

Participant Guide

FDIC



FDIC Financial Education Curriculum



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Welcome

Welcome to *Charge It Right!* You are taking an important step toward understanding the value of credit cards by taking this module. Understanding how and when to apply for a credit card, how credit cards work, how interest is applied to your monthly balance, how to avoid paying interest, and what to do if you should lose your credit card or have it stolen are all important in using credit to your financial advantage.

Objectives

After completing this module, the participants will be able to:

- Define credit
- Explain why credit is important
- Describe the purpose of credit cards
- Determine if you are ready to apply for a credit card
- Determine which credit card is best for you
- Identify the factors creditors 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

Student Materials

This *Charge It Right* Participant Guide contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

Pre-Test

Test your knowledge about credit cards before you go through the course.

1. **Select all that apply. *Credit* is:**
 - a. Money given to you that you do not have to pay back
 - b. Money you borrow to pay for things, but must pay back with interest
 - c. Safer and more convenient than carrying cash
 - d. Money you have saved for larger purchases

2. **Having a credit card and good credit provides many benefits. They include all of the following EXCEPT:**
 - a. You can make large purchases and pay for them over time
 - b. It may be easier for you to obtain employment or purchase a home
 - c. They can be useful in times of emergencies
 - d. You pay interest charges on any balance you carry on your credit card

3. **You should consider which of the following when determining if you are ready for a credit card? Select all that apply.**
 - a. Whether you can afford the monthly payments
 - b. Which credit card has the lowest introductory rate
 - c. What you will purchase with the credit card (needs versus wants)
 - d. How much you will pay for items when paying interest versus saving and paying with cash

4. **Before applying for a credit card, the most important thing to read is the:**
 - a. Truth in Lending Disclosure for the credit card
 - b. Financial institution's lending policy statement
 - c. Credit card perks and reward systems
 - d. Monthly credit card statement

5. **When you want to apply for a credit card, you should:**
 - a. Apply for the first offer you receive or find
 - b. Apply for retail store cards only
 - c. Compare several cards and choose the one that seems best for you
 - d. Apply for credit cards with the lowest introductory rates

6. **Factors that credit card issuers take into account when deciding whether to issue you a credit card include:**
 - a. Credit history
 - b. Income
 - c. Current debt
 - d. All of these

-
- 7. If the Annual Percentage Rate (APR) increases on your credit card, what will happen to your credit card payment?**
- It will also increase
 - It decreases, since the credit card company pays a higher percentage of the payment
 - It stays the same, but you have to pay over a longer time
 - It stays the same, but your credit limit is reduced
- 8. What is the first step you should take if your credit card is lost or stolen?**
- Review your statement to see if any purchases were made by someone other than yourself
 - File a police report
 - Call the credit card company immediately to report the lost or stolen card
 - Have a new card issued
- 9. Which of the following accurately describes credit cards?**
- They always allow you to make unlimited number of purchases with no set dollar limit
 - They are used to purchase goods and services and pay for them over time
 - You must always pay the balance in full each month
 - When you purchase items, the money is withdrawn from your checking account
- 10. How can you reduce the interest you pay on a credit card and the time to pay off the debt?**
- Failing to make the minimum payment
 - Pay more than the minimum payment
 - Pay the minimum payment
 - Pay off the balance in full each month
 - b and d

Overview of Credit

Credit is the ability to borrow money. When you borrow money on credit you receive a *loan*, which is often secured by *collateral* or a *guarantee*.

Lenders take a risk to lend you money. Therefore, they want to be sure that their money is secure.

- Collateral is security you provide the lender.
- Giving the lender collateral means that you pledge an asset you own (e.g., your car or home) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan. In other words, if you do not repay the loan the credit card company is entitled to the collateral.

You make a promise to pay back the money you borrowed plus *interest*, which is an extra amount of money a financial institution charges for letting you use its money. *Fees* are an additional cost of borrowing money.

Credit:

- Can be useful in times of emergencies
- Is more convenient and safer than carrying large amounts of cash
- Allows you to make a large purchase (e.g., car or house) and pay for it over time
- Can affect your ability to obtain a job, buy or rent a house, or obtain insurance



If you use credit carefully, it can be useful to you. If you have problems using credit responsibly, it will be harder to borrow money in the future.

Credit Case: Buying a Car

Steve and Maria need another car. They have some money to put down on a new car, but they still need to borrow about \$10,000 to purchase it. If they do not (or cannot) pay back the loan, what might the lender do?

Credit Cards: What Are They Used For?

