

Participant Guide

# CHARGE IT RIGHT

FDIC

Money  
Smart



**FDIC Money Smart for Young Adults**



**Building: Knowledge, Security, Confidence**

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## **MONEY SMART FOR YOUNG ADULTS MODULES**

### **BANK ON IT**

An introduction to bank services

### **CHECK IT OUT**

How to choose and keep a checking account

### **SETTING FINANCIAL GOALS**

How to keep track of your money

### **PAY YOURSELF FIRST**

Why you should save, save, save

### **BORROWING BASICS**

An introduction to credit

### **CHARGE IT RIGHT**

How to make a credit card work for you

### **PAYING FOR COLLEGE AND CARS**

Know what you are borrowing before you buy

### **A ROOF OVER YOUR HEAD**

What home ownership and renting are all about



## YOUR GUIDES

Some students from Lakeview High are going to be your guides in this lesson. Join them throughout the module in working through some financial situations of their own!



### RAMÓN

Hobbies: Movies or mini golf with his girlfriend

School life: Plays on the soccer team

Family: Born in the U.S. but his parents are from Peru; a little sister, and an older brother who is a pilot in the Air Force

Job: Repairing computers; wants to work for NASA someday

Future plans: College on a soccer scholarship to study engineering



### GRACE

Hobbies: Art, drawing fashion sketches

School life: Prefers not to get into the high school “scene”

Family: Two parents, no siblings

Job: Clothing store at the mall

Future plans: Wants to go to Fashion Design School; her parents want her to go to college; careful with her money so she can buy art supplies



### TODD

Personality: Shy, good sense of humor, intelligent

School life: Likes school but doesn't work very hard at it

Job: Two part-time jobs (fast food and a grocery store)

Family: Mom and sister

Future plans: Plans to attend college but not sure where to go or how to pay for it, but is saving all he can



### JASMINE

Hobbies: Hanging out with friends, shopping, collecting teddy bears

School life: Likes English class, swims on the swim team

Job: Weekends and holidays at her aunt's gift shop

Family: Younger brother named Dominique, large extended family

Future plans: In-state college, plans to be an exercise physiologist

## PRE-ASSESSMENT

1. **WHICH OF THE CREDIT CARD TERMS BELOW IS MOST IMPORTANT TO CONSIDER IF YOU WILL LIKELY CARRY A BALANCE ON YOUR CREDIT CARD FROM TIME TO TIME?**
  - a. Annual fee
  - b. APR
  - c. Late fee
  - d. Over-the-limit fee
  
2. **WHAT IS THE STATEMENT A CREDIT CARD COMPANY MUST PROVIDE ACCORDING TO FEDERAL LAW TELLING YOU ALL THE TERMS OF CREDIT WITH THEIR COMPANY?**
  - a. Truth in Lending Disclosure
  - b. Truth in Predatory Practices
  - c. Balance Computation Method
  - d. APR
  
3. **WHAT IS THE MAIN SOURCE OF INFORMATION CREDIT CARD COMPANIES USE TO DECIDE WHETHER OR NOT TO GIVE YOU A CREDIT CARD?**
  - a. Personal references
  - b. Balance Computation Method
  - c. Truth in Lending Disclosure
  - d. Credit report
  
4. **IF YOU CARRY A BALANCE ON YOUR CREDIT CARD, BUT WOULD LIKE TO PAY LESS MONEY IN THE LONG RUN, AND PAY IT OFF AS QUICKLY AS POSSIBLE, YOU SHOULD...**
  - a. Make the minimum payment every month.
  - b. Talk with your credit card company about removing your annual fee.
  - c. Pay more than the minimum payment (as much as possible) each month.
  - d. Close your account and continue to transfer your balance each month to a different credit card.
  
5. **CAN YOU GET A FREE CREDIT REPORT EACH YEAR?**
  - a. Yes
  - b. No
  - c. Only in some cities
  - d. Only if you have been denied credit
  
6. **WHO SHOULD YOU CALL RIGHT AWAY IF YOU REALIZE YOUR CREDIT CARD HAS BEEN LOST OR STOLEN?**
  - a. The bank
  - b. Your parents or guardian
  - c. The police
  - d. Your credit card company



## CHECKING IN

Welcome to *Charge It Right*! One of the first steps to financial security is planning and following through on a personal spending plan or budget. Budgeting is about choices—choosing how to make money and choosing how to spend money.



**PURPOSE** The *Charge It Right* module will teach you about credit cards and how to use them responsibly.

**OBJECTIVES** After completing this module, you will be able to:



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



**AGENDA AND  
GROUND RULES**

If you have experience or knowledge in some part of the course, please share your ideas with the class. One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some danger to avoid. Your contribution to the class will make the learning experience that much better.

**STUDENT  
MATERIALS**

Each of you has a copy of the *Charge It Right Participant Guide*. It contains:



- Materials and instructions you will need to complete the exercises.
- Checklists and tip sheets related to the module content.
- Space for you to take notes.
- A glossary of the terms used in this module.





## INCREASING YOUR WEALTH

### CREDIT CARD CHARACTERISTICS

#### WHAT IS A CREDIT CARD?

Credit cards are a convenient form of borrowing. People generally use credit cards to purchase goods and services.

Credit cards provide a **revolving line of credit**. This means you can make an unlimited number of purchases, up to a pre-approved dollar limit. The limit might be \$500, \$1,000, \$3,000, or much more.

You must pay at least a part of the bill every month. This is called a minimum payment. It is often a certain percentage of your balance.

Charge cards are used like credit cards, but you must pay the entire balance every month. In this module, we will focus on credit cards rather than charge cards.

Debit cards are similar to credit cards except that they are tied to your checking account at a bank. When you use them to make a purchase or to take out money at an Automated Teller Machine (ATM), the money is immediately taken out of your checking account. You need to be sure you have money in your checking account before you use a debit card.

Let's take a closer look at some other differences between credit cards and debit cards.







## ACTIVITY 1: CREDIT CARDS AND DEBIT CARDS

Although they look similar, credit and debit cards allow you to use money differently.

Look at Activity 1: Credit Cards and Debit Cards at the back of your Guide. Use the chart to answer the questions.



*Do you have any questions about credit cards versus debit cards?*



### STORED VALUE CARDS

To use a stored value card, you deposit money upfront and the balance declines as you use the card. It works like a debit card, but it's not connected to your checking account. It has a limit like a credit card does. But since you deposit money ahead of time, you don't pay it back later. You can refresh the value of the card by depositing money into your stored value card account.

Stored value cards include:



- Telephone cards with prepaid minutes.
- International gift cards that can be used anywhere the VISA, MASTERCARD, or American Express logo is displayed.
- Payroll cards. These are cards that enable your employer to deposit your paycheck on the card, rather than issue you a paper check.
- Gift cards that you can purchase at retailers such as supermarkets, restaurants, department stores, etc.
- Cash cards.

There are two major types of stored value cards: those that can only be used at one particular store or retailer (gift cards), and those that can be used at any merchant that accepts credit cards.

Depending on the type of card, stored value cards can:



- Reduce or eliminate check-cashing fees.
- Offer 24-hour access to funds.
- Make money transfers easy.
- Offer the ability to make purchases using credit card networks.
- Reduce the need to carry a lot of cash.

One potential disadvantage of a stored value card is that your name may not be printed on the card and a refund may not be available if your card is lost or stolen. Ask if you can register your card with its issuer. Be sure to ask about any fees associated with a stored value card, such as monthly fees or inactivity fees. These lower the balance on your card.

### **SMART CARDS**

A smart card resembles a credit card in size and shape, but inside it is different. The inside of a smart card usually contains a microprocessor or computer chip. The chip is under a gold contact pad on one side of the card. Think of the computer chip as replacing the usual magnetic strip on a credit card or debit card. It is used in some credit and cash cards, but also for security systems, wireless communication, and other technologies.

