

Another New Credit Card Fee

Provided by: Iowa State University's Financial Counseling Clinic

Remember hearing that you should never keep a balance on your credit card, which you should pay off in full during your grace period before interest kicks in? Well, you can throw that out the window now. News broke this week that credit card companies are now going to charge you an annual fee for paying off your balance on time in full and for not using your card at all.

Starting next year, Bank of America will charge a small number of customers an annual fee, ranging from \$29 to \$99. The bank has characterized the fee as experimental. But card holders who have never carried a balance or paid late fees could be among those affected.

Citigroup, meanwhile, has started charging annual fees to card holders who don't put more than a specific amount on their cards, typically \$2,400 a year. Other banks are charging inactivity fees if customers don't use their credit cards during a specific period of time. These fees are the credit card industry's response to credit card legislation that will, among other things, restrict credit card issuers' ability to raise interest rates on existing balances. Credit card issuers are looking for ways to raise income before the new rules take effect in February.

What can you do if your credit card issuer starts charging you an annual fee for being good? You have a couple of options, though not always the best options.

1. Call and complain. If you have a good credit score and you've been a good customer to the company, call and let them know you are unhappy. You will possibly get a customer service rep who really doesn't want to deal with you today and will waive your fee. (Also good if you think you are paying too much in interest, call and complain, they will possibly lower your interest.
2. Use the card. It stinks because you've been so good about not using it and when you do you pay off the balance on time. Sometimes we have to do things we just don't want to. Check with your credit card company first to make sure you are going to be charged an annual fee, you don't want to be paying interest when you won't be getting charged a fee. However, there is no minimum you have to have on the card for them to not charge you. Buy a pack of gum, charge it, chew it and pay it off as soon as you get the bill.
3. Leave the company but check your credit score first! Even if you have perfect credit, getting rid of a credit card will hurt your credit score, especially if you have had the card for a long time. Remember that the amount of time you have had your credit card accounts for 15% of your credit score. One of the factors used to calculate your credit score is what's known as the "credit utilization ratio," which is based on the amount of credit you have outstanding as a percentage of your total available credit. When you close a credit card account, the amount of your total available credit shrinks, which could lead to a higher utilization rate. This ratio accounts for 30% of your credit score.

If you will be looking for a credit card soon, or looking to change companies, look for cards that offer no annual fees. Some cards offer rewards and you may be able to find a card that has no annual fees along

with its rewards. If you are not concerned with getting cash back, look into cards a credit union or at your bank. If you are a good customer, your bank will likely have a good card for you, and many credit unions offer cards with no annual fee and below-average interest rates