Credit Cards versus Debit Cards

Credit cards are a convenient form of borrowing money to purchase goods and services and pay at least a portion (*minimum payment*) of the bill every month. *Charge cards* are used like credit cards, but you must pay the entire balance every month. *Debit cards* are similar to credit cards except that they are tied to your checking account.

	Debit Cards	Credit Cards
Payments	<ul style="list-style-type: none"> Buy now, pay now. 	<ul style="list-style-type: none"> Buy now, pay later.
Interest Charges	<ul style="list-style-type: none"> No charges apply as funds are automatically debited from your checking account. 	<ul style="list-style-type: none"> Charges will apply if you carry a balance or your card offers no grace period (time to repay without incurring interest charges).
Fees	<ul style="list-style-type: none"> Fees on certain transactions (e.g., an Automated Teller Machine (ATM) fee charged for withdrawing funds from an ATM not operated by the financial institution that issued your debit card). Potentially costly fees if you try to spend more money than available in your account. 	<ul style="list-style-type: none"> Fees and penalties can be imposed if payments are not timely. Some cards also have annual fees. Not all cards offer grace periods (time to repay without incurring interest charges).
Other Potential Benefits	<ul style="list-style-type: none"> Easier and faster than writing a check. No risk of losing cash that you cannot replace. Some cards may offer freebies or rebates. As long as you do not overdraw your account, debit cards are a good way to pay for purchases without borrowing money and paying interest. 	<ul style="list-style-type: none"> Freebies sometimes offered (e.g., cash rebates, bonus points, or travel deals). You can withhold payment on charges in dispute. Purchase protections offered by some cards for faulty goods. If you are careful about how you manage your credit card, especially by paying your bill on time, your credit score may go up and you may qualify for lower interest rates on loans.
Other Potential Concerns	<ul style="list-style-type: none"> Usually there are no protections against faulty goods and services. You need another way to pay for unexpected emergencies (e.g., car repairs) if you do not have enough money in your bank accounts. 	<ul style="list-style-type: none"> Over-spending can occur, since the credit limit may be higher than you can afford. If you do not pay your card balance in full each month, or your card does not have an interest-free grace period, you will pay interest. This can be costly, especially if you only pay at or near the minimum amount due each month.

Federal law limits your losses to a maximum of \$50 if your credit card is lost or stolen, although industry practices may further limit your losses. With a debit card, your maximum legal liability is \$50 if you notify the bank within two business days.

Other Cards

Stored Value (Prepaid) Cards

There are four main types of stored value cards:

1. *Payroll cards* are used by an employer to pay wages instead of giving you a paper paycheck. Payroll cards are unique from other types of stored value cards because you do not need to purchase them or pay activation fees since your employer provides the card.
2. *Government disbursement cards* are provided by government agencies to pay benefits. One example is the Direct Express® debit card for Social Security payments.
3. *General Purpose cards* can be purchased from retailers. Some come with a set value, while others require you to “load” (add) money to the card after obtaining it.
4. *Gift cards* can be purchased in fixed amounts. Unlike most other stored value cards, these often can only be redeemed for purchases from particular stores or restaurants.

The use of a stored value card will not allow you to build a credit history because no money is being borrowed. How can you wisely choose or use a prepaid card?

- Look into the fees, which can add up if you are not careful.
- Understand your consumer protections, which may vary depending on the card you use.
- Take additional precautions to protect yourself from fraud or theft.

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. 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. Be sure to look carefully at all fees you have to pay to get and maintain a secured card. If the fees seem high to you, shop around for a better deal.

Gold and Platinum Cards

Gold and platinum credit cards traditionally have higher credit limits, require a good credit history and higher income, and may offer rewards. Not all gold and platinum cards have the same favorable terms. Be sure to carefully read the *disclosures* before you apply for a gold or platinum card.

Reward Cards

Many credit cards offer the option of earning cash rebates or reward points. Look for a card that will earn you rewards at stores and services you use most often. Make sure the rewards you expect to earn justify the annual fee, if applicable. These cards may create an incentive to spend as much as you can so you earn more rewards points. Remember, unnecessary spending can result in paying interest and unmanageable debt.

Pre-Approved Cards

Credit card companies may offer you a pre-approved credit card in which 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. Always read the credit agreement carefully BEFORE signing on the dotted line. Be aware of limitations or conditions that are not obvious in the advertisement and shop for the best possible deal.