Some credit card companies are beginning to issue credit cards that are also smart cards. These may allow you to simply touch your card to a reader to make a payment, instead of having to swipe your card as in the past.

The most common smart card applications are:



- Credit cards.
- Electronic cash.
- Computer security systems.
- Wireless communication.
- Banking.
- Satellite TV.
- Government identification.
- Loyalty systems (like frequent flyer points).



## ACTIVITY 2: WHICH CARD IS THIS?

Stored value cards, credit cards, debit cards and smart cards are similar, but have important differences.

Look at Activity 2: Which Card is This? at the back of your Guide. Follow the directions there to complete the activity.



### SECURED AND UNSECURED CREDIT CARDS

Most credit cards are unsecured. This means you do not have to provide collateral in order to get a credit card.

**Collateral** is what you promise to give the bank if you do not repay a loan. Examples of items that can be used as collateral include cars, homes, or savings accounts. You might want to consider a secured credit card if you have no credit history or have had credit problems in the past.

To get a secured card, you generally need to pledge a bank savings account as collateral. This means the bank holds the savings account as security for repayment.

For example, if you want a credit card with a \$500 limit, the bank might require you to keep \$500 in a bank savings account. You will not be able to withdraw, or take money out, from that account. The bank can use that \$500 if you are unable to pay your credit card bill.

Some banks might require more or less than the credit card limit as collateral to secure the card. Once you have a good history by paying your credit card bills on time, you will have a better chance of getting an unsecured credit card.



### **STUDENT CREDIT CARDS**

There are many credit cards today aimed at teens and young adults. These cards typically offer very low introductory interest rates (or APR) and cash back bonuses. Some allow no income and no co-signer requirements. Often times, there is a low credit limit and no annual fees.

### **REWARD CARDS**

Reward cards are credit cards that offer “rewards” for using them. Many airlines and hotels offer reward cards. When you use these credit cards, you earn points toward goods or services, and you may also receive cash rebates. You can then use the points towards flights, gift certificates and other products.

You may be charged annual fees for reward cards.

*How many of you have ever received pre-approved credit card offers in the mail? Or how many of you know your parents received them?*



### **PRE-APPROVED CARDS**

Many people get offers for pre-approved credit cards.

These offers tell the recipient that he or she is “pre-approved” to receive a credit card. This means that the bank offering the card has looked at your credit report and determined that you MIGHT qualify for the interest rates and credit limit being offered. Whether or not you get the best rates depends on your income, employment, and credit history.



Though the card says “pre-approved”, this is misleading. “Pre-approved” means you have been selected to receive the offer, but you still have to qualify to receive the credit. It doesn’t mean you will be automatically accepted.

Always read the credit agreement carefully BEFORE signing on the dotted line. There may be limitations or conditions that are not obvious in the advertisement.

For example, a credit card company might encourage you to transfer balances from other credit cards (balance transfers). But there might be hidden costs such as transfer fees.



- Before you apply for a credit card, decide what it will be used for. Keep in mind a credit card is not free money. It is a loan you must repay, with interest.
- Ask what interest rates and credit limit you qualify for. You may be able to get better terms on another card, so shop for the best possible deal.

You have the right to “opt out” of receiving most mailed credit card offers. You can tell the credit bureaus not to share your information with lenders and insurers who use the information to decide whether to send you an offer of credit or insurance. You can opt out of receiving prescreened offers by calling 888-5-OPTOUT (567-8688) or visiting [www.optoutprescreen.com](http://www.optoutprescreen.com). You can opt-out for five years or permanently; review the instructions on the website for more details.

Remember, though, that you may still receive credit card applications in the mail, such as from banks or companies with which you do business. If you don’t intend to apply, you should shred these letters and ask the sender not to send further solicitations.

*Do you have any questions about these types of credit cards?*



### **CREDIT CARD SOLICITATIONS**

#### **WHERE DO YOU SEE OFFERS?**

Solicitations, or selling tactics, are everywhere you go these days. They are the means by which credit card companies (also referred to as creditors) attract your attention and try to win you as a customer.



*Where are some of the places you have either seen ads for credit cards or been approached in other ways?*







### ACTIVITY 3: HOW DO THEY TARGET YOU?

In addition to the numerous places you can be approached, and the quantity of ads out there for credit cards, how else do credit card companies try to market to you?

*Do you have any questions about credit card solicitations?*



#### SHOPPING FOR THE BEST DEAL CREDIT CARD TERMS

Not all credit cards have the same terms. Terms in the financial world means guidelines that a financial institution sets to repay a loan. Terms can be confusing when you are shopping for credit cards. The important credit card terms you should look for are:



- Annual percentage rate (APR).
- Fees.
- Grace period.
- Balance computation method.
- Cash advance.
- Balance transfer.

#### ANNUAL PERCENTAGE RATE (APR)

The APR represents the cost of borrowing money. It is stated as a yearly percentage rate.



- If you plan to keep a balance on your credit card account, you want to look for a low APR. Then you will pay the least possible interest.
- If you expect to pay your credit card bill in full each month, it is more important to focus on the annual fee and other charges.

Credit card companies, or creditors, may offer low introductory APRs (teaser rates) for a limited time to attract new customers. Creditors must include clear information on how long these rates will last. After the introductory period, a new rate may apply. That rate may be either fixed or variable, and is usually higher than the beginning rate.

**Fixed means the interest rate will not change.**

**Variable means the rate can increase or decrease.**

Most credit card companies charge a different APR depending on the type of transaction. For example, rates for a cash advances are likely to be higher than rates for purchases. Balance transfers may be subject to a different rate also.

You should ask the credit card issuer if you have questions about potential changes in your interest rate and how it can affect your payment.

The terms of your credit card agreement may also state that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time, or if you exceed your credit limit. This is called the penalty APR. Penalty APRs may be two times the regular APR.

For example, the penalty rate may apply if you are late on more than two payments in a 6-month period. The Truth in Lending disclosures will provide details on whether the credit card company has penalty APRs and when they apply.

#### **UNIVERSAL DEFAULT**

Another policy you need to be aware of is universal default. Some lenders have policies that will raise your credit card interest rate to the highest possible rate if you are late on any other account. For example, if you have five credit cards and you are late paying one, the interest rate for the other four cards may go up by a large amount. The Truth in Lending disclosures will tell you if your lender has such a policy.



### **FEES**

Make sure you check out how much you will pay for:



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

If you have a good credit history, you can probably find a credit card with no annual fee. If your current card has an annual fee, call your lender and ask them to waive the annual fee.

### **GRACE PERIOD**

The grace period lets you avoid finance charges by paying your balance in full before the due date.

Knowing whether a card gives you a grace period is especially important if you plan to pay your account in full each month.

Without a grace period, the credit card company may impose a finance charge from the date you use your card or from the date each transaction is posted to your account. Keep in mind that many credit card companies never provide a grace period for cash advances or balance transfers.

If your card includes a grace period, the credit card company must mail your bill at least 14 days before the due date so you will have enough time to pay.

### **BALANCE COMPUTATION METHOD**

The balance computation method will determine how your interest is calculated. There are a variety of methods. The most common method used is the average daily balance.

### **CASH ADVANCE**

Many credit cards let you borrow cash from them against your credit limit, but they will charge you a fee when you do.

This fee can be stated in terms of a flat per transaction fee or a percentage of the amount of the cash advance.

For example, the fee may be expressed as follows:

**2%/\$10**

This means that the cash advance fee will be 2 percent of the cash advance amount or \$10, whichever is greater.

There is usually no grace period for cash advances. Interest begins accruing immediately.

**BALANCE TRANSFER**

Balance transfer is the process of moving an unpaid credit card debt from one credit card to another. Debt is the amount of money you owe to the credit card company. Credit card companies sometimes offer low rates to encourage you to pay off other debts with their credit card. But, be wary of balance transfer fees. Also, be sure to find out what interest rate you will be assessed after the promotional or introductory period is over.

