Successful Start and the Office of Student Services Present:

EVALUATING CREDIT CARD OFFERS
SESSION OBJECTIVES

- Discuss the importance of credit and credit management
- Identify how to establish new credit and evaluate credit card offers
- Discuss how to correct errors on your credit card statements
- Identify the real cost of credit card borrowing
- Identify the five sections of a credit report and how to obtain one
- Identify the five components of your credit score
POP QUIZ!
What percentage of undergraduates in 2004 began the school year with credit cards?

- a. 22%
- b. 36%
- c. 59%
- d. 76%
What percentage of undergraduates in 2004 began the school year with credit cards?

- a. 22%
- b. 36%
- c. 59%
- d. 76%
What is the average outstanding balance on undergraduate credit cards?

- a. $2,169
- b. $3,334
- c. $5,088
- d. $6,124
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- a. $2,169
- b. $3,334
- c. $5,088
- d. $6,124
What is the most reported use of credit cards?

- a. Clothing
- b. School supplies (paper, notebooks, etc.)
- c. Textbooks
- d. Food
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d. Food
What percentage of undergraduates pay off their credit card balances in full each month?

- a. 8%
- b. 21%
- c. 41%
- d. 56%
UNDERGRADUATE CREDIT CARD USAGE

What percentage of undergraduates pay off their credit card balances in full each month?

+ a. 8%
+ b. 21%
+ c. 41%
+ d. 56%
What percentage of graduate students in 2006 have at least one credit card?

+ a. 22%
+ b. 48%
+ c. 76%
+ d. 92%
What percentage of graduate students in 2006 have at least one credit card?

- a. 22%
- b. 48%
- c. 76%
- d. 92%
What is the average outstanding balance on graduate credit cards?

- a. $2,011
- b. $4,567
- c. $7,831
- d. $8,612
What is the average outstanding balance on graduate credit cards?
+ a. $2,011
+ b. $4,567
+ c. $7,831
+ d. $8,612
GRADUATE CREDIT CARD USAGE

What percentage of graduate students pay off their credit card balances in full each month?
+ a. 12%
+ b. 20%
+ c. 35%
+ d. 41%
What percentage of graduate students pay off their credit card balances in full each month?

a. 12%
b. 20%
c. 35%
d. 41%
EVALUATING CREDIT CARD OFFERS
Without a good credit history, it’s hard to get new credit. But without credit, it’s tough to build a good credit history.
ESTABLISHING NEW CREDIT

- Open checking and savings accounts
- Obtain your credit report – resolve mistakes and add positive information
- Apply for gasoline or department store credit cards
- Take out small personal loan from local bank
- Apply for a secure credit card
EVALUATING CREDIT CARD OFFERS

- Interest Rate (APR)
- Grace Period
- Finance Charges
- Annual Fee
- Cash Advance Fees
- Late-Payment Charges
- Over-Limit Fees
INTEREST RATES

- Common types of APRs:
  - Fixed – credit card company will notify you of any interest rate changes
  - Variable – typically based on an index
  - Tiered – outstanding balance is charged at different rates for different levels

** Periodic rate is used to calculate finance charges
GRACE PERIOD

- Time during which the use of the issuer’s money is interest-free
- Grace period is often 25 days but some companies have reduced it to 20 days
  - Shorter grace period can mean that you will accumulate interest charges by the time you receive your bill
  - Choose longer grace periods for bills that are paid in full each month
Credit card issuers calculate outstanding balance in different ways:

- Average daily balance method, including or excluding new purchases
- Two-cycle average daily balance method, including or excluding new purchases
- Adjusted balance method
- Previous balance method
CASH ADVANCE FEES

- Most credit card issuers charge a fee for a cash advance (generally 2 – 4%)
  - Cash advances can also be assessed a higher interest rate
  - Cash advances may not have a grace period
LATE FEES

- Late fees are assessed when payments arrive late (generally $15 to $50)
- Multiple late fees in a specific time period can trigger a credit card issuer to assess a penalty interest rate on some accounts
- Credit card issuers can check client’s credit report for late fees assessed on other credit accounts and use that information as a reason to raise the interest rate on their credit card
OVER-LIMIT FEES

- Fee assessed when card over specified credit limit (not necessarily a one-time fee)
TOO MANY CREDIT CARD OFFERS?

- You can remove your name from the marketing lists of the three credit reporting bureaus:
  - call 888- 5 OPTOUT, or
  - go online to www.optoutprescreen.com
CORRECTING ERRORS ON YOUR CREDIT CARD STATEMENT
ERRORS ON YOUR CREDIT CARD STATEMENT

- Avoid errors and unjust fees
- Review statement carefully monthly
- Ensure all charge are yours and that any fees are justified
- Contact issuer immediately with any problems
FAIR CREDIT BILLING ACT

- Applies to credit cards, charge accounts and overdraft checking - does **not apply to checks or debit cards**
- Protects consumers against billing errors, unauthorized use of account, and unauthorized charges
RESOLVING STATEMENT ERRORS

- Write issuer within 90 days of bill with disputed charge(s)
- Letter must include your name and account number, date and amount of disputed charge, complete explanation of disputed charge
- Send letter to address included in your bill, NOT payment address
- Consider certified mail with return receipt
WHAT HAPPENS NEXT?

