University of Nebraska Lincoln EXTENSION

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Late Charges: What Your Late Payments Tell Others

Jenny, a college student, opened her credit card statement and was surprised to find a $29 late fee added to her balance. She was noticeably upset, frustrated and confused. Jenny knew that she had waited until the last day, a Friday, to mail her credit card payment. She did not realize at the time a postal holiday following the weekend further delayed her payment from reaching the credit card payment center by the deadline to be credited to her account. As a result, a late fee was assessed and added to her balance.

While that may seem harmless, in reality it can be damaging to one's credit history. Jenny had been a credit card holder for only a short period of time. New on campus, she had taken advantage of a "0% Introductory Offer" just a few months before. The 0% interest rate was to be in effect for six months, or so she thought.

Now Jenny's "free" card is no longer free. Additionally in most cases, if a consumer's credit card payment is received past the deadline and the account is assessed a late fee, that triggers the account to be assessed at a much higher interest rate in the future., the late payment is reported to the major U.S. credit reporting agencies.

Credit card debt is a form of unsecured debt, in other words, there is no collateral to access if the borrower defaults on the loan. Even a single late payment can blemish an individual's credit record. In the event Jenny had more than one late payment to her credit card company, or loan company where she borrowed money for a car, or a past due balance on a medical bill, all that may become part of Jenny's financial credit history.

Future lenders or perhaps a landlord who have access to her credit history may determine that Jenny represents a poor financial risk, even though she may earn a substantial salary.

Establishing a good credit history is a very important step for young adults. Repayment of debt is a responsibility not to be taken lightly.

How promptly one repays debt from secured loans like those used to buy vehicles, and unsecured loans [i.e., credit cards], is important in determining how the consumer will be treated by lenders in the future. Lenders determine loan rates based upon information in a consumer's credit report; unfavorable information leads to higher interest rates.

Jenny vowed to do a better job in the future by always mailing her credit card payment at least two weeks before the due date. She was also careful not to incur excess debt and never exceeded her credit card limit.

By taking these steps she will demonstrate a record of on-time payments and low balances which in time will diminish the significance of the late payment on her record.

Reference:
Edited newsletter
Your Credit Record: A Report Card on Your Personal Finances, *FDIC Consumer News*; pp. 1-6. Winter 2002/2003. Federal Deposit Insurance Corporation, Washington, D.C. Publishers.

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