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Things to Be Aware Of When Getting and Using a Credit Card

A Credit Card Jargon Buster

Credit cards, as part of the financial industry, use a massive array of jargon. You can't be expected to recognize all these technical terms, and some of them are quite important; so here's a quick guide, in alphabetical order.

Affinity card. This is a credit card that gives a certain amount to a charity of your choice, depending on how much you spend. It is generally best to avoid any charity that wants you to sign up for such a card, don't let guilt lead you to a high interest rate.

APR. Annual Percentage Rate. This is your overall interest rate, calculated yearly, and given as a percentage of your balance.

ATM. Automated Teller Machine. A cash machine. It will give you money when you put your credit card in, but will probably charge an extra fee.

Balance transfer. This is when you transfer your debt ("balance") from one credit card to another. The usual reason for this is to try and keep as much debt as possible on a lower-interest card.

Credit limit. Your credit limit is the maximum amount you can spend or withdraw from your card. Going over your credit limit will result in your card no longer being accepted, and you being charged an over-limit fee.

Fixed rate. A fixed rate card is one where you are given a rate when you sign up for the card and that rate, at least in theory, stays the same for the whole time you have the card. In practice, though, interest rates can be changed for almost any reason.

Grace period. Your grace period is the amount of time between when you spend money and when you start paying interest on it. Good cards can have a grace period of up to two months ñ bad ones might not have one at all.

Minimum payment. A minimum payment is the absolute lowest amount you can pay back to the credit card company each month ñ you should pay more, but you don't have to. Minimum payments are usually around 2% of your balance.

Sub-prime. This is a phrase used in the industry to describe customers who are a bad credit risk, but are seen as worth lending to anyway. If you are identified as sub-prime, you'll start getting offers for loans secured on your property ñ they know that if you can't pay, they'll get their money anyway.

Teaser rate. A “special offer” low rate, usually written in enormous letters. You will see many offers with “LOW 4.9% APR” in inch-high letters, followed by “for first six months, 21.9% thereafter” in microscopic ones. Teaser offers can sometimes be worth taking, but not if they tie you in for longer than the period of the offer.

Variable rate. This is an interest rate that is worked out by adding a certain amount to the current base rate. Taking this option will allow your credit card to be affected by changes in national interest rates ñ a good idea if you think they might go down, and a bad one if they’re on the way up.

The Liars and Scammers of the Credit Card Industry.

In the world of credit cards, there are plenty of people who are desperate to borrow money, and just as many people who are desperate to get back out of debt again. Given that, it’s not surprising that the industry is full of scams. Here are some to keep an eye out for.

The Debt Advisors.

Be very careful if you’re offered “free debt advice.” There are many government bodies, legitimate financial companies and charities that give good advice, but the ones who do a lot of advertising tend to be owned or partnered with people you don’t want to know. If the advice you get is to sign up for another loan from one company in particular, don’t believe it; the chances are that the person you’re talking to is just a salesman in disguise.

The Identity Thieves.

If you don’t keep track of your credit card statements and your credit report, then you could be in for a surprise. It’s not that hard for someone else to apply for a credit card, pretending to be you, or to get the number of a card you already have and start buying things with it. Then, of course, they get free money, and you’re left with the debt, not to mention the black marks against your name when it doesn’t get paid back.

The Catalogue Card.

This is a scam that’s especially common around Christmas time. A company offers you a “credit card,” with a much higher limit than you’d usually qualify for. The catch, of course, is that you can only use it to buy things from their catalogue, at inflated prices. This is nothing but a clever way of offering you expensive finance on purchases from them.

The Only Game in Town.

More exploitative lenders might realize that they’re really the only company that’s going to be offering some people any credit at all. They’ll send offers to desperate people for absolutely terrible deals, with the highest interest rates they can get away with, and no benefits whatsoever. These people will accept the offer without even reading it, relieved that finally someone out there offered them credit ñ and their debts get even harder to ever pay off.

The Insurance Charge.

Here's one that even the most reputable lenders go in for ñ trying to sell you useless insurance. This is usually an insurance premium that is automatically added to your interest each month, and covers you against very unlikely things, like dying and not being able to pay back your debt. It is almost never worth ticking the box to buy insurance.

The Secured Card.

