

How you use credit cards should determine how you choose them

By Sandra Block

Americans have a complicated relationship with credit cards. Most of us won't leave home without them. But ask the average consumer how she feels about credit card companies, and you're likely to hear the kinds of words you can't say on prime-time TV without getting into trouble with the Federal Communications Commission.

A recent survey by J.D. Power and Associates found that credit cards have the lowest customer satisfaction level of all financial services. On a 1,000-point scale, card companies received an average satisfaction rating of 658.

Credit card issuers lagged behind mortgage servicers (798), online brokerage firms (773) and retail banks (763) on the satisfaction scale.

Those results will come as no surprise to anyone who's ever been smacked with an unexpected late fee or interest-rate hike.

Still, choosing the card that best suits your borrowing habits can improve your credit card experience, says Jeff Taylor, senior director of banking practice for J.D. Power.

The J.D. Power study divides credit card users into two categories:

► **Transactors.** These are people who usually pay off their balance each month. These folks tend to be more satisfied with their credit cards than are card holders who carry a balance.

Because transactors don't have to worry about interest rates, they tend to look for cards that provide the best rewards, Taylor says. That makes sense: If you don't pay interest on your credit card, any rewards you receive are gravy.

But some rewards are more satisfying than others. Airline miles are still the most common credit card award, with about 40% of card holders receiving this incentive, the survey found. Still, customers who received cash-back awards, which are available to 22% of card holders, expressed higher levels of overall satisfaction, the survey found. Those who received hotel rewards points — available to only 9% of card holders — also expressed higher satisfaction. That may reflect difficulties consumers have faced in trying to use their airline miles, Taylor says.

The survey also found that most card holders aren't aware of all the benefits their cards offer. Many cards, for example, offer travel insurance, emergency assistance and concierge service. Card holders who take advantage of all their card's benefits tend to be more satisfied.

► **Revolvers.** These are folks who typically carry a balance on their credit cards. If you fall into this category, forget about rewards programs. You can't afford them.

Cards with generous rewards typically charge higher interest rates, says Greg Daugherty, executive editor of *Consumer Reports*. If you carry a balance, he says, the amount you'll pay in interest will probably exceed the value of the reward.

Your best bet is to pay off your balance each month. But if that's not possible, look for a card with a low interest rate and no annual fee.

Small is beautiful

American Express ranked highest among the 10 credit card issuers analyzed in the J.D. Power survey, followed by Discover. American Express received high marks for benefits, features and problem-solv-

ing; Discover earned good grades for rewards, billing and payments.

American Express and Discover also received high ratings in a recent reader survey conducted by *Consumer Reports*. Card holders who carry a balance should also consider cards issued by small banks and credit unions, Daugherty says. These lenders don't have big advertising budgets, so you have to do some research to find them. But the payoff is often lower fees and interest rates, he says.

In the *Consumer Reports* survey, USAA Federal Savings, which is limited to members of the military, retired military personnel and their families, received a reader score of 95 out of 100 for its American Express and MasterCard-branded cards. Several credit unions, including the Navy Federal Credit Union, also received high marks for their cards. Rates on cards from these lenders ranged from 9% to 11%.

The average rate on a variable-rate credit card is 14.5%, according to Bankrate.com. Card issuers that received the lowest rankings from *Consumer Reports* readers charged 17%.

You must belong to a credit union to apply for one of its credit cards, but joining a credit union is easier than it used to be, Daugherty says. Many employers sponsor a credit union. You may also be eligible because you live in a certain geographic area or are related to someone who is already a member. The Credit Union National Association offers a credit union locator at its website, www.cuna.org.

Objectives

- ▶ Read the article “How you use credit cards should determine how you choose them.”
- ▶ Evaluate personal spending habits.
- ▶ Identify different types of credit card holders.
- ▶ List ways to improve personal spending habits.
- ▶ Predict how one’s current spending will affect future spending.

Preparation

Each student will need:

- ▶ A copy of the article “How you use credit cards should determine how you choose them.”
- ▶ A copy of the lesson.

1. Read the article and answer discussion questions. (20 minutes)

- ▶ Name the two types of people who use credit cards.

- ▶ What is a “transactor”? How does a transactor use a credit card?

- ▶ What is a “revolver”? How does a revolver use a credit card?

- ▶ What should a transactor look for when choosing a credit card?

- ▶ What should a revolver look for when choosing a credit card?

2. What kind of spender are you? (20 minutes)

Directions: Answer the following questions by circling the answer that best fits your response.

Questions	Exactly like me	Almost me	Neutral	Not really me	Not me at all
1. I never borrow money and promise to pay it back when I get my allowance/paycheck.	1	2	3	4	5
2. I'm a saver. When I get money, I put at least some into a savings account.	1	2	3	4	5
3. I have a set plan for how I'm going to spend my money.	1	2	3	4	5
4. When I go shopping, I only buy what I planned to buy.	1	2	3	4	5
5. When I find discounts, sales or coupons for what I'm planning on buying, I use them.	1	2	3	4	5
6. I compare prices online or in other stores before I actually purchase an item.	1	2	3	4	5
Now, add up all your points and write the total here:	_____				

Find your score below.

6-10 – Great job on financial planning! Look at applying for credit cards with great reward programs and enjoy that free vacation!

11-15 – Pretty good. A few areas to work on. You can probably look at credit cards with reward programs and end up ahead of the game.

16-20 – Play it safe. Look at credit cards with lower interest rates and no annual fee.

21-25 – You're heading into dangerous territory. If you do apply for a credit card, go with lower interest rates and no annual fee – and try to break your spending habit!

26-30 – Don't even think about applying for a credit card! Evaluate your spending and create a plan for how to use your money more wisely. Getting a credit card now could land you in serious financial trouble.

Teacher: Once students have figured out where they are on the scale, have them stand and line themselves up across the room according to their total points, highest to lowest. Now have people who have middle-range points pair up with individuals with lower points or higher points.

Directions: The partner with the higher points should do a one-minute interview with the student with the lower points using the questions below. Then, students should switch roles and repeat the process.

- ▶ What spending habits do you have that are good?
- ▶ What areas of spending do you have that need to be improved?
- ▶ Name three ways you can improve how you spend your money.

Now working together, use your answers from your interviews to list your best responses to the questions below. Or, come up with some new answers.

- ▶ What are two or three good spending habits students your age should have or start?
- ▶ List three ways you can improve how you spend your money.

3. Debrief and apply as a class. (10 minutes)

- ▶ What were some of the best spending habits your partner mentioned?
- ▶ What were some of the worst spending habits you heard?
- ▶ If you were to apply for a credit card today, would you be in good shape or bad shape six months from now? Why or why not?
- ▶ What are some ways you can improve how you spend your money?
- ▶ How will these new habits help you later when you do get a credit card?