Shopping for the Best Deal

Solicitation and Initial Truth in Lending Disclosure Statement

Federal law requires that you receive a Federal Truth in Lending Disclosure Statement from any credit card company offering you a credit card. Creditors must also disclose to you:

- Specific fees that will apply before an account is opened
- Key terms at account opening and when terms are changed
- The costs for interest and fees identified separately by monthly billing period and year to date

Be sure to read the disclosure carefully (e.g., terms, conditions, and credit transactions). Not all credit cards have the same terms and conditions. This can be confusing when you are shopping for credit cards. The important credit card terms you should look for are:

1. APRs for:
 - Purchases
 - Balance transfers
 - Cash advances
 - Penalties
2. Fees, including:
 - Annual and other periodic monthly fees
 - Transaction fees
 - Cash advance fees
 - Balance transfer fees
 - Penalty fees
3. Grace period, if applicable
4. Balance computation method

Interest Rates and Interest Charges	
1 Annual Percentage Rate (APR) for Purchases	8.99% to 19.99% when you open your account, based on your creditworthiness. After that, your APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	15.99% This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	21.99% This APR will vary with the market based on the Prime Rate.
Penalty APR and When it Applies	28.99% This APR may be applied to your account if you: <ul style="list-style-type: none"> • Make a late payment; • Go over your credit limit twice in a six-month period; • Make a payment that is returned; or • Do any of the above on another account that you have with us.
How Long Will the Penalty APR Apply?	If your APRs are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due and do not exceed your credit limit during that time period.
How to Avoid Paying Interest on Purchases	Your due date is at least 25 days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.
Fees	
2 Set-up and Maintenance Fees	Annual Fee \$30 Account Set-up Fee \$30 (one-time fee) Participation Fee \$30 annually (\$2.50 per month) Additional Card Fee \$15 annually (if applicable) Account Maintenance Fee on Closed Accounts \$30 annually (\$2.50 per month on closed accounts with an outstanding balance of \$30 or more)
Transaction Fees	Balance Transfer Either \$5 or 3% of the amount of each transfer, whichever is greater (maximum fee: \$100). Cash Advance Either \$5 or 3% of the amount of each cash advance, whichever is greater. Foreign Transaction 2% of each transaction in U.S. dollars.
Penalty Fees	Late Payment \$35 and higher Over-the-Credit Limit \$40 and higher Returned Payment \$35
Other Fees	Required Account Protector Plan \$0.79 per \$100 of balance at the end of each statement period. See back for details.
4 How we will calculate your balance:	We use a method called "average daily balance (including new purchases)."
Loss of introductory APR:	We may end your introductory APR and apply the Penalty APR if you make a late payment.

Which Is the Best Card for You?

Read and Understand the Terms

Before you apply for any credit card, it is important to read all disclosures and understand the terms. There are a lot of credit cards on the market today. Some allow you to borrow money at a reasonable rate. Others charge very high fees to get the card, and even more to use it.



Other Factors to Consider

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

- Customer service
- Additional protection (e.g., extended warranties)
- Credit limit

Customer Service

Most credit card companies offer you some customer service features via telephone and Internet, including: access to account information (e.g., balance and recent charges) and the ability to pay your bills online and/or update personal information.

Additional Protection

The law protects you against billing mistakes and unauthorized charges. It allows you, under certain circumstances, to withhold payment on defective goods until the problem has been corrected. You have to contact your card issuer promptly to exercise these rights.

Some credit cards may also offer additional protections (e.g., extending the warranty period on certain products you purchase).

However, be careful with offers to sign up for credit protection programs, or what may be referred to as a debt suspension program. Read carefully the terms and conditions. Remember, these programs are optional.

Credit Limit

A *credit limit* is the maximum amount of credit that the credit card company is granting you. Each company has its own standards for determining how much of a credit limit to give you. Additionally, they may take into account your:

- Credit history (whether you have been on time or late with other payments, been in bankruptcy or credit counseling, or how long you have had any credit)
- Current income
- Debt, (e.g., other credit card payments, car payments, or mortgage payments)

Fees will not be imposed for making a purchase or other transactions that would put your account over the credit limit unless you “opt in” (agree) for the creditor to process over-the-limit transactions and impose a fee. Before you opt-in, understand what the fee is. Exceeding your credit limit may also lower your credit score.

Credit Card Comparison Chart

Here is a tool that will help you shop for the best credit card terms.

