



# Charge It Right

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

# Purpose

- **First steps to financial security:**
  - **Planning and following through on a personal spending plan or budget**
- **Budgeting is about choices, how to:**
  - **Make money**
  - **Spend money**



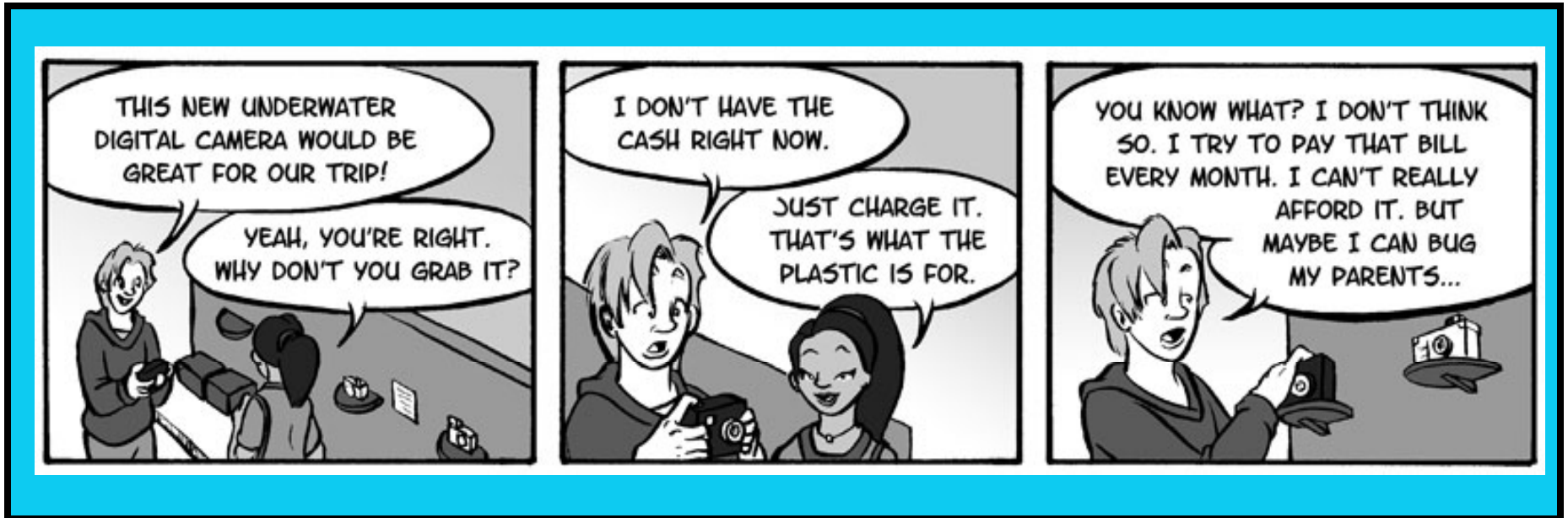
# Objectives

**By the end of this course, you will be able to:**

- **Describe the purpose of credit cards**
- **Analyze credit card solicitations**
- **Determine which credit card is best for you or if a credit card is a good option for you**
- **Identify factors credit card companies look for when making credit decisions**
- **Describe how to use a credit card responsibly**
- **Identify steps to take when a credit card is lost or stolen**
- **(Tell how to) Guard against identity theft**



# Cash, Credit, or Don't Buy?



# Credit Card Characteristics

- Convenient form of borrowing
- Provide a revolving line of credit
- Require a minimum payment each month



# Activity 1: Credit Cards and Debit Cards

## Complete Activity 1 in your Participant Guide

- Look at the chart
- Review the difference between credit cards and debit cards



# Stored Value Cards and Smart Cards

- **Similar to retailer gift cards**
- **Work like a debit card**
- **Deposit money and the balance declines**



# Stored Value Cards and Smart Cards (cont'd.)

Stored  
value  
cards  
include

- Telephone cards
- International gift cards
- Payroll cards
- Retail gift cards





# Activity 2: Which Card is This?

## Complete Activity 2 in your Participant Guide

Select the best answer:

