

# Charge It Right



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# Welcome

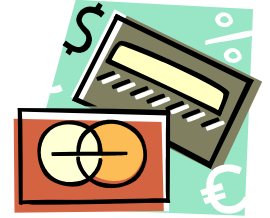


1. Agenda
2. Ground Rules
3. Introductions



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# Objectives

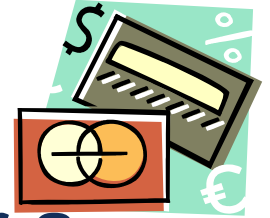


- **Define credit**
- **Explain why credit is important**
- **Identify the factors creditors look for when making credit decisions**
- **Describe the purpose of credit cards**



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# Objectives

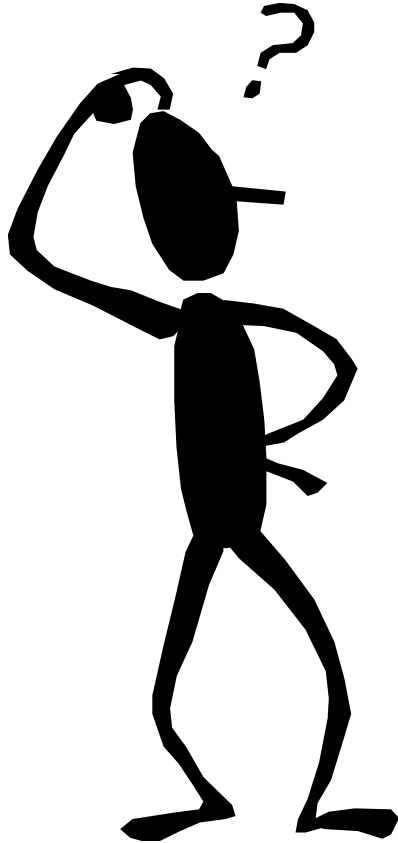


- **Determine if you are ready to apply for a credit card**
- **Determine which credit card is best suited for you**
- **Describe how to use a credit card responsibly**
- **Identify the steps to take when a credit card is lost or stolen**



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# What Do You Know?



**What do you know or want to learn about credit cards?**



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# What Is Credit?

**If you ask a financial professional what “credit” is, which of these would this person choose?**

1. Money given to you that you do not have to pay back
2. Money you borrow to pay for things but must also pay back
3. Recognition for a job well-done
4. Long, scrolling text at the end of a movie



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# Credit Defined

- ***Credit:*** the ability to borrow money
- ***Loan:*** agreement to borrow money on credit
- ***Collateral or Guarantee:*** security, or asset, you pledge to the lender in case you cannot repay the loan
- ***Interest:*** the cost of borrowing money



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# Importance of Credit

## Why do you think credit is important?

- **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, such as a 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



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# Good Credit

- **Having good credit means:**
  - You make your loan payments on time.
  - It will be easier to borrow money in the future.
- **If you have problems using credit responsibly, it will be harder to borrow money in the future.**



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# 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?**



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# What Is a Credit Card?

- ***Credit cards*** are a revolving line of credit with:
  - Pre-approved dollar limit
  - Minimum monthly payment
    - e.g., \$15 for a \$600 balance
- ***Charge cards*** require you to pay the entire balance every month
- ***Debit cards*** are tied to a checking account



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## Other Cards

- **Stored value cards**
- **Secured and unsecured credit cards**
- **Gold and platinum cards**
- **Reward cards**
- **Pre-approved cards**

### Tips:

- **Read disclosures before you apply**
  - Look at fees/penalties
  - Understand your consumer protections
- **Take precautions to protect yourself from fraud or theft**

# Truth in Lending Disclosure Statement

- Required by federal law
- Must highlight rates, fees, other key terms
- Sample interest rate section of disclosure:

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	[Purchase rate] [Description that rate varies and how it is determined, if applicable]
APR for Balance Transfers	[Balance transfer rate] [Description that rate varies and how it is determined, if applicable] [Statement about balance transfer fee and cross reference, if applicable] [Payment allocation notice, if applicable]
APR for Cash Advances	[Cash advance rate] [Description that rate varies and how it is determined, if applicable] [Statement about cash advance fee and cross reference, if applicable] [Payment allocation notice, if applicable]
Penalty APR and When it Applies	[Penalty rate] [Description of events that may result in the penalty rate]

# Credit Card Terms

- **When shopping for credit cards, compare:**
  - Annual percentage rates (APR) for:
    - Purchases
    - Balance transfers
    - Cash advances
    - Penalty APR, and when it applies
  - Fees, such as any annual fee
  - Grace period, if there is one
  - Balance computation method



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# Annual Percentage Rate (APR)

- **APR:** the cost of borrowing money on a yearly basis (interest + fees)
  - Look for a low APR
  - Compare annual fees and other charges
  - Determine how long the introductory rates will last and whether the new rate will be fixed or variable



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# APR Increase on Existing Balances

- **The APR on money you owe for charges you made in the past (existing balance) generally cannot be increased unless:**
  - You are told about the increase when you open the account and the initial rate lasts at least 6 months
  - There is a change in an index-based rate
  - You don't satisfy a "workout arrangement"
  - You do not make the required minimum payment within 60 days of due date



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# APR Increase on New Transactions

- **The APR that applies to new transactions generally cannot increase for a year from the date the card was issued:**
  - Except if you have a variable rate card and the index increases or promotional rate expires
- **Creditor must notify you 45 days in advance**
- **You can cancel the card before the changes take effect**



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# Penalty APR

- **A penalty APR:**
  - Is a permanent rate increase if you do not pay your credit card bill on time
  - May be double the regular APR
- **Look for details in Truth in Lending disclosures**



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# Fees

- Annual fees
- Late fees
- Over-the-limit fees
- Balance transfer fees
- Cash advance fees
- Credit-limit increase fee
- Foreign transaction fee



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# Grace Period

- **Avoid finance charges by paying your balance in full, or making the minimum payment, on or before the due date.**



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# Balance Computation Method

**Average Daily Balance is the  
common method used:**

**Balance x APR x Days in Billing Cycle  
Days in Calendar Year**

$$\frac{200 \times 0.10 \times 30}{365} = \$1.64$$



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# Customer Service

- **Features via telephone and Internet may allow you to:**
  - Access account information, such as balance and recent charges
  - Pay your bills online
  - Update personal information such as your address



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## Other Key Items

- **Be aware of:**
  - Laws that protect you against billing mistakes and unauthorized charges
  - Additional protections that credit card companies may provide (e.g., an extended warranty period on certain purchases)
- **Take time to fully understand the costs, benefits, and true coverage of “credit protection” or “debt suspension” programs**



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## Credit Card Limits

- The maximum amount of credit the credit card company grants you based on factors, such as your:

**Credit History**

**Current Income**

**Debt**



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# Where to Apply for a Credit Card

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

1. Banks
2. Stores
3. The Internet
4. All of the above



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# Individual vs. Joint Credit

- **Individual credit**

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

- **Joint credit:**

- Based on the assets, income, ability to pay, and credit history of both people who apply.
- Both applicants are responsible for the credit card bill.



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# Application Requirements

- **Consumers under age 21 must:**
  - Have a co-signer, or
  - Prove the ability to make the payments
- **If you are a parent, be prepared for a request to co-sign.**
- **Provide accurate information on a credit application**
  - Giving false information is a crime



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# The Four Cs

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



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# Capacity

- How long have you been in your job?
- How much money do you make each month?
- What are your monthly expenses?