A secured card is one that requires you to make a deposit before you can use it--a deposit that can sometimes be as much as the limit on the card itself. Secured cards can be a good way of rebuilding your credit when it's all gone wrong, but don't take one from a lender you've never heard of. With more unscrupulous companies, you will often be charged an annual fee, an application fee, and any other fee they can think of, all of which are added to your debt. Don't let it happen to you.

How Do You Know If Your Credit Card Agent Is the Best?

Since you are the customer, there must be a glut of credit card agents constantly hounding you day-in, day-out. They may try to cram all their pitches in hour long phone call marathons or minute long infomercials and may run the gamut of personalities from friendly to annoying, smart to eccentric. But how do you choose the right credit agent?

Credit card agents are not just supposed to hawk credits cards. They are supposed to act as the middle persons between you and the bank. In effect, they should extend the services and care of the bank itself. You can tell if you credit card agent is good if he exhibits the following characteristics.

1. Agent Has Intimate Knowledge of the Card Company - Your credit card agent should know the ins and outs of the company he or she is promoting. Agents who are only looking for a quick commission won't help you much when you have inquiries about their cards. If your agent has an intimate knowledge of the company, you can rest easier since he or she is in a good position to guide you in your decisions.

2. Honesty - After talking with your agent, investigate the veracity of his claims. There are some agents who will lie and fib just to get a sale. If you catch one of your agents giving you the glib tongue, drop communications with him or her immediately.

3. Has Much Experience - Established credit card agents have a better chance of helping you with your particular needs. They have had extensive experience in dealing with their clients and are in a better position to help you out. You should not dismiss agents who are new to the business, though. Just make sure they are sensitive to your needs.

4. Tells Pros and Cons - Find an agent who tells you like it is. They usually find a way to tell you the advantages and disadvantages of their product without diminishing your enthusiasm for their card. These people will give you more information on which to base your decisions.

Thoughtful clients will want to stick to this kind of agent.

5. Does Not Force - Have you ever had a pushy agent hound you all day long. This is the mark of one whose only concern is his or her commission per card. If these individuals do not look after your interests, how can you trust them to help facilitate a good relationship with the company? If you are really interested in their company, you may want to have that company send a different agent.

Beware the Sudden Rate Hike.

There are some credit card lenders out there who are trying to scam you. They'll offer you a good interest rate, wait for you to spend a lot of money, and then suddenly jack up the interest through the roof. Suddenly you're screwed, with nowhere to go.

Is That Legal?

Well, it shouldn't be, and in most countries it isn't. Suddenly increasing your interest rate is generally associated with loan sharking and usury (the practice of lending money at illegally high interest rates)--it isn't fair to raise the rate once you already owe the money, is it? Unfortunately, in the credit card world of "revolving" debt, the distinction isn't so clear cut.

In some countries, you might not have a legal leg to stand on ñ your card issuer can do what they like to you. This is a problem in the USA especially, where credit cards are based in states like Delaware that have ineffective usury laws.

What Can Trigger a Rate Rise?

Credit card companies do give reasons for any rises, and some of them are valid. Many, though, can seem quite unfair ñ a lot more sharing of information goes on in the financial industry than you'd expect. Here are some examples of things that can saddle you with the extra-high "penalty rate":

Paying late. If you don't pay your bills on time, the company seems quite justified in taking away your good rate. After all, you've broken the rules of your contract.

Spending on other cards. You might think that one card issuer won't know what you're doing with a competitor's card, but you'd be wrong. Acting oddly or badly with one card can cause others to get jumpy and raise your rates.

Defaulting on another bill. Any bill you don't pay--whether it's for another card or for your electricity--gets put on your credit record. The next time your issuer check your credit rating (they usually do it quarterly), they'll spot it and want to raise your rate.

Bouncing checks. Again, this goes on your record, and spooks card companies.

Remember that your rate can usually rise at any time for any reason; most credit card contracts only require the lender to give you about two weeks' notice. Plus, in general, when one of your cards' rates go up, they'll all go up. That's another good reason to be scared of credit cards, and not to have too many.

What Can You Do If It Happens?

If your rate suddenly jumps up, the first thing you should do is try to cancel the card and move the balance elsewhere. If you can't do that for whatever reason, then contact your local consumer protection agencies. The next step after that, really, is to get a lawyer.