	Credit Card 1	Credit Card 2	Credit Card 3
Name of credit card issuer/card.			
What is the APR? <ul style="list-style-type: none"> • Introductory APR? • Rate for purchases? • Rate for cash advances? • Penalty APR? 			
What are the fees? <ul style="list-style-type: none"> • Annual fee • Late fee • Over-the-limit fee • Cash advance fee • Other fees? 			
Is there a grace period?			
Are there any benefits (reward points earned, rebates, etc.)?			
What is my credit limit?			
Other? (e.g., customer service hours; online access; access to a real person?)			

Tips to Consider When Shopping for a Credit Card

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

- Review online services and compare credit card companies.
- Make sure you understand the implications of fixed and variable rates and penalty APRs.
- Beware of introductory rates.
- Decide how you will use the credit card and what you will purchase with it.
- Start small. Do not charge too much on your credit card until you are comfortable with the monthly bill.
- Shop around for the plan that best fits your needs. Make sure you understand the terms of the plan before you accept the card. Read the fine print.
- Beware of credit card issuers who require application fees. Most credit card issuers do not charge fees to open accounts.

Applying for a Credit Card

Opting Out

You have the right to opt out of receiving mailed credit card offers.

- Tell the credit reporting agencies not to share your information with lenders and insurers who use the information to decide whether to send you offers of credit or insurance.
- Opt out of receiving these prescreened offers by:
 - Calling 1-888-5-OPTOUT (567-8688)
 - Visiting www.optoutprescreen.com
 - Calling the phone number on the credit card offer



Application Requirements

When you apply for a credit card, you are called the *credit card applicant*. The card issuer, who issues you the card, is called the *creditor*.

Individual credit:

- Individual credit is based on your own assets, income, ability to pay, and credit history.
- You are responsible for paying the credit card bill.

Joint credit:

- Joint credit is based on the assets, income, ability to pay, and credit history of both people who apply.
- Couples often apply for joint credit. You might obtain more credit this way.
- Both applicants are responsible for the credit card bill, no matter who makes the charges on the credit card.

Credit card applicants must be 21 years old unless the written application either:

- Includes information showing that the applicant has an independent means of repaying the debt, or
- Includes the signature of a cosigner over the age of 21

Another issue to be aware of is when you have an *authorized user* on the account. This is someone whom you have given the privilege to use your credit card. An authorized user has no financial responsibility to pay the bill.

How Credit Decisions are Made

The Four Cs

When you apply for credit the lender will review the Four Cs to decide whether you are a good credit risk; or in other words, whether you are likely to pay back the loan.

These are the Four Cs:

- *Capacity* refers to your present and future ability to meet your payments.
- *Capital* refers to the value of your assets and your net worth.
- *Character* refers to how you have paid your bills or debts in the past.
- *Collateral* refers to property or assets offered to secure the loan.



Where Creditors Look

A credit report is a record of how you have paid your debts. It tells creditors:

- Who you are
- How much debt you have, including how many accounts you have, how long you have had them, and how much of your credit limit is unused
- If you do not have a credit history, some creditors will consider other factors that indicate whether you may be a good credit risk (e.g., they might ask for proof that you pay your rent, utility, and phone bills on time or that you make regular deposits to a savings account)
- Whether you have made payments on time
- Whether there is negative information about you in public records (e.g., collection actions, bankruptcies, and judgments)
- How many inquiries are listed in your credit report. Your credit report includes a list of the creditors and other authorized parties who have requested and received your credit report. It tells creditors how often you apply for credit. Applying for new credit may make you appear to be a higher, or less desirable, credit risk.

Credit Case: No History, No Mystery

Cathy is 25, but has never had a credit card or a loan. Her credit history is almost nonexistent, except for an inquiry by her landlord when she rented her apartment. What might a creditor do to determine if she might be a good credit risk or not?

Free Annual Credit Report

You can obtain free annual credit reports from one or all of the credit reporting agencies by doing one of the following:

- Submit a request online at www.annualcreditreport.com
- Call toll-free: 1-877-322-8228
- 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 or www.ftc.gov/credit. You must provide:

- Your name, address, SSN, and date of birth
- You may have to provide your previous address if you have moved in the last 2 years
- For security purposes, each credit reporting agency may ask you for information that only you would know (e.g., amount of your monthly mortgage payment).
- Each company may ask for different information because the information each has in your file may come from different sources.

