

Credit 100

UNDERSTANDING CREDIT



All About Credit

- **What is credit?**
- **Credit cards**
 - Rewards
 - Risks
 - Terms
- **Interest rates**
- **Using credit successfully**

What Is Credit?

- **Borrowing money**
 - Paying interest
 - Paying fees
- **Revolving**
 - Can repeatedly borrow up to a set limit
 - Minimum payments
 - Possible fees
- **A credit card is a loan**

When to Use Credit or Cash

- **When the bill is paid off, will:**
 - I remember what I bought?
 - the item have value?
 - the total cost be worth it? (item + interest)
- **Yes to all is a good use of credit**
- **No to one, consider paying cash**

Money Personalities

- **Amasser.** You're likely to be overly concerned with keeping large amounts of money at your disposal to spend, save, and invest. This preoccupation may be having a negative effect on your ability to enjoy your life in the moment.
- **Spender.** You probably love to use your money to buy whatever will bring you pleasure. You may have a hard time saving, budgeting, and delaying gratification for long-term goals.
- **Money Monk.** You may try to avoid having too much money. You'd feel guilty if a large amount of money came your way unexpectedly.
- **Avoider.** You tend to avoid performing various tasks of everyday money management. You may feel anxious or incompetent about dealing with money.

Credit Card Benefits

- **Emergency**
- **Convenient**
- **Internet purchases**
- **Car rental**
- **Safer than carrying cash**
- **DVD rental membership**
- **Travel & cash-back rewards**

Rewards of Wise Credit Use

- **Easier to rent an apartment**
- **Easier to buy a car**
- **Increases job opportunities**
- **Better interest rates**
- **Saves money**
- **Helps establish good credit**

What is a Credit Report?

Lenders report:

- Payment history
- Amount borrowed
- Credit limits
- Delinquencies

What determines your score?

- Amount Owed 30%
- Payment History 35%
- Type of Credit Used 10%
- New Credit 10%
- Length of Credit History 15%

Credit Card Risks

- **Fees**
- **High interest rates**
- **Short or no grace period**
- **Impulse purchases**
- **Emotional spending**
- **Bad credit**
- **Confusing credit terms**

Reading a Credit Card Offer

- **Annual percentage rate (APRs)**
- **Other APRs**
 - Balance transfer
 - Cash advance
 - Default
- **Variable/fixed interest rates**

Reading a Credit Card Offer

- **Grace period**
- **Fees**
 - Annual
 - Cash advance
 - Over limit
 - Late
 - Others
- **Additional fine print**

APR

- **Annual Percentage Rate (APR)**
 - Annual basis
 - Up-front charges
 - Origination fees on non-credit card loans
 - Compounding frequency
- **Can make shopping easier**
 - Price tag

Interest Rate

- **A charge for a loan**
 - Shown as a percent of borrowed amount
- **How payment is applied for most loans**
 - Fees
 - Interest
 - Lowest interest rate balance
 - Higher interest rate balance
 - Principal

Fixed or Variable Rate

- **Fixed Rate**
 - Rate doesn't change
 - Risk is on the lender
 - When rates increase
- **Variable Rate**
 - Rate changes
 - Risk is on the borrower
 - When rates increase

Adjustment Period

- **Credit card rate change frequency**
 - Annually, quarterly, monthly
- **Purpose**
 - Easier budgeting for borrower
 - Maintain lender's margin

Determining Interest Rates

- **Index + margin = rate**
- **Index (cost of funds) 4%**
 - T-bill, LIBOR, Prime +
- **Margin (covers expenses) 6%**
- **Rate the borrower pays 10%**

Grace Period

- **Number of days without interest**
- **Between 20 days & one month**
- **Conditions**
 - Pay new balance in full for billing period
 - Before due date
- **Making minimum payments**
 - No grace period
 - Interest charged from purchase date

Types of Fees

- **Late**
- **Annual**
- **ATM/ Cash advance**
- **Over the limit**
- **Balance transfer**
- **High interest rate**

Cash Advance Fee

On a \$20 cash advance, you'll be charged:

- **3% of amount, but**
 - no less than \$5
 - or more than \$50
- **A \$5 fee on a \$20 cash advance is a hefty 25%!**

The Fine Print

Raising your rate to 24.99% or higher

- **Fail to pay on time**
- **Fail to *pay another creditor* on time**
- **Bounce a check for a credit card payment**
- **Exceed your credit limit**

Credit Card Temptations

- **Bonuses**
 - Free gifts
 - Miles/points
 - Cash back
 - Car discounts
 - Merchandise discounts
- **Teasers**
 - Introductory rates
 - Balance transfers
 - Limited-time offers

Paying for Free Gifts

	Est. Value	Cash Advance Fee	Late Fee	Over Limit Fee	Annual Fee	Annual Interest on \$1,000
Gift	\$5	\$30	\$29	\$29	\$0	\$149 - \$229
Cash Back	\$2	\$30	\$29	\$29	\$0	\$149 - \$229
Airline Miles	\$12	\$20	\$29	\$29	\$39	\$154 - \$229
Shopping	\$50	\$30	\$29	\$29	\$0	\$189 - \$240

Charging Habits for One Week

Expense	Cost
Morning coffee	\$20/week
Eating out	\$35/week
Night out with friends	\$45/week
Total	\$100/week

True Cost of Charging \$100

End of Period	Balance	Minimum Payment
1 st month	\$400	\$12
1 year	\$4,713	\$146
5 years	\$2,232	\$69
10 years	\$877	\$21
19 years	\$7	\$7

Assumes \$100 weekly charge for 52 weeks then borrower stops charging. Payments based on 3 percent minimum payment. Interest rate is 18 percent. No additional charges made in years 2-19.

Credit Card Statement

- **Outstanding balance**
- **Minimum repayment amount**
- **Payment date**
- **Annual percentage rate (APR)**
- **Rates, fees & charges**

Convenient Alternatives

- **Cash**
- **Checks**
- **Debit & check cards**
- **ATM cards**
 - Track expenses and avoid usage fees
- **Loan**
 - Usually less expensive than a credit card
 - A fixed repayment term

Using Credit Successfully

- **Identify your spending habits**
- **Understand the fine print**
- **Manage credit wisely**
- **Have only one card**
- **Pay balance in full each month**
- **Ask for help at the first sign of trouble**



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