**TRUTH IN LENDING DISCLOSURE STATEMENT**

Federal law requires that you receive a Federal Truth in Lending Disclosure Statement from the credit card company offering you a credit card. The APR usually appears in a large type size so you can more easily find it.

Study the Truth in Lending Disclosure Statement carefully, as well as other information given to you regarding the credit transaction. Be sure to keep all disclosures that you receive at the time you apply, as well as the terms of the customer agreement that the credit card company will send you after your card is approved.

Below you can see a sample Truth in Lending Disclosure Statement.

Annual Percentage Rate (APR)	Grace Period	Annual Fee	Minimum Finance Charge	Method of Computing the Balance for Purchases
<b>19.4%</b>	<b>25 days</b>	<b>\$35.00</b>	<b>None</b>	<b>Average Daily Balance</b>

*Late payment fee—\$20.00; Over-the-limit fee—\$20.00; Returned check fee—\$20.00; ATM transaction fee—\$2.00. The grace period does not apply to cash advances. The annual percentage rate for cash advances is 24%.*





## ACTIVITY 4: WHAT'S THE BEST OFFER?

The three credit card offers in this activity are typical of the offers you receive in the mail every day.

Look at the Activity 4: What's the Best Offer? page at the back of your Guide. Use the sample Truth in Lending disclosures to answer the questions.



*Do you have any questions about these card terms?*



### OTHER FACTORS TO CONSIDER

There are two additional factors that you should consider when shopping for a credit card:



- Customer service.
- Additional protection.

Most credit card companies offer you these customer service features via telephone and Internet:



- Access to account information.
- Bill payment.
- Update of personal information such as address and telephone number.
- Problem resolution.

Fees may be charged for some of these services. Be sure you understand what the fees are before accepting a credit card offer.

Credit card companies are now starting to offer additional protection in case:



- You lose your job and are temporarily unable to pay your bills
- You lose your credit card
- Your identity is stolen

There is usually a cost for this extra protection. Be sure you understand how much you will be paying before accepting these offers.





## ACTIVITY 5: CREDIT CARD COMPARISON CHART

Comparing credit card offers side by side makes it easier to tell the difference between them. When you can easily see what each one offers, you can make the best choice for you.

Look at the Activity 5: Credit Card Comparison Chart at the back of your Guide. You can compare different offers by writing in the details of each one.



### TIPS TO THINK ABOUT WHEN CHOOSING A CARD

Before signing up for a credit card, consider these tips.



- How will you use the credit card? Decide ahead of time when and how you plan to use it. Will you pay your balance in full each month? Remember, small charges add up quick!
- Start small. Do not charge too much on your credit card until you get comfortable with the monthly bill.
- Understand the terms of the plan before you accept the card. Shop around for the plan that fits you. Make sure you read – and keep – the fine print.
- Beware of introductory rates. You might start out with a credit card that has no annual fee for the first year, but you will be charged a fee in the second year. You might start out with a low interest rate and then find the interest rate is much higher after a few months.
- Beware of application fees. Most credit card companies do not charge fees to open accounts.
- Understand fixed and variable rates, as well as penalty APRs.

*Do you have any questions about  
how to shop for the best deal?*



**APPLYING FOR A CREDIT CARD**

Applying for a credit card is faster and easier than ever before, but there are certain requirements that credit card companies have when deciding to accept you as a customer.

*Where do you think you would go to apply for a credit card?*



**APPLICATION REQUIREMENTS**

Individual credit is based on your own assets (or things you own), income (or money you make), and credit history (if you have any). In this case, only you are responsible for paying the credit card bill.

Joint credit is based on the assets, income, and credit history of two people who apply. Often teens and young adults apply jointly with a parent or other responsible adult. In this case, both applicants are responsible for the credit card bill, no matter who makes the charges on the credit card.

Another typical requirement is that you must be 18 years old. Although, some credit card companies issue cards to minors knowing most parents will take responsibility for their debt even though they are not legally required to do so.

Many students, who often do not have a steady source of income, are approached with credit card offers. They are usually initially given a low credit limit. Credit card companies hope that they will become loyal credit card customers. Less honest companies hope that students will charge more than they can pay for when the statement arrives, and will hence end up paying lots of money in interest charges.



Keep in mind that giving false information about your income or any other item on a credit application is a crime called fraud which can be punishable by fines and prison time.

### **WHAT CREDIT CARD COMPANIES LOOK FOR**

What information do you think credit card companies look at in order to decide whether or not to give you a credit card?

You have to demonstrate that you are a good risk before you are given credit. The proof is in your credit report. This is the main source of information creditors look at when deciding whether to give you a credit card.

### **CREDIT REPORTS**

A credit report is a record of how you have paid your debts. Remember, debts are bills or money that you owe. A credit report tells creditors:



- Who you are.
- How much you owe other people, including how many accounts you have, how long you have had them, and how much of your credit limit is unused.
- Whether you have made payments on time.
- Whether there is negative information about you in public records, such as collection actions, bankruptcies, and/or judgments.
- How many inquiries are listed in your credit report. The inquires section of your credit report lists the credit card companies and other authorized companies that have requested and received your credit report. It tells creditors how often you apply for credit. Applying for new credit too frequently may be a signal to creditors that you are a higher credit risk.



If you do not have a credit history, some credit card companies will consider other factors that tell them whether you may be a good credit risk. For example, they might ask for proof that you pay any rent, utilities, and/or phone bills on time; or that you make regular deposits to a savings account.

### **CREDIT REPORTING AGENCIES**

Your credit report is kept on file with three major credit reporting agencies. They are:



- Equifax.
- Experian.
- TransUnion.

Financial institutions report information about you to the credit reporting agencies, which combine this information in the form of a credit report. Banks then ask the credit reporting agencies for this information when you apply for a credit card.

### **FREE CREDIT REPORT ONCE A YEAR**

The Fair Credit Reporting Act requires each of the three credit reporting agencies to provide you with a free copy of your credit report, at your request, once every 12 months.

But only one online source is authorized to do so. That is [www.annualcreditreport.com](http://www.annualcreditreport.com). Beware of other sites that may look and sound similar.

The Federal Trade Commission (FTC) advises consumers who order their free annual credit reports online to be sure to correctly spell [www.annualcreditreport.com](http://www.annualcreditreport.com), or link to it from the FTC's Website. This is so you avoid being misdirected to other Web sites that offer supposedly free reports, but only with the purchase of other products.

While you may be offered additional products or services while on the authorized web site, you are not required to make a purchase to receive free annual credit reports.

You can also call a toll-free telephone number or complete a form and mail it to receive your annual free credit report.



### **YOUR CREDIT REPORT: GETTING A FREE COPY**

To order your free annual report from one or all of the credit reporting agencies, do not contact the three nationwide consumer reporting companies individually. You can obtain a **free credit report once a year** by doing one of the following:



- Submit a request online at [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Call toll-free: 877-322-8228
- Complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service  
P. O. Box 105281  
Atlanta, GA 30348-5281

You can print a copy of the Annual Credit Report Request Form from [www.annualcreditreport.com](http://www.annualcreditreport.com) or [www.ftc.gov/credit](http://www.ftc.gov/credit).



- You need to provide your name, address, Social Security number, and date of birth.
- If you have moved in the last two years, you may have to provide your previous address.
- To maintain the security of your file, each credit reporting agency may ask you for some information that only you would know. Each company may ask for different information because the information each has in your file may come from different sources.

Remember, you may also be able to obtain a free credit report if:



- Your application for credit, insurance, or employment is denied based on information in your credit report.
- You are unemployed and plan to look for a job within 60 days.
- You are receiving public assistance.
- Your report is inaccurate because of fraud, including identity theft.