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# Capital

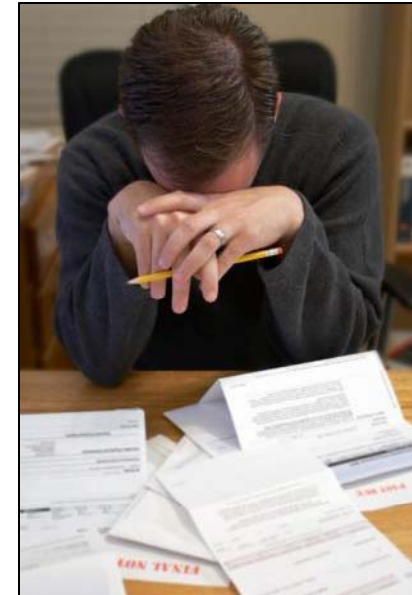
- How much money do you have in your checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., a car)?



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# Character

- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever:
  - Filed for bankruptcy?
  - Had any outstanding judgments?
  - Had property repossessed or foreclosed upon?
  - Made late payments?



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# Collateral

- Do you have assets to secure the loan beyond your capacity to pay it off?



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# What Creditors Look For



**We have discussed what information creditors look for in order to decide whether to give you a credit card, but where do you think they might find this information?**

# Credit Report

- **Your credit report tells creditors:**
  - Who you are
  - How much you owe
  - Whether you have made payments on time
  - Whether you have any collection actions, bankruptcies, judgments, etc. against you
  - How many credit report inquiries have been made



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# Credit Case: No History Is No Mystery

- **Meet Cathy. She:**
  - Is 25
  - Has never had a credit card or a loan
  - Has no credit history except for an inquiry by her landlord when she rented her apartment
- **How will a creditor decide if Cathy is good credit risk?**



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# Credit Reporting Agencies

**Equifax**

**Experian**

**TransUnion**



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# Free Annual Credit Report

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

Call: 877-322-8228

Mail:

Annual Credit Report Request Service

P. O. Box 105281

Atlanta, GA 30348-5281



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# Credit Scores

- A number that helps lenders determine your credit risk
- **Two types:**
  - The Fair Isaac (FICO) Score
  - VantageScore



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# If Your Credit Request Is Denied

- A denial notice, or adverse action notice, lists reasons for credit denial.
- Credit card companies must give you reasons why your credit was denied.
- Contact the credit bureau within 60 days of receiving the denial for a free copy of your credit report.
- Dispute any inaccuracy in your credit report.



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# Credit Card Statement Information

1. Account Summary
2. Payment Information



[www.federalreserve.gov/creditcardcalculator/](http://www.federalreserve.gov/creditcardcalculator/)

3. Credit Counseling Statement
4. Notice of Interest Rate Changes
5. Transactions or Account Activity
6. Interest Charge Calculation



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# Keep Good Records

1. **Keep your credit card receipts to compare with monthly statements**
2. **Check your monthly statement for mistakes**
3. **Report mistakes right away**



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# Minimum Payment

**Which of the following is a good reason to pay more than the minimum payment due on your credit card bill?**

1. It will look good on your credit history
2. You will be able to spend it again, in higher amounts
3. The credit card company will increase your limit faster
4. You can pay it off quicker and save on interest charges



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# Cost of Minimum Payment

Item	Price	APR	Interest Paid	Total Paid	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



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# Benefits of Exceeding the Minimum Payment

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



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# Activity 1: Houston, We Might Have Issues

## Complete Activity 1 in the Participant Guide

1. Read each scenario.
2. Determine whether the people are using their cards responsibly.
3. Describe what could happen if each person continues to use their credit card as described.



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# If Your Credit Card is Lost or Stolen:

- **Notify your credit card company immediately!**



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# Summary

- **What final questions do you have?**
- **What have you learned?**
- **How would you evaluate the training?**



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# Conclusion

- **You learned about:**
  - The characteristics of credit cards
  - Other cards that are similar to credit cards
  - The different types of credit cards
  - How to shop for the best credit card terms
  - How to apply for a credit card
  - How to use a credit card responsibly
  - How to pay your credit card bill



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