

UNDERSTANDING A CREDIT CARD

**“Take Charge
of Your
Finances”
Advanced
Level**

WHAT IS CREDIT?

Credit- when goods, services or money is received in exchange for a promise to pay a definite sum of money at a future date



Credit is derived from the Latin word “credo” meaning “I believe”

Why would a person want to use credit?

OBTAINING CREDIT

Borrower is in need of credit

Borrower- person or organization that is receiving the money

Borrower requests to receive credit from a **lender**

Lender- person or organization who has the resources to provide the borrower money

Lender determines whether to grant the borrower credit based on perceived **creditworthiness**

Creditworthiness- an individual's ability and willingness to pay the money back

Why would a lender assess a borrower's creditworthiness before granting credit?

PAYING BACK CREDIT

If approved, the borrower will receive money from the lender

Borrower is usually expected to pay **interest** in addition to the money borrowed

Borrower pays money back

Interest - the price of money

Why would a lender charge a borrower interest?

DIFFERENT FORMS OF CREDIT

How are these forms of credit different?



Closed-end Credit

VS.



Open-end Credit

CLOSED-END VS. OPEN-END CREDIT

| | Closed-end credit | Open-end (revolving) credit |
|--|-----------------------------|---|
| Definition | A one-time loan | Credit extended in advance |
| Purpose of loan (what is purchased) | Specified in application | May be used for a variety of purposes |

CLOSED-END VS. OPEN-END CREDIT

| | Closed-end credit | Open-end credit |
|--------------------|--|---|
| Payments | Specified number of equal payments | Varies- can be paid in one payment or a series of equal or unequal payments |
| Loan Amount | Agreed upon during the application process | May be increased |
| Examples | Mortgage, automobile, education loans | Credit cards |

WHAT IS A CREDIT CARD?



Buy Now, Pay Later

Pre-approved credit which can be used for the purchase of goods and services now and payment of them later



May continue to borrow as long as the **credit limit** (maximum dollar amount loaned) is not exceeded



Credit limit varies based upon the cardholder's perceived creditworthiness

CREDIT CARD INTEREST

Interest is charged each month the balance is not

Rate at which interest is charged is referred to as:

Annual Percentage Rate (APR)

The cost of credit expressed as a yearly interest rate

MINIMUM PAYMENTS

- Required to make at least a minimum payment each month
 - Usually only a small percentage (2.5-5%) of the total balance due

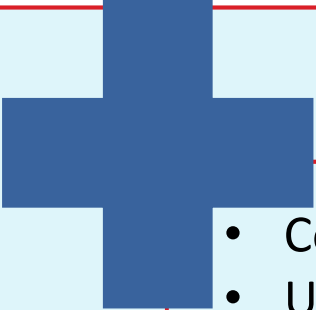



MINIMUM PAYMENTS

To prepare for her first semester of college, Miranda purchased a new computer for \$1000 and textbooks for \$500, spending a total of \$1500 on her credit card charging 15% APR. How much would Miranda pay in interest if she makes the minimum payment?

| | Payment Made | ~ Time to pay off card | ~ Total amount of interest paid | ~ Total amount paid |
|------------------------|---------------------|-------------------------------|--|----------------------------|
| Full Payment | \$1500 | 1 month | \$0 | \$1500 |
| Partial Payment | \$135 | 1 year | \$125 | \$1625 |
| Minimum Payment | \$30 | 11 years | \$1413 | \$2913 |

ADVANTAGES & DISADVANTAGES TO USING CREDIT CARDS

- 
- 
- Convenient payment tool
 - Useful for emergencies
 - Often required to hold a reservation
 - Able to purchase “big ticket” items and spread out payments
 - Protection against fraud
 - Opportunity to establish a positive credit history
 - Online shopping is safer than using a debit card
 - Possibility of receiving bonuses
- Interest can be costly when a balance is revolved
 - Additional penalty fees may apply
 - Tempting to overspend
 - Risk of identity theft
 - Responsible for lost/stolen cards
 - Applying for multiple accounts in a short period of time can lower your credit score

WHAT IS A DEBIT CARD?

- Plastic card which looks like a credit card but is electronically connected to the cardholder's bank account
- Money is immediately withdrawn from the cardholders checking

ad **What is the difference between a credit card and a debit card?**

CREDITWORTHINESS

Credit card approval depends on borrower's perceived creditworthiness



How a person uses a credit card affects their creditworthiness

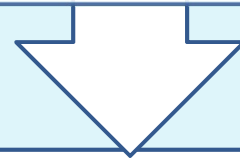


Creditworthiness is determined by a credit report and/or credit score

CREDIT HISTORY

Credit Report

A record of a consumer's credit history that includes information about credit card use as well as the use of other types of credit



Credit Score

A number that summarizes an individual's credit record and history; a numeric "grade" of a consumer's financial reliability

Credit cards can have a positive or negative impact on an individual's credit history

POSITIVE CREDIT CARD USE



A high credit score gives the opportunity to have lower interest rates on loans, the privilege to use different forms of credit, and an easier approval process for future credit

POSITIVE CREDIT CARD USE

- Examples of positive credit card behaviors:
 - Paying credit card balances in full every month
 - Paying credit card bills on time
 - Applying for only credit cards that are needed
 - Keeping track of all charges by keeping receipts and using a check register
 - Checking the monthly credit card statement for errors

NEGATIVE CREDIT CARD USE

- Examples of negative credit card behaviors:
 - Making late credit card payments
 - Paying only the minimum payment
 - Exceeding the card's credit limit (usually triggers a penalty fee)
 - Charging items that can't be paid off immediately
 - Owning too many credit cards

CREDIT CARD BENEFITS

Cash Rebates

Warranties for
items
purchased

Frequent Flyer
Miles

Travel accident
insurance

Other
benefits?

- Make sure to know all terms and conditions
- May charge fees or higher interest rates

CARDHOLDER PROTECTIONS & RIGHTS

Truth in Lending Act

Protects from unauthorized credit card charges

If the actual credit card was used



Cardholder liability is limited to \$50.00



MUST write a letter within 60 days of the bill containing the error

If only the card number was used



Cardholder has no liability

CARDHOLDER PROTECTION & RIGHTS

Fair Credit Billing Act

Protects from broken, undelivered, unsatisfied purchases made with credit cards

- Allows the consumer to not pay for a product or service for which the consumer has a complaint
- Any amount of money above the \$50.00 fee that consumers are responsible for will be issued back



CREDIT CARD SAFETY TIPS

Sign card with a signature and “Please see I.D.”

Do not leave cards lying around, and report lost/stolen cards promptly

Close unwanted accounts by writing and phone then cut up the card

Do not give out account numbers unless making a purchase

Keep a list of all cards, account numbers, and phone lists separate from cards

Shred all pre-approved credit card offers, applications, or solicitations

ONLINE SHOPPING SAFETY TIPS

1. Use a temporary credit card number
 - This is a one-time use only number
 - A set amount will be charged to your credit card
 - Then a number will be given to you to do your shopping
2. Use a credit card rather than a debit card

SUMMARY

A credit card is pre-approved credit which can be used for the purchase of goods and services now and payment of them later



To avoid paying interest on a credit card, pay the balance in full every month



A credit card can have a positive or a negative impact on an individual's credit history

SUMMARY

Credit card companies are required to disclose the terms and fees of a credit card in the Schumer's box



Credit card statements outline important information about a credit card and should be checked carefully for errors



Consumers have many protections and rights in regards to credit card use