If you are not eligible for a free annual credit report, a credit reporting agency may charge you up to \$10.00 for each copy. To buy a copy of your report, contact one of the following:



- Equifax: 800-685-1111 or [www.equifax.com](http://www.equifax.com)
- Experian: 888-EXPERIAN (888-397-3742) or [www.experian.com](http://www.experian.com)
- TransUnion: 800-916-8800 or [www.transunion.com](http://www.transunion.com)



## ACTIVITY 6: ANNUAL CREDIT REPORT REQUEST FORM

**When you want to review your own credit report, you may be asked to fill out a form, sign it, and send it to the credit reporting agency. They will then send you a copy of your credit report from each credit bureau that you indicate on the form.**

Look at the Activity 6: Credit Report Request Form at the back of your Guide. The information requested is required to verify your identity and to send you the correct report.



### CREDIT SCORES

It has become very common for lenders to make decisions on the basis of a credit “score.”

A credit score is a number that helps creditors determine how likely you are to pay your credit card bill when it is due. It is calculated based on information in your credit report.

Credit card companies may use one or more credit scores. Credit scores may either be calculated by the creditor itself; or the creditor may use a score purchased from another firm.

Two of the scores that creditors may purchase from other firms include:



- The Fair Isaac (FICO) score.
- The VantageScore.

### **FICO SCORES**

Your FICO score is the main factors lenders consider when deciding whether to grant you credit.



- A FICO score is calculated using a computer model that compares the information in your credit report to what is on the credit reports of countless other customers. FICO scores range from about 300 to 900.
- Generally, the higher the score, the lower the credit risk.

### **VANTAGESCORE**

In 2006, the three credit reporting agencies announced that they had agreed on a new credit scoring system, called VantageScore.

Because all three credit reporting agencies will be using the same scoring system, you should have the same VantageScore from each agency.

The new VantageScore ranges from 501 to 990. It also groups scores into letter categories covering an approximately 100-point range, just like grades you receive on a report card. For example, if you had 501 to 600 points, your credit grade would be “F.” If you had 901 points or more, your credit grade would be “A.”

### **WHAT TO DO IF YOUR REQUEST FOR CREDIT IS DENIED**

If your request for credit is denied, you will receive a denial notice, sometimes called an adverse action notice.

It lists the reasons for denying your application. If you do not receive this notice or the notice does not explain why the credit was denied, ask the credit card company.

You have the right to have the credit card company give you the reasons that the credit was denied. While each creditor has its own reasons for denying credit, some reasons for denial might include:



- You have a bad credit history.
- You have not been at your current address or job long enough.
- Your income does not meet the credit card company’s criteria.

If you are denied credit because of information in your credit report, federal law requires the credit card company to give you the name, address, and telephone number of the credit bureau that supplied the information. If you contact the credit bureau within 60 days of receiving the denial, you are entitled to a free copy of your credit report.

You have a right to dispute, or argue, any incorrect information in your credit report with the credit reporting agency, and also with the company that gave the information to the credit reporting agency.

It is important to review your credit report from all three agencies to ensure that they have correct information.

*Do you have any questions about credit scores?*



**USING YOUR CREDIT CARD RESPONSIBLY**

When you get a credit card, start slowly with one credit card with a low limit and use it responsibly. Starting small will help you establish a credit history. It will also keep you from owing too much money that you will have trouble paying back.

**HOW TO USE YOUR CREDIT CARD RESPONSIBLY**

Here are some tips and guidelines for using credit responsibly and maintaining good credit. Good credit will help you get better loans and even better jobs, in some cases.





- Protect your credit card and account numbers to prevent unauthorized use.
- Draw a line through blank spaces on charge slips so the amount cannot be changed.
- Tear up carbon copies of your receipts.
- Keep a record of your account numbers, expiration dates, and the phone numbers of each credit card issuer in a safe place, separate from your credit card, to quickly report a loss.
- Carry only the credit card(s) you think you will use.
- Pay off your total balance each month. If you cannot pay the total balance, try to pay as much as you can.
- Read and keep the fine print. Low advertised interest rates might not last as long as you think. You might not have a grace period with balances you have transferred from other credit cards. Watch for change in terms notices the credit card issuer may mail to you.
- After you have established a good credit history, ask the credit card issuer to waive the fee or lower the interest rate.
- Do not keep more than two or three credit cards. Too many cards make overspending tempting. Many people do not control their spending or manage their finances wisely.
- There are, however, good reasons to have more than one card, especially if your credit limit is not high enough on one card to cover an emergency. For example, many financially responsible people can become overwhelmed by expenses or reduced income triggered by a serious illness, a job loss, or some other unexpected event.
- Do not exceed your credit limit.

*Do you have any questions about the tips we discussed?*





## ACTIVITY 7: CREDIT CARD USER CASE STUDIES

Sometimes people who use credit cards don't follow the tips and guidelines for responsible credit card use.

Read each scenario on the Activity 7: Credit Card User Case Studies page at the back of your Guide. Determine if the credit card use in each situation is responsible or irresponsible. Then briefly explain why you think that is so.



### CORRECTING CREDIT CARD PROBLEMS

Let's take a look at some tips that will help you correct problems you might have using your card.

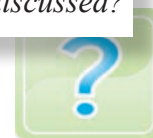


- Reduce your expenses by paying off the balance on your highest rate loans first. These are usually your credit cards, versus student or personal loans.
- Pay for future purchases using cash or a check.
- If you have serious problems paying off your credit card debt, turn to a reliable credit counselor. Some can help you for little or no cost.
- After credit counseling, consider enrolling in a debt management plan (DMP). In a DMP, you deposit money each month with the credit counseling organization, which uses your deposits to pay your unsecured debts, like your credit card bills, student loans, and medical bills, according to a payment schedule the counselor develops with you and your creditors.

A successful DMP requires you to make regular, timely payments and could take 48 months or more to complete.

- Beware of debt consolidation traps. These are loans that you get in order to help pay off what you owe on several credit cards. They can be either secured or unsecured loans that you promise to repay.
- Beware of companies and Web sites that charge high rates and application fees. Watch out for hidden charges. Ask for references before signing the agreement. Use bankruptcy only as a last resort.

*Do you have any questions about the tips we discussed?*





### **WHAT TO DO IF YOUR CREDIT CARD IS LOST OR STOLEN**

If your credit card is lost or stolen, immediately notify your credit card company. Do the same thing if you spot something wrong in your monthly billing.

Never give your account information or any personal information over the telephone unless you have made the call.

Under federal law, if a thief uses your credit card or card number, the most you are liable for is \$50 per card if you notify the creditor immediately. If you contact your credit card company before any unauthorized charges are made, you are not responsible for any unauthorized charges.

Credit card fraud is a national problem and is one reason interest rates are higher on credit cards than on other types of loans. You have certain rights as a credit card consumer. If you think you are a victim of credit card fraud, immediately contact your credit card company.

There are other organizations you can also contact for more information, such as the Federal Trade Commission (FTC).

### **AVOIDING IDENTITY THEFT**

With some of your personal and/or account information, someone else can pretend to be you. One reason they might do so is to apply for new credit cards in your name. That is identity theft or ID theft, and it is a serious problem.

With a credit card in your name, a thief could open and make charges to an account in your name that you don't even know about. Once you find out about it, it could take years to completely clear your name.

Always be careful when providing your personal information online. But scams and thieves are just as active outside the Internet as they are online. So, be very careful to guard your personal and account information.

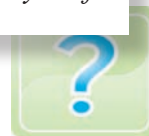
Never give your personal information out over the phone unless you have placed the call.



If you lose your license or a credit card, report it immediately. Act fast: visit [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft) for more details.

More information on identity theft can be found in the *Bank on It* module of this curriculum.

*Do you have any questions about what to do if your credit card is lost or stolen, or how to guard against identity theft?*



**PAYING YOUR  
CREDIT CARD  
BILL**

There are several things to pay attention to and consider as you make your credit card payments. Some of those things include your credit limit, the minimum payment, and how increased payments affect what you owe.