It will also pay to make as much noise as you can. Complain to the company and the regulator by post. Contact your local newspaper and radio station. Make enough trouble that it would be easier for them to do the right thing just to shut you up. The squeaky wheel gets the oil.

They Don't Want You to Pay

In all your dealings with credit cards, remember this one thing: they don't want you to pay. The moment you pay back everything you owe, you're free from their interest, and that's not what they want. They want you to keep on paying them a little every month for the rest of your life, making them a steady profit on things you long since forgot about buying.

Revolving Debt.

Most credit cards are what's called "revolving" debt--the only real exceptions are American Express and Diner's Club cards, which must still be paid off in full every month. They aren't really "credit" cards at all—they're charge cards for people who could afford to pay in cash anyway.

Revolving debt means that you can pay off as much as you like each month, or you can just pay the minimum, and you can run up as much debt as you want each month, up to the maximum. Unlike a fixed-term loan (a 20-year mortgage, for example), you don't know how much your payments are going to be, and you don't know when you're going to stop paying. Each new purchase can dramatically extend the time that it's going to take you to get your balance back down to \$0.

With a credit card, then, it's perfectly possible to keep running a "balance" (a debt) on your card forever, spending a little sometimes and paying a little back sometimes and always paying interest. This is why credit cards are so profitable for them, and so expensive for you.

Add the Interest in Your Head.

Don't be fooled into thinking that you'll never have to pay your credit cards interest; sooner or later, for some reason, you will. A good strategy is to add your card's yearly interest rates to everything you buy when you're thinking about the price. If that thing is worth \$100 to you, is it worth \$115 (15% interest added)?

Likewise, if you buy something with your savings, take off the interest you get on your savings as a mental discount. This will help you to make the differences between savings and debt feel more real ñ saving instead of having debt is like having a money-off coupon you carry around with you all the time.

A Dollar Today Isn't a Dollar Tomorrow.

You probably don't think about it, but using a credit card basically makes your money worth less than it would be usually. That's why it feels so hard to pay a credit card back; if you borrow a dollar from a credit card at 15% interest, sit on it for five years, and then give it back, guess what? You still owe them the dollar. The dollar you gave them back was eaten up by interest.

This is one of the biggest things you need to understand about credit card debt: the longer you have it for, the bigger the problem it gets. If you have a problem, the last thing you should do is ignore it, because it will only get worse ñ you have to try and beat it early.

Why Credit Cards Are a Bad Idea.

Credit cards are just so convenient, aren't they? There's no need to carry any money with you ever again: you can just take one with you to the shop and pay the exact amount just by handing it over. If you haven't been paid yet, then you don't need to worry, because the money will still be there.

When you shop on the Internet or over the phone, it's the only good way to do it--what else are you going to do, post a check? Like anything convenient, though, credit cards have a flip side ñ in fact, they have lots.

Can You Keep Track?

When you walk into that shop and hand over the card, the money is taken from the card, and the card goes back into your wallet. You still have all the things you started with—there's no less money in your purse or wallet to remind you of what you've spent.

Everyone has a tendency to underestimate what they spend, and smaller amounts can add up quickly on a credit card without you even noticing. It's like taking the way phone bills work and applying it to everything you buy--and that can't be a good idea.

Money For Nothing.

Using credit cards is a great way of losing a percentage of your income to a credit card company in exchange for nothing. The moment you run a balance, you're paying them interest. Not only that, but you're paying your credit card bill as soon as you get your wages, so you don't have the chance to earn any interest on them from your bank. When you think about it, you're losing out twice over ñ and for what?

Designed to Keep You in Debt.

Your credit cards are trying to keep you using them and paying interest. You will find it very difficult to pay off all your credit cards once you have them. The company will do everything they can to stop you paying before you've paid them lots of interest. The more debt you show you can pay back, the more they'll try to offer you, until they get you to the point where you can't pay.

The Lie in the Name.

Credit cards are called credit cards to avoid saying what they really are: debt! You will do much better in all things connected to credit cards if you always remember this simple mantra: credit cards are debt cards. Use the word debt as often as you can whenever you talk about credit cards.

But Sometimes You Can't Avoid Them.

When you need money in an emergency and you just don't have any, there's no doubting that credit cards can be useful. They are also a very useful way of proving to credit rating agencies that you can handle debt, and this will be taken into consideration when you apply for car loans or a mortgage.

