the card declined, so they quietly penalize you the \$30 or \$40 over-limit fee." To avoid it, try calling before your purchase to see if they can give you at least a little bump in your credit line.