

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

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REGULATION B--EQUAL CREDIT OPPORTUNITY

New Consumer Education Pamphlet--"If You Use a Credit Card"

TO ALL BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

"If You Use a Credit Card," the latest in a series of educational pamphlets, is now available for distribution. The pamphlet explains credit card protection under Federal laws, including how to limit risk if a card is lost or stolen, and what to do if goods or services purchased are not satisfactory. The pamphlet also explains how to compare credit card costs.

We would encourage member banks to distribute copies of this pamphlet to consumers through such methods as lobby displays and inclusion with monthly statements. Copies of "If You Use a Credit Card" may be ordered by banks, creditors, and members of the public free of charge from the Federal Reserve Bank of Dallas. Requests should be addressed to the Records Division, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222.

One copy of this pamphlet is attached.

Sincerely yours,

Robert H. Boykin

First Vice President

Attachment

Some creditors also charge a flat annual membership fee for use of their card.

Federal law does not set rates or tell the creditor how to calculate finance charges — it requires only that the creditor tell you the method. Be sure to ask for an explanation of any terms you don't understand.

Tips on Credit Cards

- Shop around for the best terms. Remember that finance charges may differ depending on the method the creditor uses to assess them.
- Make sure you understand all the terms of your credit card agreement before you sign.
- Pay bills promptly to keep up your good credit rating and to avoid high finance charges.
- Keep a list of all your credit card numbers in case of loss or theft, and keep a good record of your purchases and payments.



If you use a credit card — and today most families have at least one — you should know about your protections under Federal law.

- How to limit your risk if your card is lost.
- What you can do if goods you buy with a credit card are unsatisfactory.
- How to figure out and compare credit card charges.

Unsolicited Credit Cards

It is illegal for a card issuer to send you a credit card unless you ask or apply for one. However, a card issuer may send you, without your request, a new card to replace an expired one. You may also be sent an application for a card in the mail or be asked to apply by phone.

Lost or Stolen Credit Cards

Your risk on lost or stolen credit cards is limited.

You do not have to pay for **any** unauthorized charges made **after** you notify the card company of loss or theft of your card. So keep a list of your credit card numbers and notify card issuers immediately if your card is lost or stolen. The most you will have to pay for unauthorized charges is \$50 on each card — even if someone runs up several hundred dollars worth of charges before you report a card missing.

Defective Goods or Services

You may withhold payment on any damaged or shoddy goods or unsatisfactory services purchased with a credit card, as long as you have made an effort to solve the problem with the merchant.

This right is limited if the card was a bank or travel and entertainment card or any card **not** issued by the store where you made your purchase. In such cases, the sale:

- must have been for more than \$50; and
- must have taken place in your home State or within 100 miles of your home address.

Prompt Credit for Payments

If you can avoid finance charges on your credit card account by paying within a certain time, it is obviously

important that you get your bills, and get credit for paying them, promptly. Check your statements to make sure your creditor follows these rules:

- Prompt billing. Look at the date on the postmark. If your account is one on which no finance charge is added before a certain due date, then creditors must mail their statements at least 14 days before payment is due.
- Prompt crediting. Look at the payment date entered on the statement. In most cases creditors must credit payments on the day received.

Refunds for Overpayments

If you overpay on your credit card account by \$1.00 or more, a creditor must give you a refund at your request. Overpayments can occur when, for example, you overlook a return of merchandise to be credited to your account.

Discounts for Cash Payments

It is illegal for credit card companies to prohibit stores from offering discounts to people who pay by cash or check. Stores that do offer cash discounts must make this fact clear to all buyers. They may not add an extra charge (above the regular price) for those customers choosing to use credit cards.

For example, suppose you want to buy an item regularly priced at \$50. The store offers discounts for cash of 5 per cent. If you pay in cash, your price should be:

$$\begin{array}{r} \$50.00 \\ -2.50 \text{ (5\% of } \$50) \\ \hline \$47.50 \end{array}$$

If you use a credit card, the price is \$50.

Credit Card Costs

A credit card is an easy way to “buy now, pay later.” But it is a form of borrowing, and in many cases a finance charge will be added to your bill each month on the money you still owe.

How much you pay for the use of a credit card depends on three important terms of the credit card arrangement, which differ for cards issued by banks, by retail stores, or for travel and entertainment. Creditors must tell you:

1. **The Annual Percentage Rate (APR).** This is the percentage cost of credit. It's your key to comparing costs regardless of the amount of credit or how long you have to repay it.

2. **The Method of Calculating the Finance Charge.** Creditors use various systems to arrive at the balance on your credit card account on which they assess finance charges. Some creditors assess finance charges after subtracting your payments for the billing period. This is called the **adjusted-balance method**. Other creditors give you no credit for payments made during the billing period. This is called the **previous-balance method**. Under a third method — the **average daily-balance method** — creditors add your balances for each day in the billing period and then divide by the number of days in the billing period. Under this method, your purchases made during the billing period may or may not be added to the daily balance. Here's a sample of three credit card billing systems.

	ADJUSTED BALANCE	PREVIOUS BALANCE	AVERAGE DAILY BALANCE
Monthly rate	1-1/2%	1-1/2%	1-1/2%
APR	18%	18%	18%
Previous balance	\$400	\$400	\$400
Payments	\$300	\$300	\$300 on 15th day
Finance charge	\$1.50 (1-1/2% x \$100)	\$6.00 (1-1/2% x \$400)	\$3.75 (1-1/2% x average balance of \$250)

As the example shows, the finance charge may vary considerably for the same pattern of purchases and payments on a credit card account. Even when the APR is the same, the amount of the finance charge depends on how the creditor treats payments.

3. **When Finance Charges Begin to be Charged to Your Credit Account.** How much time do you have to pay your bills before a finance charge is added? Some creditors, for example, give you a 30-day “free ride” to pay your balance in full before imposing a finance charge. If you go beyond the due date, you will pay a finance charge.