In addition to the one free report a year, 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
- You have reason to believe that 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 a fee of \$10 or more for each copy. To buy a copy of your report, contact one of the following:

- **Equifax: 1-800-685-1111** or www.equifax.com
- **Experian: 1-888-EXPERIAN (397-3742)** or www.experian.com
- **TransUnion: 1-800-916-8800** or www.transunion.com

Credit Scores

A *credit score* is a number that helps lenders determine how much of a credit risk you will be. It is calculated based on information in your credit report. Creditors may use one or more credit scores. Credit scores may be generated by the creditor itself, or the creditor may use a score calculated by another firm. Two of the scores used by lenders are:

- The Fair Isaac Corporation (FICO) score
- VantageScore

Note: It is best to figure out which credit card you want before you apply for one, otherwise applying for more than one credit card in a short time may lower your credit score. A lower credit score can hurt your chances for being approved.

FICO Score

Your FICO score is the primary method lenders use to assess how deserving you are of their 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 thousands of other customers. FICO scores range from about 300 to 850.

VantageScore

VantageScore is a newer credit scoring system offered by all three credit reporting agencies. You should have a similar VantageScore from each of the three agencies. The 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, your credit grade would be “A” if you had 901 points or more.

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 creditor.
- You have the right to have the credit card company give you the reasons that the credit was denied.

While each credit card issuer 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 creditor’s criteria.

If you are denied credit because of information in your credit report, federal law requires the creditor to give you the name, address, and telephone number of the credit reporting agency that supplied the information.

- If you contact the credit reporting agency within 60 days of receiving the denial, you are entitled to a free copy of your credit report.
- You have a right to dispute any inaccuracy in your credit report with the credit reporting agency and also with the company that furnished 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.

Credit Card Statement

Information on the statement includes the:

1. Account Summary:

- **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.
- **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 Limit:** The maximum dollar amount you can borrow on the card at one time.
- **Credit Available:** The amount of credit remaining on your card after your balance and your current charges are subtracted from your total credit line.

2. Payment Information:

- **New Balance**
- **Minimum Payment Due:** The minimum dollar amount that must be paid. This may be only 3 or 4 percent of your balance.
- **Payment Due Date:** The date your payment must be received by the credit card issuer, not the date it is postmarked. The payment due date for your credit card must be on the same day each month (e.g., always on the 5th of the month). Be sure to make your payments well before the due date to avoid late charges. Also, if you are carrying a balance, be sure to make your payment as soon as you can to reduce interest charges.
- **Late Payment Warning:** An explanation of how your account will be affected if you do not make your payment on time.
- **Minimum Payment Warning:** The monthly payment amount required to pay off the existing balance in 36 months, including the total cost (payments and interest). The Federal Reserve's Credit Card Repayment Calculator (www.federalreserve.gov/creditcardcalculator/) can estimate how long it will take you to pay off your credit card balance.

3. **Credit Counseling Statement:** Information for contacting a credit counseling service, if needed.

4. **Notice of Interest Rate Changes,** if applicable

5. Transactions or Account Activity:

- **Finance Charges:** The cost of credit. It includes interest, service charges, and transaction fees for the statement period. This charge is calculated on your balance using different methods.
- **Annual Fee and Interest Totals:** The amount you have paid in fees and interest during the current calendar year.

6. Interest Charge Calculation

Sample Credit Card Statement
Account Number 1354680513
February 21, 2012 to March 22, 2012

1

2

Summary of Account Activity	
Previous Balance	\$80.52
Payments	-\$50.00
Other Credits	+\$0.00
Purchases	+\$52.13
Balance Transfers	+\$0.00
Cash Advances	+\$0.00
Past Due Amount	+\$0.00
Fees Charged	+\$37.00
Interest Charged	+\$0.00
New Balance	\$119.65
Credit limit	\$2,000.00
Available credit	\$1,880.35
Statement closing date	3/22/2012
Days in billing cycle	30

Payment Information	
New Balance	\$119.65
Minimum Payment Due	\$10.00
Payment Due Date	4/20/12
Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.	
Minimum Payment Warning: If you make only the minimum payment on time each month and no other amounts are added to the balance, we estimate that it will take you approximately 13 months to pay off the balance shown on this statement.	

Please send billing inquiries and correspondence to:
 PO Box XXXX, Anytown, Anystate XXXXX

QUESTIONS?

Call Customer Service 1-888-888-8888
 Lost or Stolen Credit Card 1-888-888-8888

3

If you would like information about credit counseling services, refer to www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm or call 1-202-514-4100.

4

Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:
Transactions made on or after 4/2/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.
Transactions made before 4/2/12: Current rates will continue to apply to these transactions. However, if you become more than 30 days late on your account, the Penalty APR will apply to those balances as well.