- Cash cards
- Smart cards
- Stored value cards



# Secured and Unsecured Cards

## Secured Cards

- **Require collateral or a deposit to obtain credit**
- **Can get secured credit with no credit history or a negative history**



# Secured and Unsecured Cards (cont'd.)

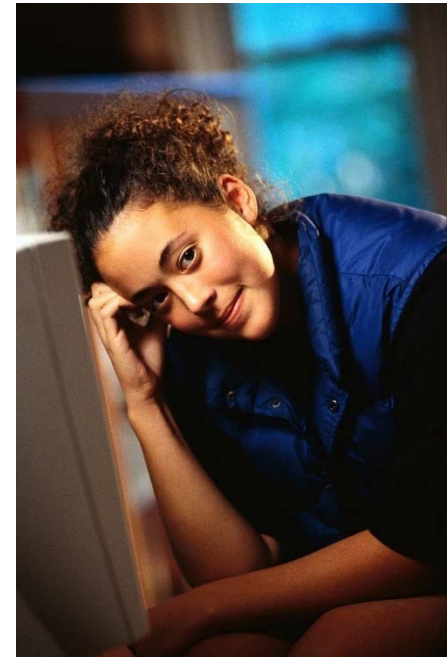
## Unsecured Cards

- Do not require collateral or a deposit to obtain credit
- Usually need a good credit history



# Student Credit Cards

- **Low (or no) introductory interest rates**
- **Cash back bonuses**
- **Some offer no income requirements and no co-signer needed**
- **Typically a low credit limit**
- **Often no annual fee**



# Rewards Cards

- Are offered by hotels, airlines, and/or your credit card company directly
- Earn points for amounts charged on the card toward free or discounted travel, hotel, or other goods and services
- Usually charge an annual fee
- May give cash rebates



# Pre-Approved Card Offers

- Offers from creditors that you *might* be able to get the advertised interest rate and limit based on viewing your credit report
- Actual terms depend on income, working status and credit history
- Shop for the best terms



# Some Quick Statistics

- **18-24 year olds declaring bankruptcy  
96% increase in the last decade**

**96% Increase in 10 years**



- **In 2002:  
Bankruptcy Filings > The Number of  
College Graduates**



# More Statistics

- **2001 = 83% of college students had at least one credit card:**
  - Average student had four!
- **71% of young adult card holders do not pay off their balance in full each month**
- **Graduating College seniors had an average of nearly \$4,000 in credit card debt:**



– **↑ 134% from 10 years ago**



# Pre-Approved Offers

**There are NO Guarantees!**

- **You are “pre-approved” but must still qualify for the card**
- **Read the agreement carefully**
- **Shop around! Don’t always take the first offer**



# Activity 3: How Do They Target You?

## Complete Activity 3 in your Participant Guide

- Read the information
- Review the different ways credit card companies try to earn your business



# Shopping for the Best Deal

## Credit cards have different terms:

**Annual  
percentage  
rate  
(APR)**

**Fees**

**Grace period**

**Balance  
computation  
method**

**Cash  
advance  
requirements  
and fees**

**Balance  
transfer  
requirements  
and fees**

**FDIC**



# APR (Annual Percentage Rate)

**Interest Rate = APR, as a yearly % rate**

- **APRs are fixed or variable**
- **Penalty APRs are about 52% higher than regular APRs**
- **Credit card companies must state how long introductory APRs last**