**CREDIT CARD LIMIT**

If you are approved for credit, the lender that issues the credit card will set a credit limit.

This is the maximum amount of credit they will allow you to borrow. Each company that issues credit cards has its own standards for deciding how much money to loan you.

If you go over this limit, the credit card company will likely charge you an over-the-limit fee. Exceeding your credit limit may also lower your credit score.

**MINIMUM PAYMENT**

With a credit card, you have to pay at least the minimum amount due each month.

Why do you think it might be a good idea to pay more than the minimum payment due on your credit card bill?



## ACTIVITY 8: COST OF MAKING THE MINIMUM PAYMENT

When you only make the minimum payment on a credit card, it takes much longer to “pay off” the balance (until it reaches \$0). The longer you keep a balance, the more interest you pay. That means that whatever you buy can cost much more than its price!

Look at each item in the table. The original price is shown, along with the interest rate and total amount of interest. Use the formula to find out how much more you paid for the item by paying only the minimum payment on your credit card. Fill in the “How much more did you pay?” column.



## ACTIVITY 9: BENEFITS OF MAKING MORE THAN THE MINIMUM PAYMENT

If you pay only the minimum monthly payment on a credit card each month, your interest charges could be significantly higher.

Look at the Activity 9: Benefits of Making More Than the Minimum Payment page at the back of your Guide. Use the information in the tables to answer the questions.



*Do you have any questions about credit limits or making payments?*



**THE CREDIT CARD STATEMENT** **WHAT INFORMATION DOES THE STATEMENT INCLUDE?**

If you have a credit card, you will receive a monthly billing statement. Understanding the billing statement is important.

The statement lists detailed activity during the account billing cycle. The typical billing cycle is monthly from a certain date each month, to that same date the next month.

The reverse side of your bill usually describes basic terms of your credit card agreement, including how the interest is calculated and where to call with billing questions.

**THE CREDIT CARD STATEMENT**

Your credit card statement contains a lot of information. You should be aware of the following when reading your statement:



- **New Balance.** Your previous balance, plus any purchases, cash advances, and late fees; minus any payments and credits. If you pay your credit card bill in full each month, the new balance will be equal to your new purchases and cash advances.
- **Credit Line.** The maximum dollar amount you can borrow on the card at one time.
- **Minimum Payment Due.** The minimum dollar amount you must pay each month. This is usually 2 to 3 percent of the amount owed and is often based on the balance on the billing date. Always pay at least the minimum payment, but more if possible.
- **Credit Available.** The amount of credit remaining on your card after your balance and your current charges are subtracted from your total credit line.
- **Payment Due Date.** The date your payment must be received by the creditor, not the date it is postmarked. Be sure to make your payments well before the due date to avoid late charges.
- **Previous Balance.** The amount you owed at the end of the previous billing period. Any payments, credits to your account, or new purchases are not included.
- **Finance Charge.** The cost of credit. It includes interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.



## ACTIVITY 10: SAMPLE CREDIT CARD STATEMENT

Look at the Activity 10: Sample Credit Card Statement page at the back of your Guide. Use the information there to answer the questions.



*Do you have any questions about the credit card statement and how finance charges are calculated?*



### **KEEP GOOD RECORDS**

You should always keep your credit card receipts to compare them with your monthly statements. Be sure to check your monthly statement for mistakes.

If you find a mistake, take steps to resolve it right away. To be fully protected, you must report a mistake to your credit card company in writing within 60 days from the day the bill was sent to you.

*Do you have any questions about the credit card statement?*





## CHECKING YOUR BALANCE

### MODULE SUMMARY



You have completed the *Charge It Right* module. We have covered a lot of information today about how to select and use a credit card wisely. You learned:

- The purpose of credit cards
- Where you can go to apply for a credit card
- How to decide which credit card is best for you or if a credit card is a good idea for you at this point
- What credit card companies look for before they issue you a credit card
- How to use a card responsibly and how to safeguard against identity theft

You should now be able to take this information and use a credit card in a way that gives you options and helps you build credit; not keeps you in debt for many years to come.

*Do you have any final questions?*





## KNOWLEDGE CHECK

1. **WHICH OF THE CREDIT CARD TERMS BELOW IS MOST IMPORTANT TO CONSIDER IF YOU WILL LIKELY CARRY A BALANCE ON YOUR CREDIT CARD FROM TIME TO TIME?**
  - a. Annual fee
  - b. APR
  - c. Late fee
  - d. Over-the-limit fee
  
2. **WHAT IS THE STATEMENT A CREDIT CARD COMPANY MUST PROVIDE ACCORDING TO FEDERAL LAW TELLING YOU ALL THE TERMS OF CREDIT WITH THEIR COMPANY?**
  - a. Truth in Lending Disclosure
  - b. Truth in Predatory Practices
  - c. Balance Computation Method
  - d. APR
  
3. **WHAT IS THE MAIN SOURCE OF INFORMATION CREDIT CARD COMPANIES USE TO DECIDE WHETHER OR NOT TO GIVE YOU A CREDIT CARD?**
  - a. Personal references
  - b. Balance Computation Method
  - c. Truth in Lending Disclosure
  - d. Credit report
  
4. **IF YOU CARRY A BALANCE ON YOUR CREDIT CARD, BUT WOULD LIKE TO PAY LESS MONEY IN THE LONG RUN, AND PAY IT OFF AS QUICKLY AS POSSIBLE, YOU SHOULD...**
  - a. Make the minimum payment every month.
  - b. Talk with your credit card company about removing your annual fee.
  - c. Pay more than the minimum payment (as much as possible) each month.
  - d. Close your account and continue to transfer your balance each month to a different credit card.
  
5. **CAN YOU GET A FREE CREDIT REPORT EACH YEAR?**
  - a. Yes
  - b. No
  - c. Only in some cities
  - d. Only if you have been denied credit
  
6. **WHO SHOULD YOU CALL RIGHT AWAY IF YOU REALIZE YOUR CREDIT CARD HAS BEEN LOST OR STOLEN?**
  - a. The bank
  - b. Your parents or guardian
  - c. The police
  - d. Your credit card company



# COURSE ACTIVITIES

## ACTIVITY 1: CREDIT CARDS AND DEBIT CARDS

### INSTRUCTIONS

Use the chart to answer the questions on the following page.

	Credit Cards	Debit Cards
<b>Payments</b>	Buy now, pay later	Buy now, pay now
<b>Interest Charges</b>	Yes, if you carry a balance or your card offers no “grace period” (time to repay without incurring interest).	No.
<b>Other Potential Benefits</b>	Freebies, such as cash rebates and bonus points good for travel deals. Some purchase protections.	Easier and faster than writing a check. Avoid debt problems. More cards are now offering freebies. Some purchase protections.
<b>Other Potential Concerns</b>	Fees and penalties. Also not all cards offer grace periods. Overspending can cause debt problems.	Fees on certain transactions. You may overdraw your account if you don’t record your debit card transactions.
<b>Liability in the event of unauthorized transactions</b>	Liability for unauthorized transactions capped at \$50. The credit card company may voluntarily waive your liability.	Unauthorized transactions are immediately taken out of your checking account. Your liability is capped at \$50 if you notify the bank within two business days after discovering the theft. Otherwise, you may be responsible for a larger amount.

## **INSTRUCTIONS**

**Circle the letter of the correct answer for each question.**

- 1. YOU MUST HAVE ENOUGH MONEY AT THE TIME YOU PAY FOR SOMETHING WHEN YOU USE A:**
  - a. Credit card.
  - b. Debit card.
  
