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Five Things To Know Before Applying For a Secured Credit Card

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Consumers whose credit scores have been devastated by bankruptcy, divorce, or job loss often turn to secured credit cards in an effort to rebuild their credit. While this can be an effective method for increasing your credit score, not all secured cards are created equal, and you must make sure you are getting the best deal and that the card will have the desired effect on your credit rating.

The Dallas Morning News recently reported the case of Chicago resident Lisa Dalton, who used a secured credit card to rebuild her credit after bankruptcy and divorce. She was able to obtain a secured credit card with a limit of $250 by making a deposit of $200. She used it for small purchases and paid if off each month, establishing herself as a responsible customer. The bank eventually raised her credit limit and after a few years, switched her to a conventional unsecured card. Her positive credit history helped her get a mortgage, open other credit cards with better terms, and finance part of her education to become a life and business coach.

Dalton's experience is how secured credit cards are supposed to assist people in rebuilding their credit. Unfortunately, not all secured cards lead to such favorable results. John Ulzheimer, president of consumer education for Credit.com, warns that some cards charge very high fees in addition to the initial deposit. The first bill with some cards include fees that eat up most of the credit limit, which can hurt a person's credit score instead of helping it.

Secured credit cards often charge high interest rates, with 19.9% being common, and the low credit limits make it easier to end up with over-limit charges. Many such cards also begin charging interest right after a purchase, offering no grace period for customers to pay off the balance without incurring interest.

When considering a secured credit card, be sure to get the best deal you can, bearing these factors in mind:

1. **Check your credit score first**. Even a score in the high 500s may qualify you for a traditional credit card, rather than requiring that you settle for a secured credit card.
2. **Make sure the card issuer reports to the three major credit bureaus**. If it doesn't, the card won't help you build your credit history or raise your credit score.
3. **Look for a detailed list of all the fees you will be charged**. Often, activation fees, annual fees, program fees, monthly servicing fees, and other charges can eat up most or all of the credit limit, leaving you with little room for spending and giving you a high balance-to-available-credit ratio that could harm your credit score rather than helping it.
4. **Don't settle for a sky-high interest rate**. Some banks charge 19.9% or more for secured cards but some charge far less, and may even pay you interest on your initial deposit. Shop around for the best deal you can find.
5. **Make sure your card offers a grace period before interest is charged**. Some secured cards start charging interest immediately after a purchase is made, but there are many cards that offer the traditional 25-day grace periods most regular cards feature.

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