- Creditor must acknowledge letter in writing within 30 days
- Creditor must investigate within 90 days
DURING INVESTIGATION

- Consumer is not required to pay disputed charges
- Issuer is not permitted to take action to collect, report as delinquent, or restrict account in any way
RESULTS OF INVESTIGATION

- If error is found:
  - Consumer’s account will be credited and late fees or finance charges reversed

- If disputed charges are correct:
  - Consumer must be told in writing what is owed and why
  - Consumer will owe disputed amount AND related fees
FOR FURTHER ASSISTANCE...

- National Consumer Law Center
  www.consumerlaw.org
- US Citizens for Fair Credit Card Terms
  www.cardratings.org
THE REAL COST OF CREDIT CARD BORROWING
TRUE COST OF YOUR CREDIT CARDS

- Select frequently used credit cards.
- Review year of statements and add up the following:
  + annual fees
  + late fees
  + finance charges

***The fees can add up quickly!
CREDIT CARD EXAMPLE 1

- Charge: $500.00
- Interest: 14.99%
- 1st Minimum Payment Due: $12.50
- 2nd Minimum Payment Due: $12.30
- At this payment rate, how long will it take to pay the balance?
- How much interest was paid?
CREDIT CARD EXAMPLE 1

- Charge: $500.00
- Interest: 14.99%
- 1st Minimum Payment Due: $12.50
- 2nd Minimum Payment Due: $12.30
- At this payment rate, how long will it take to pay the balance? 56 months (4.7 years)
- How much interest was paid? $200.00 or 40% of initial loan amount
CREDIT CARD EXAMPLE 2

- Charge: $1,000.00
- Interest: 17.99%
- Minimum Payment: $20.00

At this payment rate, how long will it take to pay the balance?

How much interest was paid?
**CREDIT CARD EXAMPLE 2**

- Charge: $1,000.00
- Interest: 17.99%
- Minimum Payment: $20.00

- **At this payment rate, how long will it take to pay the balance?** 93 months (7.75 years)
- **How much interest was paid?** $861.02 or 86% of the initial loan amount
CREDIT CARD EXAMPLE 2B

- Charge: $1,000.00
- Interest: 17.99%
- Minimum Payment: $20.00
- Monthly Payments Made: $25.00

At this payment rate, how long will it take to pay the balance? 62 months (5.16 years)

How much interest was paid? $538.07 or 54% of the initial loan amount
CREDIT REPORT FACTS

- Record of your credit payment history
- Illustrates the amount you have borrowed in credit cards and loans and your timeliness of payment
- Contains identifying information
- Used to determine creditworthiness
ANATOMY OF A CREDIT REPORT

- Section 1: Personal Identification Information
- Section 2: Public Record Information
- Section 3: Collection Agency Account Information
- Section 4: Credit Account Information
- Section 5: Companies Requesting your Credit File
HOW TO OBTAIN A CREDIT REPORT

- Credit Agencies:
  - Equifax: www.equifax.com
  - Experian: www.experian.com
  - Trans Union: www.transunion.com

- One free report from each agency every 12 months: www.annualcreditreport.com

** do not use www.freecreditreport.com ***
CREDIT SCORES
CREDIT SCORE

- Reflection of the information on your credit report
- Formula developed by Fair and Isaac Corporation (FICO)
- Scores range from 300-850
- Average score is 720
- The lower the score, the greater the risk it is to lend you money
# National Distribution of FICO Scores

<table>
<thead>
<tr>
<th>FICO Score Range</th>
<th>% of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 499</td>
<td>2%</td>
</tr>
<tr>
<td>500 to 549</td>
<td>5%</td>
</tr>
<tr>
<td>550 to 599</td>
<td>8%</td>
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<tr>
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<td>12%</td>
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<td>650 to 699</td>
<td>15%</td>
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<tr>
<td>700 to 749</td>
<td>18%</td>
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<tr>
<td>750 to 799</td>
<td>27%</td>
</tr>
<tr>
<td>800+</td>
<td>13%</td>
</tr>
</tbody>
</table>
CREDIT SCORE FACTORS

- 35% Payment History
- 30% Amount Owed vs. Available Credit
- 15% Length of Credit History
- 10% Amount of New Credit
- 10% Types of Credit
- 0% Number of Inquiries
QUESTIONS?

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