

Financial Literacy Money Trek

MODULE 3: CREDIT CARDS

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Objectives

This module will explain:

- Different types of credit cards.
- Credit card offers & terminology.
- How to choose a credit card.
- How creditors make credit decisions.
- What to do if a credit card is lost or stolen.
- The importance of using a credit card responsibly.



Credit Cards

- Give you a revolving line of credit.
- Are a convenient form of borrowing.
- Requires a minimum payment each month.
- Come in a variety of forms.



Types of Credit Cards

Secured Cards

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



Types of Credit Cards

Unsecured Cards

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



Stored Value Cards and Smart Cards

- Work like a debit card.
- Similar to retailer gift cards.
- You deposit money and the balance declines as you use the card.



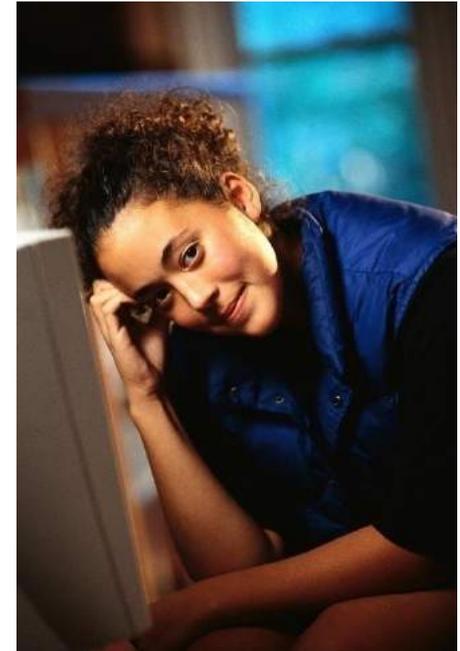
Stored Value Cards and Smart Cards

**Stored
value
cards
include**

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

Student Credit Cards

- Usually have low introductory interest rates.
- Some offer no income requirements or no co-signer.
- Typically have a low credit limit.
- Often have no annual fee.



Gold and Platinum Cards

- These cards:
- Have a higher credit limit.
- Require good credit history and higher income.
- May charge an annual fee.
- May not have favorable terms.



Rewards Cards

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



Understanding Credit Card Terms & Shopping for the Best Deal

Credit cards have different terms:

Annual percentage rate (APR)	Fees	Grace period	Balance computation method	Cash advance requirements and fees	Balance transfer requirements and fees
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APR (Annual Percentage Rate)

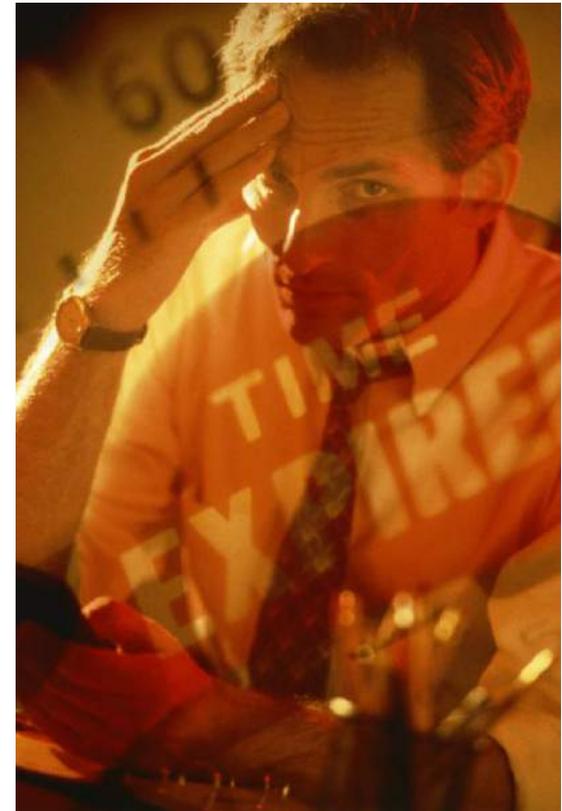
Interest rate + fees = APR
expressed as an annual
percentage rate.