# APR (Annual Percentage Rate) (cont'd.)

- **Penalty APR**

An increase in the APR if a payment is made late

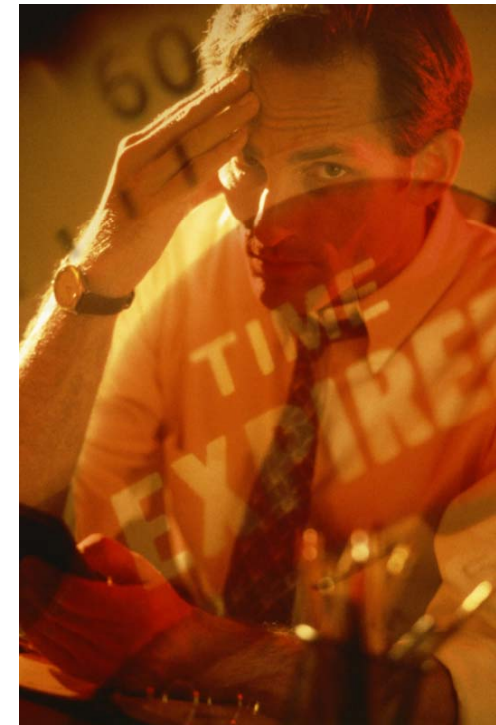
- **Universal Default**

If you are late paying other loans, your rate increases on the card with the universal default policy, even if that payment was not late



# Fees

- Annual fees
- Late fees
- Over-the-limit fees
- Balance transfer fees
- Cash advance fees



# Grace Period

- A specified number of days to pay your balance before the credit card company starts charging interest



# Balance Computation Method

- States how interest is determined
- Most common is the average daily balance method





# Cash Advance



Ability to get cash from your credit card



Usually a fee for this service



Example: “2%/\$10” means 2% of the cash advance amount or \$10, whichever is more



APRs on cash advances are typically much higher



# Balance Transfer

- **Moving unpaid debt from one card to another**
- **Encouraged by some companies using low rates on transferred balances**



# Truth in Lending Disclosure

- **Legally required**
- **States all credit card terms, including:**
  - **APR**
  - **Fees**
  - **Grace Period**
  - **Other terms**



# Activity 4: What's the Best Offer?

## Complete Activity 4 in your Participant Guide

- Read each offer
- Use the Truth in Lending Disclosures to answer the questions



# Other Factors to Consider

- **Customer service**
- **Additional protection**



# Activity 5: Credit Card Comparison Chart

## Complete Activity 5 in your Participant Guide

- Review the sample
- Compare different offers by filling in the chart for each one



# Tips to Think About When Choosing a Card

- **How and when you will use the card**
- **Start small**
- **Understand the terms before you accept the card**
- **Beware of introductory rates**
- **Beware of application fees**
- **Understand fixed and variable rates**



# Application Requirements

- **Individual credit – based on assets, income, and credit history**
- **Joint credit – based on assets, income, and credit history of two people who apply**
- **Typically, you must be at least age 18 to apply**





# Credit Report

A record of how you paid your debts...

- **Who you are**
- **How much you owe**
- **If you make payments on time**
- **How often you apply for credit**
- **Any negative information of public record**
- **Inquiries made about you**



# Credit Reporting Agencies

- **Equifax**
- **Experian**
- **TransUnion**

[www.annualcreditreport.com](http://www.annualcreditreport.com)



# Activity 6: Annual Credit Report Request Form

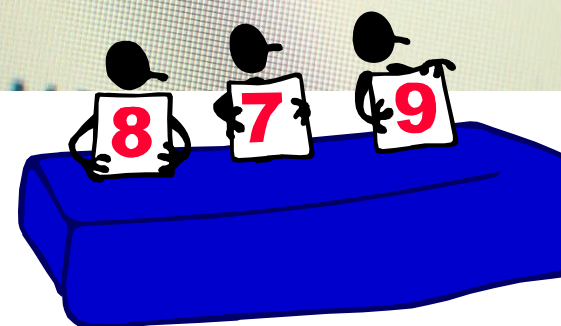
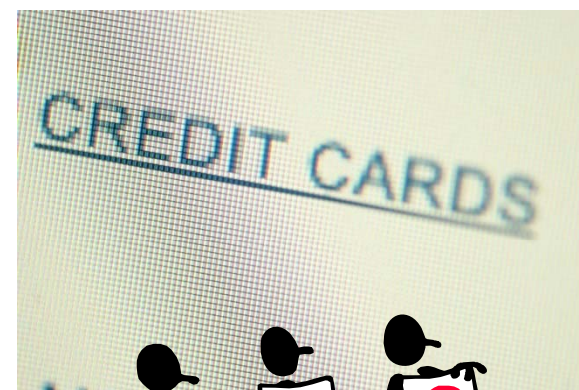
## Complete Activity 6 in your Participant Guide

