

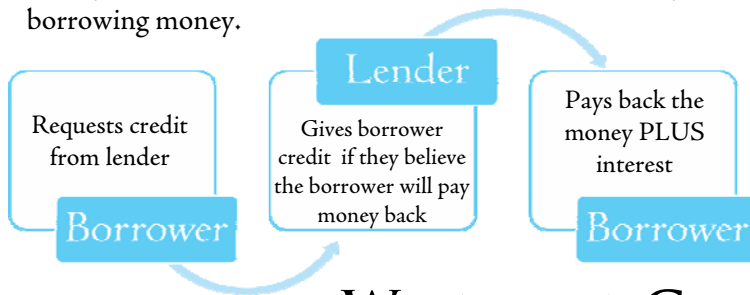


TAKE CHARGE OF CREDIT CARDS

“GET READY TO TAKE CHARGE OF YOUR FINANCES” INTRODUCTORY LEVEL

WHAT IS CREDIT?

Credit is when goods, services, or money is received in exchange for a promise to pay a definite sum of money at a future date. The word “credit” is derived from the Latin word, “credo” meaning “I believe.” The person who is lending the money is saying, in effect, he *believes* the borrower is willing and able to keep his promise to pay the money back, plus interest. **Interest** is the price of money. When referring to credit, interest is the charge for borrowing money.



Have you ever borrowed money from someone? Did you have to pay back interest?

WHAT IS A CREDIT CARD?

A **credit card** is a plastic card that holds pre-approved credit which can be used for the purchase of items now and payment of them later. In the case of credit cards, individuals can borrow as much money as needed as long as they do not go over the **credit limit**, which is the maximum amount of money that can be charged on the credit card. Every credit card has a different credit limit amount, which may be large or small. The amount of money charged on a credit card may be paid back in one single payment or a series of equal or unequal monthly payments. However, interest is charged to a credit card each month the amount of money owed is not paid in full. The longer the cardholder takes to pay off the amount of money charged, the larger the total interest charges will be. The interest rate charged on a credit card account each month is expressed as the **annual percentage rate (APR)**.

Why would it be easy for a person to use a credit card to spend more money than they actually have?

Credit card companies require cardholders to make a **minimum payment**, which is the minimum amount of a credit card bill that must be paid monthly. However, the minimum payment is usually only a small portion of the total amount that the cardholder owes on the credit card. Therefore, a cardholder who only makes the minimum payment every month will pay lots of interest and make slow progress toward paying off what is owed on the credit card. The table and scenario below illustrate the difference between paying off a credit balance in full every month and only making the minimum payment every month.

Melissa and Skylar each purchased a plane ticket for \$500 using their credit cards that charge 15% APR.

	Melissa-	Skylar-
Payment	Paid the full amount owed- \$500	Paid the minimum payment due- \$20
Time to pay off credit card	1 month	3 years
Total amount of interest paid	\$0	\$104
Total amount paid	\$500	\$604

If you owned a credit card, how would you avoid paying interest on the amount of money charged?



In order to receive a credit card, a person should first examine various credit card offers. A **credit card offer** displays the costs of a credit card, including interest rates and fees charged. Once the best card is chosen, an individual would complete an application to apply for that card.

To receive a credit card, consumers must be 21 years of age or older. Consumers under 21 can still get a credit card, but they need to either have a co-signer or show documentation of sufficient income to make payments. If someone agrees to be a co-signer on an account, they are equally responsible for the loan.



When choosing a credit card, would you look for a credit card with a high or low APR ?

Would you consider being a co-signer on a credit card?

CREDIT CARD VERSUS DEBIT CARD

It is important to understand the difference between a credit card and a debit card. A **debit card** is a plastic card which looks like a credit card, but is electronically connected to a depository institution account that holds the cardholder's money. When a debit card is used to make a purchase, the money is immediately taken out of the account. In contrast, a credit card transaction is not linked to the cardholder's depository institution account. Money is borrowed and paid back later.



ADVANTAGES AND DISADVANTAGES OF USING A CREDIT CARD

If a credit card is used properly it offers many benefits to the cardholder. However, if used irresponsibly, credit cards may have many disadvantages as well.

Advantages	Disadvantages
<ul style="list-style-type: none"> Convenient Useful for emergencies 	<ul style="list-style-type: none"> Paying interest if balance is kept on card Additional fees may apply if card is not used properly
<ul style="list-style-type: none"> Often required to hold a reservation Purchase expensive items earlier Possibility of receiving bonuses, such as frequent flyer miles and cash rebates 	<ul style="list-style-type: none"> Tempting to overspend Responsible for lost/stolen cards Risk of identity theft

How could a credit card be useful for emergencies?

If you owned a credit card, how would you avoid overspending?

RESPONSIBLE CREDIT CARD USE

In order to take advantage of the benefits of a credit card, a cardholder should use a credit card responsibly. When a credit card is used irresponsibly, penalty fees and penalty interest are often charged to the cardholder. A **late payment fee** is charged when a cardholder does not make the minimum payment by the due date. An **over-the-limit fee** is charged if the amount of money charged goes over the card's credit limit. In addition to paying these fees, cardholder's often have to pay penalty interest if late payments are made or credit limits are exceeded. **Penalty APR** is a higher interest rate that is charged on new transactions. In addition to being charged extra penalty fees and interest, if a credit card is used irresponsibly the cardholder could pay large amounts of interest and accumulate large amounts of debt that can be very difficult to pay back.

Do	Don't
<ul style="list-style-type: none"> • Paying the amount charged to a credit card in full every month 	<ul style="list-style-type: none"> • Making late credit card payments
<ul style="list-style-type: none"> • Paying credit card payments on time 	<ul style="list-style-type: none"> • Paying only the minimum payment due
<ul style="list-style-type: none"> • Keeping track of all charges by keeping receipts 	<ul style="list-style-type: none"> • Going over the card's credit limit
<ul style="list-style-type: none"> • Checking the monthly credit card statement for errors 	<ul style="list-style-type: none"> • Charging items that can't be paid off within the month

Why do you think it is important to keep all credit card receipts?



CREDIT CARD STATEMENT

Credit card statements summarize important information about a credit card account. They are sent to the cardholder every month and include information regarding credit card use from the previous month. The information on a credit card statement includes transactions the cardholder has made during the previous month, the current amount owed on the credit card, the amount of the minimum payment due, and the payment **due date**, which is the date the minimum payment must be paid. To use credit cards in a responsible manner, cardholders should examine their credit card statements to check for false charges and make sure payments are made on time.

CREDIT CARD SAFETY TIPS

If a credit card or credit card information is acquired fraudulently by someone else they can make charges with that card. Therefore, it is important to keep credit cards and credit card information secure by following safety tips:

- A lost or stolen credit card should always be reported immediately. Promptly reporting a lost or stolen credit card will reduce the cardholder's liability for any possible fraudulent purchases.
- When using a credit card, sign the back with a signature and "Please See I.D." The "Please see I.D." will alert the merchant to check the identification of the individual using the card and compare it to the name and signature on the credit card.
- When closing a credit card account, notify the credit card company in writing and by phone, then cut up the card.
- Never give out a credit card number unless making purchases that you initiated.
- Keep a list of all cards, account numbers, and phone numbers separate from cards, in case the card is lost.
- Shred any credit card offers received in the mail.
- Check credit card statements monthly to ensure there are no false charges.

What could happen if a person threw a credit card offer away without shredding it?