

Successful Start and the Office of Student Services Present:

CREDIT 101:

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 amount
- + Minimum payments
- + Possible fees

- ✖ **A credit card is a loan**

WHEN TO USE CASH OR CREDIT

- ✖ 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

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

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
- ✕ Method for computing interest charges
- ✕ 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 RATES

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

DETERMINING INTEREST RATES

✖ Index + Margin = Rate

✖ Index (cost of funds) 4%

+ T-bill, LIBOR, Prime +

✖ Margin (covers expenses) 6%

✖ Rate the borrower pays 10%

ADJUSTMENT PERIOD

- ✖ Credit card rates change frequently
 - + Annually, quarterly, monthly
- ✖ Purpose
 - + Easier budgeting for borrower
 - + Maintain lenders' margin

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

CALCULATING INTEREST CHANGES

- ✖ Average Daily (most common)
 - + Outstanding Balance ÷ Number of Days
- ✖ Two-Cycle (most expensive)
 - + Outstanding Balance for Last Month and This Month ÷ Number of Days
- ✖ Adjusted
 - + Balance at Beginning of Cycle – Payments During Cycle
- ✖ Previous
 - + Interest is Based on Balance at Beginning of Cycle

FEES

TYPES OF FEES

- ✖ Late
- ✖ Annual
- ✖ ATM
- ✖ Over the Limit
- ✖ Cash Advance
- ✖ 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

CHANGING HABITS FOR ONE WEEK

Expense	Cost
Morning Coffee	\$20/week
Eating Out	\$35/week
Night Out with the Friends	\$45/week
Total	\$100/week

TRUE COST OF CHARGING \$100

End of Period	Balance	Minimum Payment
1 st Month	\$400	\$12
1 st 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 the borrower stops charging. Payments based on 3% minimum payment with an interest rate of 18%. No additional charges are 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
- ✕ Limit yourself to one or two cards
- ✕ Pay balance in full each month
- ✕ Ask for help at the first sign of trouble