



CREDIT, CREDIT CARDS & YOU

MATERIALS NEEDED:

- Laptop computer
- PowerPoint Projector
- Instruction for Laptop/Projector Setup
 - Make sure all cords are present:
 - Laptop power cord
 - Laptop to projector connector cord
 - Projector power cord
 - Extension cord (if needed)
- Presentation Outline and PP slide sheets
- Credit Card Terms & Types Fact Sheet handout
- Comparing & Selecting Credit Cards Fact Sheet handout
- Credit Card Comparison Shopping Activity handout (4 pages)
- Credit Card Comparison Shopping Activity Answers (4 pages)
- Evaluation Sheets
- Copies of handouts
- SAFE cards, brochures, or bookmarks
- Email list signup sheet
- Candy (optional)

PRESENTATION:

Objectives:

- Identify why to and why not to use credit cards
- Identify a Schumer Box
- Describe what fixed means with regards to credit cards
- Describe why credit card use and credit are interrelated

1. Credit Cards, Credit and You

2. **(This slide is HIDDEN!)** Brought to you by \$AFE:

- Your on campus personal financial educators!
- Mission
 - Counsel and educate students regarding individual issues in personal finance
 - Provide service learning opportunities for students in Family and Consumer Sciences, specifically, HDCF 342 (Financial Counseling)
- Services Include:
 - Answers to questions: staff is available Monday-Friday 1pm to 5pm
 - Free and confidential one-on-one financial counseling to students
 - Presentations to classes and organizations

- Information sheets
- On-line and in-office resources

3. Today's Presentation

- Credit card basics
- Obtaining a credit card
- Credit Reports 101

4. Did You Know?

- 91% of college students have a credit card by their senior year
- 56% of students have their first credit card by age 18
- 43% of all college students carry four or more credit cards
- National student credit card debt average for 2004 was \$2,169
- 44% of undergrads make more than the minimum payment. but still carry a balance each month
- Discussion Topic: Have students turn to a neighbor or break into groups of two-four people and present these questions:
 - Do you have a credit card?
 - Do you think credit cards are ok to own and use?
 - Should people avoid having credit cards as much as possible?
 - Do you feel these statistics are surprising or did you expect them?
 - If willing, share one thing you have learned about credit cards by using them (if you use them) that you wish you would have learned before you started to use them.

5. What are Credit Cards?

- Ask if students know the difference between a credit card & debit card.
- Pre-approved credit which can be used for the purchase of items now and payment of them later.
- Remember; Using a credit card is actually a loan against future earnings

6. Why use credit cards?

- Before exposing slide ask students to list reasons to use credit cards
- Responsible use can help establish good credit history
- Convenient
- Emergency buying power
- Additional form of identification
- Record of purchases on bill statement
- Required for reservations
- Accommodations
- Auto rentals

7. Why not use a credit card?

- Before exposing slide ask students to list reasons to not use credit cards
- Irresponsible use can damage credit history
- Higher risk for impulsive buying and overspending
- Debt trap when used unwisely
- Expensive way to borrow due to high interest rates
- Possible hidden fees & surcharges
- Depletes future earnings
- Privacy issues

8. Obtaining a Credit Card

- **Comparison shop** when choosing the right card
- Know the facts
 - We'll go over basic terms to help understand the facts in the next few slides
- Terms and conditions of credit card accounts differ
- Be aware of “hidden” costs of card(s)
 - For example, will the APR increase if a payment is missed? Is there a charge if card is not used frequently?
- Federal Truth in Lending Act **Became law May 29, 1968**
 - Requires card issuer to display the cost of credit card
 - **Schumer Box:** easy to read box format of the cost of credit

Ask if students have heard of the Schumer Box before moving to next slide, if they have, ask them to explain the box

9. A Schumer Box you may expect to see

- This slide is how the box appears on some credit card paperwork, the format will vary from card to card. For explanation purposes, however, the next few slides will explain the terms in the Schumer Box in a format better suited for PowerPoint

10-14 The Schumer Box and Credit Card terms Explained

10. Annual Percentage Rate (APR): interest rate charged for amount borrowed in terms of percentage per year

Grace Period: amount of time allowed before finance charges (interest or cost of credit) are applied

11. Minimum Finance Charge: minimum amount charged for card use

- Not all cards charge a minimum amount.

Balance Calculation Method: method used to determine balance including finance charges

- **Emphasize** that this is how companies determine the amount of interest your account will accrue, or in other terms **the amount they will charge you** based on the APR for the use of credit. Tell students it is a complicated matter but there are some that are better than others. If they have questions on their own credit cards, contact the \$AFE office.

12. Balance Calculation Methods

Creditors use a number of ways to determine how interest, often called finance charges, accumulate

- Average Daily Balance Method (including new purchases with a grace period)
- Average Daily Balance Method (including new purchases with no grace period)
- Previous Balance Method
- Two-cycle Average Daily Balance (including new purchases)
 - This method should be **avoided** by consumers!
 - It uses the average daily balance from the current and previous month to calculate interest charges. You can end up paying interest on the same money twice.

13. Annual Fees: yearly charge for credit card ownership

- Good example is airline miles credit cards. Delta charges roughly \$80 annually for a card which accrues 2 miles for every \$1.00 spent.