- Review the form
- Understand the purpose of the form



# Credit Score

- **Determines credit risk**
- **Determined by your credit report**
- **Two types**
  - FICO
  - VantageScore
- **Check your score before applying**



# FICO Score

- **Scores range from 300 to 900**
- **The higher your score, the better**
- **Takes into account:**
  - **Payment history (35%)**
  - **Debt (30%)**
  - **How long you've had credit (15%)**
  - **New applications for credit (10%)**
  - **Types of credit (10%)**



# VantageScore

- New as of March 2006
- Used by all three reporting agencies
- Scores range from 501 to 990
- Number score goes with a letter grade
  - Example: 501-600 = F, 901-990 = A



- Should be the same score from each agency



# Denial Notice

Tells why credit is denied:

- **Poor credit history**
- **Not at current address or job long enough**
- **Income not high enough**
- **Also called an “adverse action” notice**



# Using Your Credit Card Responsibly

- **Protect your card and account numbers**
- **Tear up or shred receipts with numbers on them**
- **Keep a record of your account information**
- **Carry only the cards you think you will use**
- **Pay off your balance monthly**
- **Do not exceed your credit limit**





# Activity 7: Credit Card User Case Studies

## Complete Activity 7 in your Participant Guide

- Read each scenario
- Determine if the credit card use is responsible or irresponsible
- Explain why you think so



# Lost or Stolen Credit Card

- **Do not give personal or account information over the phone**
- **Lost or stolen - Notify the credit card company immediately**
- **Suspect fraud - Notify the credit card company immediately**



# Paying Your Bill: The Credit Limit

- The maximum amount the creditor is lending you
- If you go over the limit, you will likely be charged over-the-limit fees



# Activity 8: Cost of Making the Minimum Payment

## Complete Activity 8 in your Participant Guide

- Review the items in each table
- Use the formula given to find out how much you really pay for an item after interest is added



# Activity 9: Benefits of Making More Than the Minimum Payment

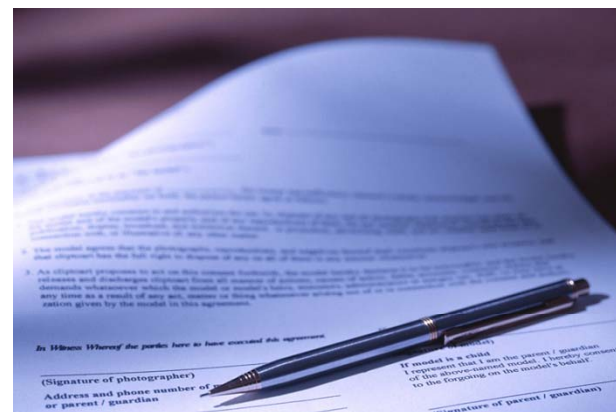
## Complete Activity 9 in your Participant Guide

- Review the items in each table
- Use the information to answer the questions



# Credit Card Statement

- **Front – Shows detailed activity that happened for that billing cycle**
- **Back – Describes terms, how interest is calculated, and contact information**



# Activity 10: Sample Credit Card Statement

## Complete Activity 9 in your Participant Guide

- Review the sample
- Use the statement to answer the questions



# WOW: Banks Do a LOT!





# Congratulations!

**Congratulations! You have completed the Charge It Right module. You have learned:**

- **The purpose of credit cards**
- **How to find available offers**
- **How to decide if a credit card is good for you and if so, which is the best one**
- **What credit card companies look for before they issue you a credit card**
- **How to use a card responsibly and how to safeguard against theft**



# Assess Your Knowledge

**Don't forget to complete the  
Knowledge Check in your  
Participant Guide!**

