



August 1, 2023

FEDERAL DEPOSIT INSURANCE CORPORATION

consumer **news**



## Credit Cards for Young Adults

### *How to avoid costly mistakes*

When you are just starting out on your own, credit cards offer a convenient way to make purchases and build a credit history. It is easy to make costly mistakes, however, and damage your credit record. Here are tips for responsibly managing credit cards.

#### **Read the fine print**

Before you apply for a credit card, read all the terms and conditions so you know exactly what you are getting. This is especially important if the card offers a low introductory Annual Percentage Rate (APR) because you need to know when the introductory rate ends and what the new, higher rate will be and when it begins.

Most credit cards have a variable interest rate, meaning the rate will rise or fall based on changes in a particular “index” ([consumerfinance.gov/ask-cfpb/for-an-adjustable-rate-mortgage-arm-what-are-the-index-and-margin-and-how-do-they-work-en-1949/](https://consumerfinance.gov/ask-cfpb/for-an-adjustable-rate-mortgage-arm-what-are-the-index-and-margin-and-how-do-they-work-en-1949/)) of interest rates nationwide; the rise and fall of the index is not something controlled by your card issuer. If your card has a low introductory interest rate, the rate will increase once the promotional period ends. For information on finding the right card for you, visit FDIC Consumer News: Credit Reports and Credit Scores ([fdic.gov/resources/consumers/consumer-news/2021-08.html](https://fdic.gov/resources/consumers/consumer-news/2021-08.html)).

#### **You can avoid fees by being aware of your card credit limit**

If you want your card issuer to permit transactions that exceed your credit limit, you must notify your card issuer that you want that service in advance and will pay the resulting fees. There are limits to the amount/frequency that over limit fees can be charged per Regulation Z ([consumerfinance.gov/ask-cfpb/i-went-over-my-credit-limit-and-i-was-charged-an-overlimit-fee-what-can-i-do-en-58/](https://consumerfinance.gov/ask-cfpb/i-went-over-my-credit-limit-and-i-was-charged-an-overlimit-fee-what-can-i-do-en-58/)). To avoid the fees from going over your credit limit, do opt-in to this service and instead allow the transactions to be denied.

#### **Try to pay the entire balance in full and on time**

When you pay the full balance due each month, you avoid interest charges and save money. If you cannot pay the balance in full, however, pay at least the minimum monthly payment amount, and do so before the due date. Your statement will provide you with what is referred to as a ‘minimum payment warning,’ which shows you the amount of interest you will pay over time if you only make the minimum payment. This will usually provide you with a clear incentive to pay more than the minimum required. Remember that late payments generally result in fees and can hurt your credit score.

#### **Avoid rate increases due to late payments**

Your card issuer can decide to increase your rate under certain circumstances. For example, a card issuer may raise your interest rate if you are late 60 days or more paying your credit card bill, or if you have a significant drop in your credit score.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit CARD Act) helps protect consumers from many instances of sudden interest rate increases. Under the law, your card issuer generally cannot raise the rate if you have had it for fewer than 12 months. Your card issuer also must provide you with a 45-day advance notice of a rate increase, which can only apply to balances going forward, unless you are late paying your credit card bill by 60 days or more. In addition, if your card issuer raises your rate because of a 60-day late payment, it must restore the original rate after six consecutive months of on-time payments.

### Pay attention to any notices of a rate increase

Be sure to read carefully all mail from your card issuer, including monthly statements and notices. If you receive a 45-day notice of a rate increase, consider whether you can pay off the credit card balance and close the account before the increased interest rate becomes effective.

If paying the card balance in full before the rate increases is not an option within the 45-day period, you could transfer the balance from a card with a high interest rate to a different card issuer with a lower interest rate. A balance transfer can be a good way to get your debt under control and pay it off faster, but you need to be careful. Many card issuers offer introductory zero-percent deals in the hopes that you will move your money to them, but you may pay a significant fee for the transfer. Also, if you do not pay off the balance within the introductory period, you could be charged retroactive interest for the entire amount of the transfer.

For more information on credit scores, visit FDIC Consumer News: Credit Cards ([fdic.gov/resources/consumers/consumer-news/2021-11.html](https://fdic.gov/resources/consumers/consumer-news/2021-11.html)).

### Think twice before applying for more credit cards

Special promotions, such as low introductory rates or discounts on purchases, make it tempting to apply for

additional credit cards. Every time you apply for a card, know that it appears on your credit report. Multiple applications, resulting in inquiries, on a credit report or new cards opened within a short time period can lower your credit score. One reason is that this scenario could suggest that you may be about to take on more debt than you can manage.

### Take advantage of automated alerts

Many card issuers and other companies can send customer messages by text or email, such as payment reminders or balance notifications, to let you know if you are close to your credit limit, and information on suspicious activity that may indicate fraud. Check with your card issuer to find out if it offers alert services and if any fees are associated with the service.

### Budget

How much money is in your bank account? Knowing the answer to this at all times is essential to successfully managing your finances, so you don't overspend. A budget helps you track your income, saving goals, and expenses. Visit FDIC Budget Tools ([playmoneysmart.fdic.gov/game/your-income-and-expenses?tab=Tools](https://playmoneysmart.fdic.gov/game/your-income-and-expenses?tab=Tools)) for more help. Also, here are four steps to make sure you're prepared for student loan payments to resume: Federal Student Aid ([studentaid.gov/announcements-events/covid-19](https://studentaid.gov/announcements-events/covid-19)).

Credit cards are a convenient way to purchase items. Knowing the dangers can help you avoid costly mistakes.

### Additional Resources:

FDIC Consumer News: Smart Money Management for Young Adults ([fdic.gov/resources/consumers/consumer-news/2022-04.html](https://fdic.gov/resources/consumers/consumer-news/2022-04.html))

FDIC Consumer News: Your First Job ([fdic.gov/resources/consumers/consumer-news/2023-04.html](https://fdic.gov/resources/consumers/consumer-news/2023-04.html))

FDIC Consumer Assistance Topics: Credit and Loans ([fdic.gov/resources/consumers/consumer-assistance-topics/index.html](https://fdic.gov/resources/consumers/consumer-assistance-topics/index.html))

Consumer Financial Protection Bureau: Credit Cards ([consumerfinance.gov/consumer-tools/credit-cards/](https://consumerfinance.gov/consumer-tools/credit-cards/))

Federal Trade Commission: Credit and Debt ([consumer.ftc.gov/credit-loans-and-debt/credit-and-debt](https://consumer.ftc.gov/credit-loans-and-debt/credit-and-debt))

For more consumer resources, visit [FDIC.gov](https://FDIC.gov), or go to the FDIC Knowledge Center ([ask.fdic.gov/fdicinformationandsupportcenter/s/public-information?language=en\\_US](https://ask.fdic.gov/fdicinformationandsupportcenter/s/public-information?language=en_US)). You can also call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342). Please send your story ideas or comments to [ConsumerNews@fdic.gov](mailto:ConsumerNews@fdic.gov). You can subscribe ([fdic.gov/about/subscriptions/](https://fdic.gov/about/subscriptions/)) to this and other free FDIC publications to keep informed!