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Transactions					
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount	
Payments and Other Credits					
2340980TUH08	2/25	2/25	Pymt Thank You	\$50.00-	
Purchases					
304958VIM345	2/27	2/28	Item X Store XXX	\$45.00	
0980PCJ34590	3/5	3/7	Item Y Store XXX	\$7.13	
Fees					
897263698VVO	2/23	2/23	Late Fee	\$35.00	
234809RP980X	3/22	3/22	Minimum Charge	\$2.00	
TOTAL FEES FOR THIS PERIOD				\$37.00	
Interest Charged					
Interest Charge on Purchases				\$0.00	
Interest Charge on Cash Advances				\$0.00	
TOTAL INTEREST FOR THIS PERIOD				\$0.00	

2012 Totals Year-to-Date	
Total fees charged in 2012	\$90.14
Total interest charged in 2012	\$18.27

6

Interest Charge Calculation

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	\$113.80	\$0.00
Cash Advances	21.99% (v)	\$0.00	\$0.00
Balance Transfers	0.00%	\$0.00	\$0.00

(v) = Variable Rate

Paying Your Credit Card Bill

Minimum Payment

With a credit card, you have to pay at least the minimum amount due each month. Credit card companies must mail or deliver your credit card statement 21 days before the bill is due. In addition:

- Your due date should be the same date each month.
- The payment cut-off time cannot be earlier than 5 p.m. on the due date.
- If your payment due date is on a weekend or holiday, you will have until the following business day to pay. For example, if the due date is Sunday the 15th, your payment will be on time if it is received by Monday the 16th before 5 p.m.

Cost of Making the Minimum Payment

Look at two charts that show what happens when you make the minimum payment, and when you pay more than the minimum payment. Assumptions for the tables include:

- APR = 18 percent (If the APR is higher, the item would be more expensive and would take longer to pay off)
- Minimum monthly payment equals greater of \$20 or 2 percent of balance
- No late payments are made
- No additional purchases are made
- Interest is calculated by applying a monthly rate to the average daily balance
- Average daily balance method is used to calculate interest
- Years are rounded to the nearest whole year
- Dollar amounts are rounded to the nearest dollar

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500	18%	\$132	\$632	3
Computer	\$1,000	18%	\$863	\$1,863	8
Furniture	\$2,500	18%	\$5,363	\$7,863	23

Benefit of Paying More Than the Minimum Payment

The best way to save money and avoid paying interest charges is to pay off your balance in full when you first receive your bill. However, the following chart shows the benefit of paying more than the minimum payment if you cannot pay off the balance in full.

Original Balance	APR	Monthly Payments	Total Years to Pay Off	Interest Paid	Total of Payments
\$2,500	18%	Minimum Payment (MP)	23	\$5,363	\$7,863
\$2,500	18%	MP + \$24	4	\$1,025	\$3,525
\$2,500	18%	MP + \$41	3	\$754	\$3,254

Using Your Credit Responsibly

Tips on Using Your Credit Card Responsibly

Here are some tips that will help you use your credit card responsibly:

- Check your monthly statement to verify that it accurately lists the things you bought. Call your creditor right away if you suspect errors in your statement.
- Pay off your total balance each month. If you cannot pay the total balance, try to pay more than the minimum amount.
- Pay on time to avoid late fees and to protect your credit history. If you cannot pay on time, call your creditor immediately to explain the situation. The creditor may waive the late fees or be willing to make other payment arrangements.
- Protect your credit card and account numbers to prevent unauthorized use and to minimize a potential loss or theft. Draw a line through blank spaces on charge slips so the amount cannot be changed. Put your signature or the words “See ID” on the back of your credit cards.
- 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, so that you can report a loss quickly.
- Carry only the credit cards you think you will use. Avoid making impulse purchases.
- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit. For example, if you purchase a \$500 television with a credit card that has a 20 percent APR, it could cost you \$1,084 and could take 3 years to pay off your debt! Will you still have that television by the time you make the last payment?
- Ignore offers creditors may send you to reduce or skip payments. You will still be charged finance charges during this period.
- Read all notices and information you receive from credit card companies. It may include important changes in significant terms (e.g., interest rates).
- Read and keep all documentation pertaining to the rules that govern your account (the cardholder agreement) that the bank sends.
- Ask the credit card issuer to waive the fee or lower the interest rate after you have established a good credit history.
- Limit the number of credit cards you have and monitor your credit card usage. Too many cards can 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.
- Save cash for unexpected emergencies so that you do not have to use your credit card. 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.
- Be careful with blank convenience checks that your credit card may mail you as a quick way to write yourself a loan. Expect to incur a transaction fee of several percent of the amount of each check. In addition, the interest rate can be much higher than the rate on your card purchases, perhaps twice as high. Even if you are offered a low interest rate initially, find out what interest rate you will pay when the introductory period is over. Most lenders also begin charging interest when the check posts to your account, even if they otherwise give you a grace period to repay your credit card purchases interest free.