- 2. THE BALANCE ON WHICH CARD CAN INCREASE IF YOU DON'T PAY THE ENTIRE AMOUNT?**
  - a. Credit card
  - b. Debit card
  
- 3. WHICH CARD WILL HELP YOU STAY OUT OF DEBT IF YOU USE IT INSTEAD?**
  - a. Credit card
  - b. Debit card
  
- 4. YOU RECEIVE A CHECKING ACCOUNT STATEMENT WITH A BALANCE OF -\$21.49. YOU HAVE OVERDRAWN YOUR ACCOUNT! SINCE YOU DIDN'T WRITE A CHECK THAT MONTH, WHICH OF THE FOLLOWING MOST LIKELY HAPPENED?**
  - a. You forgot to record a debit card transaction.
  - b. Your credit card limit was increased.
  
- 5. YOUR WALLET GOT STOLEN AND SOMEBODY USED YOUR DEBIT CARD TO MAKE PURCHASES FOR \$157.00 THAT YOU DIDN'T AUTHORIZE. YOU CALLED THE BANK THAT NIGHT TO NOTIFY THEM. WHICH OF THE FOLLOWING ARE YOU RESPONSIBLE FOR?**
  - a. You must pay the \$157.00 to make up for what was stolen.
  - b. You only pay \$107.00 because the bank pays \$50 of the stolen funds.
  - c. You are only responsible for paying \$50 and the bank will cover the rest.

## ACTIVITY 2: WHICH CARD IS THIS?

### INSTRUCTIONS

Answer each question below by selecting the best answer from the list provided on the slide.

**WHAT IS A CARD THAT LOOKS LIKE A CREDIT CARD BUT HAS A COMPUTER CHIP EMBEDDED INSIDE IT?**

- Smart Card
- Stored Value Card
- Credit Card

**WHAT IS A CARD ON WHICH YOU CAN “LOAD” MONEY TO BE USED FOR FUTURE PURCHASES?**

- Smart Card
- Stored Value Card
- Credit Card

**WHAT CARD HAS A SPENDING LIMIT AND CAN BE PAID BACK OVER TIME?**

- Smart Card
- Stored Value Card
- Credit Card

## ACTIVITY 3: HOW DO THEY TARGET YOU?

**Credit card companies may try to distribute information to potential customers (you) in many ways. Compare this list to your answers on the board or flip chart. How many did you list on your own?**

### WHERE DO THEY FIND YOU?

- E-mail
- Direct mail
- Online ads and pop ups
- Retail store check-out lines
- Newspaper and magazine inserts
- Booths at sporting events, theme parks, festivals, etc.
- Booths or tents on college campuses
- Malls

### HOW DO THEY SELL YOU?

- Low or 0% introductory rates
- Cash back bonuses
- No annual fees
- Personalized or stylized cards
- Free products such as hats, backpacks, T-shirts, etc.—and even reduced fare airline tickets

### SOME QUICK STATISTICS FROM RECENT NEWS STORIES OR OTHER REPORTS...

- In 2001, 83 percent of undergraduates had at least one credit card. The average college student had four!
- 71% of young adult card holders do not pay off their balance in full each month.
- College seniors were graduating with an average balance of nearly \$4,000 in credit card debt in the early 2000s. That is up 134% from the 1990s.
- The number of 18-24 year olds declaring bankruptcy has increased 96 percent in the last decade.
- More people filed for bankruptcy in 2002 than graduated from college.

***These are not statistics you want to be a part of!***

## ACTIVITY 4: WHAT'S THE BEST OFFER?

### INSTRUCTIONS

Read each Truth in Lending Disclosure Statement. Answer the questions that follow each statement.

#### CREDIT CARD OFFER #1

- Super Preferred Credit Card
- 1% APR!!!
- No Annual Fee

#### TRUTH IN LENDING DISCLOSURE STATEMENT

<b>Annual Percentage Rate (APR)</b>	<b>1% for the first 6 months after you open the account After 6 months, APR will be 24%. Before 6 months if the minimum monthly payment is late.</b>
<b>Grace period</b>	<b>Minimum of 25 days to repay without finance charges if previous balance is paid in full by the due date.</b>
<b>Annual fee</b>	<b>\$0</b>
<b>Method of computing the balance for purchases</b>	<b>Average daily balance</b>
<b>Other fees</b>	<b>Cash advance fee: Greater of \$5 or 3% of the amount of cash advance. Late payment fee: \$30. Over-the-limit fee: \$30. Closing fee: \$25.</b>

What happens to the interest rate on this card after 6 months?

---

If you pay your bill late for this card, what two things occur, according to the disclosure statement?

---

An annual fee is charged each year for the credit card company to maintain your account. Will you pay an annual fee with this card?

---



**CREDIT CARD OFFER #2**

- Super Secured Credit Card
- No Credit? No Problem!
- Just open a savings account with NE Bank to establish your credit card account.  
Your credit limit will be based on the amount of money in your savings account.

**TRUTH IN LENDING DISCLOSURE STATEMENT**

<b>Annual Percentage Rate (APR)</b>	<b>19.9 % (fixed)</b>
<b>Grace period</b>	<b>Minimum of 25 days to repay without a finance charge if previous balance is paid in full by the due date.</b>
<b>Annual fee</b>	<b>\$35</b>
<b>Method of computing the balance for purchases</b>	<b>Average daily balance</b>
<b>Other fees</b>	<b>Cash advance fee: Greater of \$3 or 3% of the amount of cash advance. Late payment fee: \$30. Over-the-limit fee: \$20. Returned check fee: \$20.</b>

What requirement does this card have to open an account that the first card doesn't carry?

---

In what two ways could this card be a better choice than the previous card?

---

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In what kind of situation might this card be a better choice for someone?

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**CREDIT CARD OFFER #3**

- Super Unsecured Credit Card
- APR 19.9%
- Sign up for just \$5 per month.

**TRUTH IN LENDING DISCLOSURE STATEMENT**

<b>Annual Percentage Rate (APR)</b>	<b>19.9 % (fixed)</b>
<b>Grace period</b>	<b>Minimum of 25 days to repay without finance charges if previous balance is paid in full by the due date.</b>
<b>Annual fee</b>	<b>Annual membership fee: \$50 Annual participation fee: \$60 (\$5 charged monthly)</b>
<b>Method of computing the balance for purchases</b>	<b>Average daily balance</b>
<b>Other fees</b>	<b>Cash advance fee: Greater of \$2 or 3% of the amount of cash advance. Acceptance fee: \$100 (one time fee). Program fee: \$25 (one time fee). Late payment fee: \$20. Over-the-limit fee: \$20</b>

What four fees does this card have that the previous two cards did not have?

---

---

In what type of situation might someone be offered this card?

---

---

If you have been responsible with your credit cards and pay your bills on time, which credit card above are you likely to be offered?

	<b>Card #1</b>
	<b>Card #2</b>
	<b>Card #3</b>

Why do you think this is true?

---

---

Imagine that you have paid bills late many times. You haven't had a credit card for five years and you are trying to improve how creditors might view you. But you know they usually ask for at least one deposit before they offer a card to you. Which card are they likely to offer you?

	<b>Card #1</b>
	<b>Card #2</b>
	<b>Card #3</b>

Why do you think this is true?

---

---

## ACTIVITY 5: CREDIT CARD COMPARISON CHART

### INSTRUCTIONS

Use this chart to compare credit card offers you might receive.

	Credit Card 1	Credit Card 2	Credit Card 3
<b>Name of credit card/company</b>			
<b>What is the APR (Annual Percentage Rate)?</b> • Introductory APR? • Penalty APR? • Fixed or Variable?			
<b>What is the finance charge?</b>			
<b>What is the annual fee?</b>			
<b>What are the other fees?</b> • Late fees? • Over-the-limit fees? • Closing fees? • Other fees?			
<b>Is there a grace period?</b>			
<b>What are the benefits (points earned, etc.)?</b>			
<b>What is the credit limit?</b>			
<b>Other?</b> • Online access? • Customer service hours? • Real people to help you?			



## ACTIVITY 7: CREDIT CARD USER CASE STUDIES

Read each scenario. Determine if the use of a credit card in each situation is responsible or not. Then briefly explain why you chose your answer.