- APRs are variable rates
- Penalty APRs are about 52% higher than regular APRs.
- Credit card companies must state how long “introductory” APRs last.



Types of Fees

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



Grace Period

The number of days you have to pay your balance before the credit card company starts charging interest.



Balance Computation Method

- The balance computation method will determine how your interest is calculated.
- The most common method used is the average daily balance.



Cash Advance

The ability to get cash from your credit card.

- Credit card companies charge a substantially large fee for this service.
- Example: 2% / \$10
- The cash advance fee is 2 percent of the cash advance amount or \$10, whichever greater.



Balance Transfer

- Balance transfer is the process of moving unpaid credit card debt from one credit card to another.
- Credit card companies sometimes offer low rates to encourage balance transfers.



Other Factors to Consider when Choosing a Credit Card

- Customer service
- Additional protection
- Other protections offered by a credit card company



Credit Card Protections

Refunds of Credit Balances

- When you return merchandise or pay more than you owe, you have the option of keeping the credit balance on your account or receiving a refund.

Unauthorized Charges

- If you report your card lost before it is used, you cannot be held responsible for any unauthorized charges.
- If your card is used before you report it lost, you are liable for \$0 if reported within two business days. After that, you're liable for no more than \$50.00.

Credit Card Protections

Disputes about Merchandise or Services

- In some circumstances, you have the right to withhold payment for unsatisfactory merchandise or services.

Extended Warranties

- Many credit card companies now extend or double the manufacturer's warranty for items bought with their card.



Tips to Consider When Choosing a Card

- Consider how & when you will use a card.
- Understand the terms before you accept the card.
- Consider which offer best fits your needs.
- Beware of introductory rates.
- Beware of application fees.
- Understand fixed and variable rates.



Application Requirements

- Individual credit – based on the assets, income, and credit history of the individual.
- Joint credit – based on the assets, income, and credit history of both people who apply.
- Age requirement – is typically 18 years.



Credit Report

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

- Who you are.
- How much debt you have.
- Whether you have made payments on time.
- Whether there is negative information about you in public records.
- Inquiries made about your credit history.

Credit Reporting Agencies

Three agencies provide free credit reports.

- Equifax
- Experian
- Transunion

www.annualcreditreport.com



Credit Score

The credit score:

- A number that predicts how
- much of a credit risk you may be.
- Calculated based on information in your credit report.

Check your credit score before applying for new credit.



Two Types of Credit Scores

- FICO
- Vantagescore



FICO Score

Scores range from about 300 to 850.

Takes into account:

- Past payment history – 35 %
- Outstanding debt – 30 %
- How long you've had credit – 15 %
- New applications for credit – 10 %
- Types of credit – 10 %



VantageScore

- New as of March 2006
- Used by all three reporting agencies
- Should be the same from each agency.
- Scores range from 300 to 850



Denial Notice

Lists the reasons for denying credit, such as:

- 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.

Also called an “adverse action” notice.

If the information is incorrect, contact the credit reporting agency to get it corrected.



Lost or Stolen Credit Card

- Be careful giving personal information over the telephone or the Internet – especially your social security number.
- Immediately notify your credit card company if your card is lost or stolen.
- If you think you are a victim of credit card fraud, immediately contact your credit card issuer.



Using Your Credit Card Responsibly

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

Paying Your Bill - Credit Limit

- This is the maximum amount of money the credit card company will loan you.
- If you go beyond this limit, the credit card company will assess an over-the-limit fee.



Cost of Making the Minimum Payment

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500	18%	\$216	\$716	5
Computer	\$1,000	18%	\$516	\$1,516	7
Furniture	\$2,500	18%	\$1,415	\$3,915	10

Benefit of Making More Than the Minimum Payment

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	Total of 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

Credit Card Do's & Don'ts

Do's

- Look for the best card for you.
- Read and understand the contract.
- Figure the total price of paying with credit.
- Make the largest payments possible.
- Know the penalties for missed payments.



Credit Card Do's & Don'ts

Don'ts -

- Buy on installment credit unless necessary.
- Be misled into thinking small payments will be easy.