Activity 1: Houston, We Might Have Issues

Each of these four people is using their credit cards in different ways. Read each scenario and determine whether or not they may be using the cards responsibly. Describe what could happen if each person continues to use their credit card as described.

Example 1

Maria receives a credit card bill. She gets a cash advance on another credit card to pay part of the bill.

Example 2

The balance on Marvin's credit card is \$2,410. His limit is \$2,500. He makes only the minimum payment (\$20 a month) and is always close to the limit on his credit card.

Example 3

Jerome uses his credit card for convenience. He pays cash for most small purchases. He pays his credit card bill in full each month.

Example 4

Cathy was excited to receive 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 outfits for work. When the credit card bill came, she was surprised to find additional fees charged to her account totaling \$179.

Tips: Correcting Credit Card Problems

Here are some tips for correcting credit card problems:

- Reduce your expenses by paying off the balance on your highest rate loans first. These are usually your credit cards.
- Pay for future purchases using cash or a debit card linked to your checking account.
- Turn to a reputable credit counselor if you have serious problems paying off your credit card debt. This person should be able to help you for little or no cost.
- Beware of *debt consolidation loans*. These are loans that you get in order to help pay off what you owe on several credit cards. They can be either secured loans (e.g., home equity loans) or unsecured loans that you promise to repay. Look for hidden charges and ask for references before signing the agreement. Choosing the wrong debt consolidation loan can make matters worse and put you further into debt. Shop around so that you have a way of deciding on the debt consolidation loan that best meets your needs and budget. Research different lenders and collect quotes before deciding.
- Beware of debt settlement companies that charge high rates and application fees.
- Use bankruptcy only as a last resort.

The *Financial Recovery* and *To Your Credit* modules have detailed information about credit counseling and debt management.

What to Do if Your Credit Card is Lost or Stolen

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

- Never give your confidential personal information over the telephone unless you have made the call.
- If you contact your card company before any unauthorized charges are made, you are not responsible for any unauthorized charges.
- 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 credit card company immediately.

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 issuer. There are other organizations you can contact for more information (e.g., the Federal Trade Commission (FTC) listed on page 26).

Post-Test

Now that you have gone through the course, see what you have learned.

1. **What are some important factors to look for and compare when shopping for a credit card?**
 - a. Annual percentage rate
 - b. Grace period
 - c. Fees
 - d. Method for calculating interest
 - e. All of the above

2. **What is the difference between a debit card and credit card?**
 - a. When you use a credit card the money comes directly from your checking account, but with a debit card you can pay later
 - b. When you use a debit card the money comes directly from your checking account, but with a credit card you can pay later
 - c. Carrying a balance on a debit card usually means you pay some interest
 - d. Credit cards are linked to your checking or savings account

3. **Credit is defined as the ability to borrow money with the promise to pay back the money plus interest.**
 - a. True
 - b. False

4. **Which of the following are benefits of having a credit card?**
 - a. It allows you to make a large purchase (e.g., car or house) and pay for it over time
 - b. It is can be useful in times of emergencies
 - c. It is more convenient and safer than carrying large amounts of cash
 - d. All of the above

5. **All of the following are benefits of stored value cards EXCEPT:**
 - a. They may have high monthly and inactivity fees
 - b. They offer the ability to make purchases using credit card networks
 - c. You can use the card to give yourself a budget for a trip
 - d. They are one way to give a gift or pay an allowance to a child

6. **Lenders will review the Four Cs to determine whether you are a good credit risk. Which of the following refers to the value of your assets and your net worth?**
 - a. Capacity
 - b. Capital
 - c. Character
 - d. Collateral

-
- 7. Select all that apply. What can you do to manage your credit responsibly?**
- Pay your monthly bill on time or contact your creditor immediately if you cannot pay
 - Try to pay more than the minimum monthly payment
 - Use credit to purchase items you want but do not have the cash for
 - Verify the charges listed on your monthly statement and correct any errors right away
- 8. Which of the following are examples of using your credit card responsibly?**
- Protecting your credit card and account numbers to prevent unauthorized use
 - Charging items when you cannot afford the monthly payment
 - Paying interest on items when you could have waited and paid for them with cash
 - Knowing the terms of your credit card
 - a and d
- 9. If your credit card is lost or stolen you should immediately call the credit card company or card issuer.**
- True
 - False
- 10. What should you know about the APR on a credit card?**
- What the amount is
 - Whether the rate is an introductory rate and will change after a period of time
 - Whether the rate is fixed or variable
 - All of the above

Glossary

Annual Percentage Rate (APR): The rate of interest you are charged, expressed as a yearly rate.