### SITUATION 1

Jason receives a credit card bill. He gets a cash advance on another credit card to pay part of the bill. What do you think about Jason's use of a credit card?

<input type="checkbox"/>	<b>Responsible</b>
<input type="checkbox"/>	<b>Irresponsible</b>

Explain why you chose your answer.

---

---

### SITUATION 2

Collin has a credit card bill of \$3,000. He makes only the minimum payment and is always close to the limit on his credit card. What do you think about Collin's use of a credit card?

<input type="checkbox"/>	<b>Responsible</b>
<input type="checkbox"/>	<b>Irresponsible</b>

Explain why you chose your answer.

---

---

### SITUATION 3

Lynda uses her credit card for convenience. She pays cash for most small purchases. She pays her credit card bill in full each month. What do you think about Lynda's use of a credit card?

<input type="checkbox"/>	<b>Responsible</b>
<input type="checkbox"/>	<b>Irresponsible</b>

Explain why you chose your answer.

---

---

**SITUATION 4**

Becca was excited to get a credit card offer in the mail. She applied for the credit card without reading the terms. When the card came, she bought several new art supplies. When the bill came, she was surprised to find additional fees charged to her account. What do you think about Becca's use of a credit card?

<input type="checkbox"/>	<b>Responsible</b>
<input type="checkbox"/>	<b>Irresponsible</b>

Explain why you chose your answer.

---

---



## ACTIVITY 8: COST OF MAKING THE MINIMUM PAYMENT

When you only make the minimum payment on a credit card, it takes much longer to “pay off” the balance (until it reaches \$0). The longer you keep a balance, the more interest you pay. That means that whatever you buy can cost much more than its price!

Look at each item below. The original price is shown, along with the interest rate and total amount of interest. Use the formula to find out how much more you paid for the item by paying only the minimum payment on your credit card. Fill in the “How Much You Really Pay For Items?” column below:

$$\text{Price after interest} - \text{Original price} = \text{Amount more you pay}$$

Item	Price	APR	Interest Paid	Total Years to Pay Off	How Much You Really Pay for Item(s)
Movies, clothes, eating out, etc.	\$500	18%	\$216	5	
Used car/ Airfare	\$1,000	18%	\$516	7	
New computer	\$2,500	18%	\$1,415	10	

Assumptions for the table include:

- 18 percent APR (If the APR is higher, the item would be more expensive and would take longer to pay off).
- Minimum monthly payment equals greater of \$10 or 4 percent of balance.
- Average daily balance method is used to calculate interest.
- Finance charge for one day =  $(18\%/365) \times$  daily balance.
- No grace period; No late payments or additional purchases are made.
- Minimum payment is received by the bank on the last day of the billing cycle (most likely, the interest charges would be greater because the customer’s minimum payment usually will not be received by the bank for several additional days).
- Years are rounded to the nearest whole year; dollar amounts are rounded to the nearest dollar.

Soon, you will be able to contact credit card companies by phone to find out the time and interest amount required to pay off a credit card balance if only the minimum monthly payment is made.

## ACTIVITY 9: BENEFITS OF MAKING MORE THAN THE MINIMUM PAYMENT

### INSTRUCTIONS

Use the two charts below to answer the questions.

Original Balance	APR	Monthly Payments	Total # of Monthly Payments	Total Years to Pay Off	Total \$ Payments
\$2,500	18%	Minimum Payment (MP)	123	10	\$3,915
\$2,500	18%	MP + \$25	50	4	\$3,258
\$2,500	18%	MP + \$50	33	3	\$2,839

Original Balance	APR	Monthly Payments	Total # of Monthly Payments	Total Years to Pay Off	Total \$ Payments
\$1,000	18%	Minimum Payment (MP)	87	7	\$1,516
\$1,000	18%	MP + \$25	26	2	\$1,187
\$1,000	18%	MP + \$50	16	1	\$1,119

If you pay \$50.00 more each month on a \$2,500 credit card balance, how much less will you pay when you finish paying the balance? (Hint: Use the Total \$ Payments column).

If you pay \$50.00 more each month on a \$1,000 credit card balance, how much less will you pay when you finish paying the balance than if you pay only the minimum? (Hint: Use the Total \$ Payments column).

Notes: These charts assume the following:

- You are not making additional purchases on your credit card and your payments are on time.
- The minimum payment is 4%.

Of course, the best way to save money and avoid paying interest charges is to pay off your balance in full when you first get your bill.

## ACTIVITY 10: SAMPLE CREDIT CARD STATEMENT

### INSTRUCTIONS

Credit card statements contain a lot of information. When paying your bill, you must know your minimum payment and the due date. Use the sample statement to answer the questions below.

Credit Card Issuer	New Balance	\$203.00	Billing Date	5-1-01
	Credit Line	\$2,000.00	Credit Available	\$1,797.00
Name	Minimum Payment Due	\$10.00	Payment Due Date	5-20-XX
Account Number				

Posting date	Trans. Date	Transactions	Charge	Credit
4-1-XXXX	4-1-XXXX	Cash advance	\$180.00	
4-1-XXXX	4-1-XXXX	Cash advance fee	\$20.00	

### Account Summary

Previous Balance	0	Credits	0
Purchases	0	Finance Charge	\$3.00
Cash Advances	\$180.00	Payment	0
Other Debits	\$20.00	New Balance	\$203.00

	APR	Daily Periodic Rate	Average Daily Balance	Finance Charge	Balance
	18%	0.0493%	\$200.00	\$3.00	\$203.00

When is the next payment due?

---

What is the Annual Percentage Rate of this credit card?

---

What type of transactions would be entered in the “Credit” column?

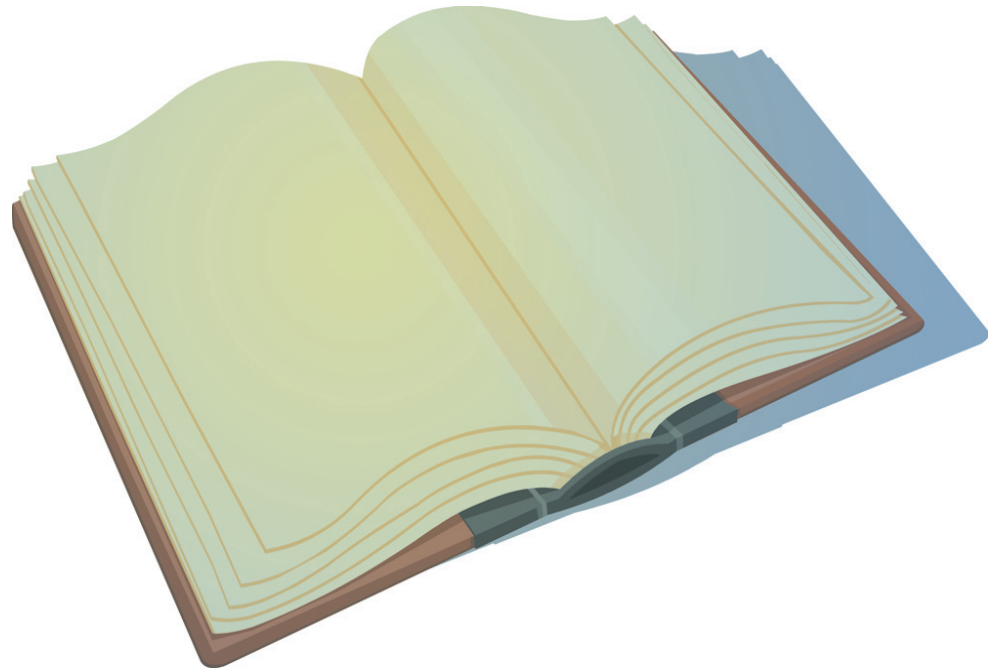
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## **FINANCE CHARGE CALCULATION**

Assume:

- Your billing cycle is the same as the calendar month.
- On April 1, you got a cash advance of \$180 and were charged a \$20 fee. Interest started accruing immediately.
- At the beginning of May, you receive your April billing statement. Your average daily balance for the month of April is \$200, since you made no additional payments.
- The finance charge is calculated using a periodic rate. The periodic rate is the interest rate, or cost of credit, in relation to a specific time period.
- In our simplified example, if the APR is 18%, the periodic rate is 0.0493%, or 18% divided by 365 days.

$$\begin{aligned} & \$200 \text{ (Average Daily Balance)} \\ & \times 0.0493\% \text{ (Daily Periodic Rate)} \\ & \$0.10 \text{ per day (for each day you have the \$200 balance)} \\ & \$0.10 \times 30 \text{ days} = \$3 \text{ (finance charge)} \end{aligned}$$



# GLOSSARY

### **ANNUAL PERCENTAGE RATE (APR)**

The APR reflects the cost of borrowing money, expressed as a yearly rate. If you plan to keep a balance on your credit card account, you want to look for a low APR. If you expect to pay your bills in full each month, it will be more important to compare the annual fee and other charges.

