

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
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[Universal Default](#)

Suppose you apply for a credit card that offers a 12% Annual Percentage Rate (APR) of interest. You are approved and you use it as a source of credit, realizing some months later that the interest rate is closer to an APR of 24%. Of course, being attuned to issues of *financial success* and being proactive, you contact the credit card company about their “mistake” only to find out that the firm has applied the “Universal Default Penalty Clause”, in your signed contract, to your account. How can this be? Simple, your credit score must have decreased since you applied for and received the credit card. As such, you should know the factors that decrease your credit score.

- Failing to make a payment either on to the subject credit card company or to any of your other creditors. All of your payment records are a part of your credit history. As such a misplay on one can change the cost of all your credit cards.
- Borrowing more than your limit can make you less credit worthy in the eyes of lenders.
- Your income decreases as a result of job loss, relocation, or your personal life choices.
- You get another credit card, perhaps to receive a 10% discount at a retail store. Having access to more lines of credit is seen as a means for you to be able to borrow more – thus making you a higher risk borrower.

While Universal Default is legal, there is increasing pressure by consumers and legislators to have the practiced stopped. You should know, however, that even if the practice is stopped, credit issuers will soon find other means to restore levels of profitability – perhaps by making credit unavailable to all but the lowest risk borrowers. For your *financial success*, however, what you should take from this financial tip is to continually monitor your credit score, the practices of those with whom you have a borrower relationship, and do your best to maintain a business-like relationship with others.

To check your credit score, go to the following website: [Credit Report](#). It is [annualcreditreport.com](#), the only truly free credit report site.

Teachers, the following links are to movies provided by the Federal Trade Commission. They are parodies on the advertisements we often see on television about credit reports. You, or your students, might like them: [FTC 1](#) [FTC 2](#)

- Robert O. Weagley, Ph.D., CFP(r)

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