Balance Computation Method: A method for calculating interest. The most common is the average daily balance.

Credit: The ability to borrow money.

Credit Report: A full history of information within a consumer's credit file at the credit reporting agencies.

Credit Score: A numerical estimation of the likelihood that the consumer will meet his or her debt obligation(s).

Fees: Service charges from a financial institution, including:

- **Annual fee.** A fee, charged annually, for the privilege of using a credit card. Most cards that offer rewards (for example, airline miles or travel awards) charge a yearly fee.
- **Balance transfer fee.** A fee 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.** A transaction fee charged when you access cash through an Automated Teller Machine (ATM) with your credit card. The advance often carries a higher interest rate than regular purchases, and there usually is no grace period.
- **Late fee.** A fee you incur if payment is received after the due date. A typical charge is \$29 per late payment.
- **Over-the-limit fee.** A fee applied if your outstanding charges exceed your credit limit. The fee is typically \$20.

Finance Charge: The cost of credit. It includes interest, service charges, and transaction fees.

Grace Period: The number of days you have to pay your balance before a creditor begins charging interest.

Identity Theft: A fraud committed or attempted using the identifying information of another person without authority.

Interest: The amount of money a financial institution charges for letting you use its money.

Minimum Payment: The minimum payment is the minimum dollar amount that must be paid each month.

Opt Out: To opt out of receiving mailed credit card offers, call 1-888-5-OPTOUT (567-8688) or visit www.optoutprescreen.com.

Periodic Rate: An interest rate applied to your balance to calculate the finance charge.

Previous Balance: The amount you owe 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: 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)

www.fdic.gov/consumer

Division of Supervision & Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, Missouri 64108

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

Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (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, balance your checkbook, or invest in your 401k, the resources on

MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission

www.ftc.gov/credit

1-877-FTC-HELP (382-4357)

The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

National Foundation for Credit Counseling (NFCC)

www.nfcc.org

1-800-388-2227

The NFCC's member agencies provide individual, confidential counseling by professional Certified Consumer Credit Counselors in-person, by phone, or over the Internet.

What Do You Know? – Charge It Right

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about credit cards both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before the Training				After the Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
I can:								
1. Define credit	1	2	3	4	1	2	3	4
2. Explain why credit is important	1	2	3	4	1	2	3	4
3. Identify the factors creditors look for when making credit decisions	1	2	3	4	1	2	3	4
4. Describe the purpose of credit cards	1	2	3	4	1	2	3	4
5. Determine if I am ready to apply for a credit card	1	2	3	4	1	2	3	4
6. Determine which credit card is best suited for me	1	2	3	4	1	2	3	4
7. Describe how to use a credit card responsibly	1	2	3	4	1	2	3	4
8. Identify the steps to take when a credit card is lost or stolen	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable you to assess your observations of the *Charge It Right* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

1. Overall, I felt the module was: <input type="checkbox"/> Excellent <input type="checkbox"/> Very Good <input type="checkbox"/> Good <input type="checkbox"/> Fair <input type="checkbox"/> Poor	Strongly Disagree Disagree Neutral Agree Strongly Agree				
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The overheads were clear.	1	2	3	4	5
5. The overheads enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The module included sufficient examples and exercises so that I will be able to apply these new skills.	1	2	3	4	5
8. The instructor was knowledgeable and well prepared.	1	2	3	4	5
9. The worksheets are valuable.	1	2	3	4	5
10. I will use the worksheets again.	1	2	3	4	5
11. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5
	None		Advanced		
12. My knowledge/skill level of the subject matter before taking the module.	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	1	2	3	4	5
14. Name of Instructor: Instructor Rating: Please use the response scale and circle the appropriate number.	Response Scale: 5 Excellent 4 Very Good 3 Good 2 Fair 1 Poor				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5
Had technical knowledge	1	2	3	4	5

What was the most useful part of the training?

What was the least useful part of the training and how could it be improved?