Just remember that whenever you handle credit cards, you're playing with fire. Do everything you can to keep your use of them to a minimum, and you'll have a much better financial life.

Online Credit Card Usage: Convenience At Its Best

Commerce and technology, combined as a one package--this is what online credit cards are. With the advent of Internet, the knowledge and communication barriers were broken. Also, with Internet, came the concept of e-shops or virtual shops that existed only on the internet. You could shop at these shops by making use of their online credit card payment-acceptance ability. Once the online credit card payments were verified and approved, the goods got delivered to your door. This is what we call convenience at its best.

With more and more e-shops getting setup everyday, online credit card usage is becoming even more popular. The possibility of receiving online credit card payments has given a totally new dimension to shopping. Now, you cannot only shop from the comfort of your home, you can even get discounts on these products.

This is really amazing. No need to bother about the weather, no need to worry about the traffic jams or any other thing. Just go to an e-shop, select a product, make use of their online credit card payment-acceptance facility to make the payment and be ready to receive the goods at your doorstep.

With online credit card processing facility, starting a business (an online business) has become just unbelievably easy.

However, there is nothing without pitfalls. One of the pitfalls of online credit card usage is the possibility of online credit card fraud. This online credit card fraud can happen in two ways. The first one is related to the company, on whose website you made online credit card payment for purchase of goods; this company itself could be fraudulent i.e. it could take the online credit card payment from you but not deliver the goods to you.

Moreover, they could use the details of your credit card (received through the filling up of online credit card payment form by you) for fraudulent purposes. The second type of fraud is committed by fraudsters who use various software/devices to capture the details of online credit card payments (as you enter them on the online credit card payment form of a website).

These software are popularly known as spyware and these fraudsters as online spies. The spyware works by capturing keystrokes or taking screenshots of whatever you do on your computer and then passes it on to the spy. However, there are anti-spyware software available which can be used to counter such spyware.

So, the advent of online credit card usage facility is a boon to us. However, you must exercise caution when making online credit card payments e.g. don't access your bank accounts or make online credit card payments from internet cafes (unless you are absolutely sure about the credentials of the internet café).

Settle Smart: How To Do Credit Card Payment

The first step in doing a credit card payment is to understand your monthly billing. The following are terms you will encounter:

Statement date: The date that the bill was printed.

Payment due date: this is the day that the cardholder must pay any outstanding balance. Payments made after the said date will be credited, but will also be fined a lateness fee.

Total Amount Due: It consist of the unpaid amount from the previous month, as well as purchases, payments and interest charges for the current month. When the cardholder pays this amount on or before the payment due date, no interest charges will be imposed.

Minimum Amount Due: this is a smaller fraction of the total amount due. To maintain a good standing with the card company, pay at least this amount, if you cannot afford to pay the total amount due.

Finance charge: if the cardholder is not able to pay the total amount due, then he is charged a fee for borrowing money from the company. It is calculated based on the interest rate of the card. For detailed information on how this is calculated, go to http://www.abcguides.com/creditcards/cci_faq.htm#finance_charges.

Late charges: Paying or not, after the payment due date, is penalized with late charges. Avoid this as much as possible as this is almost 2X the interest rate of the finance charge. Consistently missing payment may lead to cancellation of the card and a bad credit standing.

Having understood the information on your monthly bill, here are simple strategies for paying your credit card charges:

Always pay the total amount due. Paying only the minimum amount due means being charged for a high interest rate on the unpaid amount.

If you cannot pay the total amount due, pay as much as you can above the minimum amount due. This strategy aims to reduce the finance charges that you have to pay for settling partially.

Do partial payments as early as possible (as soon as you receive the billing). Finance charges are based on the unsettled amount and the time it remains unsettled, so the shorter it is, the lower it will be for finance charges.

Some card companies reward loyal cardholders by accumulating points for their spending. Check if reward points can be credited back as payment.

Lastly, pay the total amount due. Just to emphasize the point!

There are many avenues to pay your card bill. There's the traditional way of waiting in line, or the faster way of paying electronically through your computer, cash machine or mobile phone. With all these conveniences at hand, it is quite unforgivable to miss your payment due date.

Therefore, settle smart: pay the total, pay on time.

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