Unsecured Credit Cards and The Facts You Need To Know

Contributed by Webmaster

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There are two types of credit cards issued by banks, secured and unsecured. Unsecured credit cards and generally reserved for those with a good credit history and have demonstrated an ability to repay an accrued debt on time. The credit limit or amount of unsecured credit that is granted is determined on an individual basis and can be raised or lowered based on performance and payment history.

This also holds true regarding the terms of credit issued by the bank. Customers with higher credit scores tend to receive lower interest rates and credit card fees than those customers with slightly lower scores. This can significantly impact the amount of debt you accumulate over time if you have high interest rates on your credit purchases. It is important to manage your spending and unsecured credit card debt with appropriate income to debt ratios and pay down your credit cards quickly when using unsecured credit.

The main benefit of a credit card is instant access to more cash than you may have on hand. An example would be if you had an interview for a new job and needed to buy a suit.

Let's say that the suit you want to buy costs $250 and the matching shoes and accessories are an additional $80. Earning the money to purchase these items could take you 2-3 weeks, however if you purchased them on a credit card, you could pay them off out of your first new paycheck and few interest rates would accrue.

Credit cards can become problematic when a consumer does not manage their spending properly and they accrue more debt than a regular monthly payment can cover. When a consumer carries over balances from month to month, significant interest rates will accrue on those balances. Missing payments or paying late will also trigger a banks reaction to raise your interest rates and charge penalties for late fees and missed payments.

In 2007, the Federal Reserve reported the total amount of consumer credit card debt to be $2.6 trillion. This is an increase of 8.3% from 2006 and 53% since 2000. It is evident by these increases that US consumers depend more and more on credit for their purchases. As the economy deteriorates, and many consumers find themselves struggling with increased living expenses and gas prices, there is a real danger in carrying high balances on unsecured credit cards.

Although efforts are being made in the Federal Reserve and other regulatory agencies to reduce practices that tend to increase credit card balances for people that face financial difficulties, the reality is that once you fall behind in payment, the credit card companies will increase your interest rates and late fees, causing you to fall deeper into debt.

The National Credit Union Administration (NCUA), the Federal Reserve Board, and the Office of Thrift Supervision issued a joint proposed rule on May 2 that would prohibit the following seven practices associated with credit card programs, possibly by the end of the year:

1. Unfair time constraints for consumers to make payments; statements to be mailed at least 21 days before payment due date.

2. Unfair allocation of payments among balances with different interest rates; require allocation in a manner beneficial to the member, for example, allocation of payment over the minimum to the item with highest interest rate.

3. Unfair application of increased annual percentage rates to outstanding balances; prohibit applying an increased

interest rate retroactively to pre-existing balances; exceptions or cases.

4. Implementing a variable rate or expiration of a promotional rate when the member is more than 30 days late in making the minimum payment.

5. Unfair fees for exceeding the credit limit solely because of a hold placed on an account;

6. Unfair balance computation method; prohibit from computing the finance charge using a "two-cycle" average daily balance computation.

7. Unfair financing of security deposits and fees for issuance or availability of credit; no charges more than 50 percent of credit offered and require spreading fee over first year rather than a lump sum.

8. Deceptive firm offers of credit; require firm offer of credit with range of rates and terms to include a description of the factors used to determine whether the member will qualify for the best rates and terms.

Eliminating these major sources of outstanding debt requires long-term planning for most consumers and a dedicated objective for becoming debt free. A credit card is not a requirement for successful living, but even those who only pay for goods or services with available cash often find a credit card to be a convenient form of identification and instant credibility.

In order to avoid excessive credit card debt, the holder must decide if the goods or services are worth the added expenses.

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