#### **Balance Computation Method**

This will determine how your interest is calculated. There are a variety of methods. The most common is the average daily balance.

### **FEES**

Following are the most common credit card fees. There might be others. Be sure to read the disclosures with your credit card agreement.

- Annual fee. Some companies charge annual fees for the privilege of using their credit cards. Most cards that offer rewards (for example, airline miles or travel awards) charge a yearly fee.
- Balance transfer fee. You might be charged for moving balances from one credit card to another. This fee is usually a percentage of the balance transferred. It might have a minimum and a maximum limit.
- Cash advance fee. When you access cash through an automated teller machine (ATM) or bank teller using your credit card, you are usually charged a transaction fee. The transaction fee is usually a percentage of the advance. The advance also often carries a higher interest rate than regular purchases, and there usually is no grace period so interest begins accruing immediately.
- Late fee. Payment must be received—not postmarked—on the due date to avoid a late fee. If you are mailing a payment, send it five days before it is due to avoid a late fee. A typical charge is \$29 per late payment, and late payments may negatively impact your credit rating.
- Over-the-limit fee. This fee is applied if your outstanding charges exceed your credit limit. The fee is typically \$20.

### **FINANCE CHARGE**

The finance charge is the cost of credit. It includes interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.

### **GRACE PERIOD**

The grace period is the number of days you have to pay your balance before a creditor starts charging interest. Once you receive your monthly bill, you will have 3 to 4 weeks (with most creditors) to pay your bill interest-free. If your credit card issuer does not provide a grace period, a finance charge might be imposed from the date you use your card or the date the transaction is posted to your account.

### **INTEREST**

Credit card companies earn interest from customers who carry monthly balances. The interest rates on credit cards vary widely, from 0 percent introductory rates to over 25 percent.

### **MINIMUM PAYMENT**

The minimum payment is the minimum dollar amount that must be paid each month. This is usually 2 to 3 percent of the amount owed and is often based on the balance at the billing date.

### **OPT OUT**

You have the right to “opt out” of receiving mailed credit card offers. You can tell the credit bureaus not to share your information with lenders and insurers who use the information to decide whether to send you offers of credit or insurance. You can opt out of receiving these prescreened offers by calling 888-5-OPTOUT (567-8688) or visiting [www.optoutprescreen.com](http://www.optoutprescreen.com).

### **PERIODIC RATE**

The periodic rate is an interest rate applied to your balance to calculate the finance charge. For example, the monthly periodic rate for a card with an 18 percent APR is 1.5 percent (18 percent divided by 12 months). If your monthly balance were \$1,000, you would multiply it by 1.5 percent to get your monthly finance charge of \$15 ( $\$1,000 \times 1.5\% = \$15$ ). The daily periodic rate for the same 18 percent APR is 0.04932 percent (18% divided by 365 days).

### **PREVIOUS BALANCE**

The previous balance is the amount you owed at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

### **PRINCIPAL**

Principal is the total dollar amount of purchases made on a credit card, or the balance remaining on a loan, not including interest or other fees.



## FOR FURTHER INFORMATION

### **FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)**

Division of Supervision &  
Consumer Protection

2345 Grand Boulevard, Suite 1200  
Kansas City, Missouri 64108

1-877-ASK-FDIC (1-877-275-3342)

Email: [consumer@fdic.gov](mailto:consumer@fdic.gov)

[www.fdic.gov](http://www.fdic.gov)

### **U.S. FINANCIAL LITERACY AND EDUCATION COMMISSION**

[www.mymoney.gov](http://www.mymoney.gov)

1-888-My-Money (1-888-696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balancing your checkbook, or investing in your 401k, the resources on MyMoney.gov can help you.

Throughout the site, you will find important information from 20 Federal agencies.

### **FEDERAL CONSUMER INFORMATION CENTER (FCIC)**

[www.pueblo.gsa.gov](http://www.pueblo.gsa.gov)

800-688-9889

The Federal Consumer Information Center (FCIC) provides free online consumer information to help the public. The FCIC produces the Consumer Action Handbook, which is designed to help citizens find the best sources for assistance with their consumer problems and questions.

### **USA.GOV: THE FEDERAL GOVERNMENT'S WEB PORTAL**

[www.usa.gov](http://www.usa.gov)

FirstGov.gov is the official gateway to all government information.

### **CONSUMER.GOV: A RESOURCE FOR CONSUMER INFORMATION FROM THE FEDERAL GOVERNMENT**

[www.consumer.gov](http://www.consumer.gov)

### **DEPARTMENT OF EDUCATION**

[www.ed.gov/students](http://www.ed.gov/students)

The Department of Education provides Information relating to college, financing, and student aid.

*For other education-related resources:*

- Complete the FAFSA online at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).
- Find out more about scholarships at [www.ftc.gov/bcp/menus/consumer/education/scholarships.shtm](http://www.ftc.gov/bcp/menus/consumer/education/scholarships.shtm).
- For more information on Federal Loan Programs, [studentaid.ed.gov](http://studentaid.ed.gov).

### **FEDERAL TRADE COMMISSION**

[www.ftc.gov](http://www.ftc.gov)

877-FTC-HELP (382-4357)

The Federal Trade Commission website offers practical information on a variety of consumer topics, including credit and identity theft.

### **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)**

[www.hud.gov](http://www.hud.gov)

800-669-9777

The HUD website offers educational resources on buying and renting homes.

**INTERNAL REVENUE SERVICE**

[www.irs.gov](http://www.irs.gov)

You can get copies of IRS publications and forms at this website or by calling 800-829-3676. Call 800-829-1040 for questions about your income taxes.

**SECURITIES AND EXCHANGE COMMISSION (SEC)**

[www.sec.gov](http://www.sec.gov)

800-SEC-0330

The SEC provides information about investing.

**SOCIAL SECURITY ADMINISTRATION**

[www.ssa.gov](http://www.ssa.gov)

800-772-1213

You can find out about Social Security benefits at this site.

**GO DIRECT**

[www.GoDirect.org](http://www.GoDirect.org)

(800) 333-1795

To quickly and easily sign up for direct deposit of your Social Security or other federal benefit payments, contact Go Direct, a campaign sponsored by the U.S. Department of the Treasury and the Federal Reserve Banks.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS**

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

1-800-289-9999

The National Association of Securities Dealers provides information about registered securities brokers to help you decide whether to do business with them.

**THE CENTER FOR SOCIAL DEVELOPMENT (CSD), GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK, WASHINGTON UNIVERSITY, ST. LOUIS, MO.**

[gwbweb.wustl.edu/csd/asset/idas.htm](http://gwbweb.wustl.edu/csd/asset/idas.htm)

The CSD Website includes useful information on Individual Development Accounts (IDAs).