Cash Advance Transaction Fees: cash withdrawal fees

Late Payment Fees: penalty fee for payments not made by the due date

***Hand out comparison card activity and give the students 5-15 minutes and then discuss.**

14. Credit Card Company Changes

- What does “fixed” mean in:
 - 0% Fixed APR?
- Fixed means...
 - Fixed for **this moment in time if** you have good credit, pay on time, pay at least the minimum and we (the company) don’t decide to change anything...
- Credit Card companies can change...
 - APRs
 - Finance charges
 - And other terms
 - ...with 15-30 days written notice

!!!! READ YOUR CREDIT CARD MAIL !!!!

Note for presenter:

Emphasize importance of handling disputes ASAP. Also, you can add that when a charge is in dispute, the consumer has option of not paying the charge until the dispute is settled. If a consumer informs the company about the dispute and does not pay the disputed charges, then no interest should be charged on the disputed amount. If a consumer simply does not pay the charge without notifying company of dispute, interest will be charged on the unpaid amount.

15. Using a Credit Card Properly

- **Avoid unnecessary charges and keep your credit good**
- Only use when you have the ability to pay-off the charges at the end of the billing cycle
- Record all expenses and keep receipts
- Check credit statement for errors
- Pay off balance completely and timely
- **Exception: When you are building your credit or trying to improve your credit rating, it is okay to carry a small balance for a month or two**
- **HOWEVER - ALWAYS PAY ON TIME -**
 - Why is this so important?
 - Your credit score is calculated on **the following 5 things**
 - Payment history (about 35%)
 - Amount owed **compared to credit available** (about 30%)
 - Credit history **showing how long you have had credit** (15%)
 - Type of credit established (about 10%) **Department store cards can hurt you**
 - New credit (about 10%) **Many new applications for credit over a period of time can hurt a credit rating**

16. Safety Tips

- Sign card with **signature and "Please See ID"**
- Do not leave cards lying around
- Close most recent unused accounts in writing and by phone, then cut up the card
- **Keep your oldest card to maintain your credit history!!**
- Do not give out account number unless you initiate the purchase
- Keep a list of all cards, account numbers, and phone numbers separate from cards **and in a safe place!!!**
- Report lost or stolen cards **immediately!**

17. So...

- Why use a credit card?
- Why not use a credit card?
- Use “WHAT?” to compare credit cards?
 - **Schumer Box**
- Are fixed rates really fixed? **Absolutely Not!**

18. Now Let us Look at Credit Reports 101

- What is a Credit Report?
 - A history of your bill paying habits and creditworthiness
 - A resume of your financial reliability
- Why is good credit important?
 - Good credit shows financial reliability
 - Good credit leads to more credit
 - Bad credit leads to **no credit**

19. What do credit cards have to do with credit?

Improper use of credit cards **now**

=

Poor credit rating **later**

=

Bad credit report

=

Not receiving lower interest rates, loans, lower car insurance premiums, and possibly jobs or housing approval **later** when you may want or need them

20. Review your Credit Report to Avoid Credit Problems

- A 2003 Federal Reserve study found...
 - 70% of credit reports had errors
 - 25% of those had SERIOUS errors that led to denial in credit
 - (false delinquencies or accounts that didn't belong to the consumer)
- Check your three credit reports annually (FREE!)
 - **We have mail-in forms in our office for your convenience.**
 - www.annualcreditreport.com
 - Or you can call 1-877-322-8228

21. So...

- What is a credit report?
 - **A history of your financial responsibility**
- How do credit reports relate to credit cards?

- A poor history paying your credit cards lowers your credit rating
- Do they ever have mistakes?
 - Credit reporting agencies often make mistakes. It is up to you to let them know of errors.
- How often should you check your credit report?
 - You can check your report from all three credit reporting agencies each year. You may want to stretch the reports out over the course of the year. An example could be: send for Equifax in January, Experian in May, and TransUnion in September. Repeat the cycle each year and you will have a running snapshot of your credit history.

22. Using a Credit Card Properly *again...*

- Only use when there is no doubt about ability to pay-off the charges at the end of the billing cycle
- Record all expenses and keep receipts
- Check credit statement for errors
- Pay off balance completely and timely
- **The only exception**
- When building up your credit rating
 - Carry a small balance for a month or two then pay off the card
 - Always pay before the due date. MAKE SURE THE PAYMENT ARRIVES BEFORE THE DUE DATE!!!
- Group auto or mortgage inquiries together so the inquiry will only count once on your credit rating

23. **(This slide is HIDDEN!)** \$AFE

- Come and visit us!
- Map and contact info

References

- Goetting, M. A., & Gorham, E.E. (2006). *Selecting a credit card*. Montana State University Extension. [MontGuide]. Retrieved October 19, 2006 from <http://www.montana.edu/wwwpb/pubs/mt9802.pdf>
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- Selecting a Credit Card*. (2004). Family Economics and Financial Education. [Lesson Plan 1.4.1]. Retrieved November 6, 2006 from www.fefe.arizona.edu.
- Undergraduate Students & Credit Cards in 2004 An Analysis of Usage Rates and Trends*. (2005). Nellie Mae. Retrieved November 3, 2006 from www.nelliemae.com