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Credit Card Tricks, Part 1

Part of being a wise consumer when it comes to managing credit is knowing what games some credit card companies play that can wind up costing you money. If you are a smart consumer, part of what you have to do is to watch out for different tricks or gimmicks of the credit card industry. Frankly, these tricks they use are all very legal, but I think some of them represent questionable practices at best in terms of what credit card companies are doing which (intentionally or otherwise) trips up consumers really puts your credit health in jeopardy.

Universal Default

If you check the fine print in your credit card statements, you will find that many credit card companies tell you that they have the right to check your credit report periodically, and you'll see from your credit file that they do, in fact, examine your credit status from time to time. You may be a Visa cardholder of, say, five years, or perhaps you've had that American Express for ten years, or maybe that MasterCard or Discover Card in your wallet has been there since you can remember. Well, the reality is that in today's credit environment, these companies are all engaging in very highly sophisticated forms of risk management. These are their words, not mine: risk management.

They are essentially trying to weed out potential customers that they think might not be as good a credit risk. So part of what they do is to constantly watch, monitor, and scrutinize your spending patterns and your credit file. And what do you think happens when they are constantly watching and looking at your credit status? Any little thing that you do that falls outside of the bounds of accepted behavior – such as paying a bill late – subjects you to something called universal default. Universal default simply means that if you default on one loan of any sort, you are considered to have universally defaulted on all your debts.

What this means, in practice, is that if you're a long-standing customer of Bank XYZ, and you've faithfully paid your bills on time to that bank, but then you skip your auto loan payment for whatever reason, or you are 30 days late on another credit card payment, well, all of a sudden even your card that is in good standing with Bank XYZ is threatened. With universal default, Bank XYZ can raise your interest rate on that card to a default rate – typically around 25 percent or so – just because you've been late paying another creditor. Sounds unfair, right? Well, again, it's perfectly legal – unfortunately.