

Charge It Right



Participant Guide



Building: Knowledge, Security, Confidence

FDIC Financial Education Curriculum

TABLE OF CONTENTS

	Page
Credit Cards and Debit Cards	1
Other Cards	2
Sample Truth in Lending Disclosure Statement	3
What's the Best Offer for You?	4
Credit Card Comparison Chart	7
Tips to Consider When Shopping for a Credit Card	8
How to Get a Free Copy of Your Credit Report Once a Year	9
Annual Credit Report Request Form (Sample)	10
Tips on How to Use Your Credit Card Responsibly	11
Credit Card User Case Studies	12
Cost of Making the Minimum Payment	13
Benefits of Making More Than the Minimum Payment	14
Sample Credit Card Statement	15
What Do You Know?	16
Evaluation Form	17
Glossary	19
For Further Information	21

MONEY SMART MODULES

- **Bank On It**
an introduction to bank services
- **Borrowing Basics**
an introduction to credit
- **Check It Out**
how to choose and keep a checking account
- **Money Matters**
how to keep track of your money
- **Pay Yourself First**
why you should save, save, save
- **Keep It Safe**
your rights as a consumer
- **To Your Credit**
how your credit history will affect your credit future
- **Charge It Right**
how to make a credit card work for you
- **Loan to Own**
know what you are borrowing before you buy
- **Your Own Home**
what home ownership is all about

CREDIT CARDS AND DEBIT CARDS

	Credit Cards	Debit Cards
Payments	Buy now, pay later.	Buy now, pay now.
Interest Charges	Yes if you carry a balance or your card offers no "grace period."	No.
Other Potential Benefits	Freebies , such as cash rebates and bonus points good for travel deals. Some purchase protections.	Easier and faster than writing a check. Avoid debt problems. More cards now offering freebies. Some purchase protections.
Other Potential Concerns	Fees and penalties. Also, not all cards offer grace periods (time to repay without incurring interest). Over-spending can cause debt problems.	Fees on certain transactions. You may overdraw your account if you are lax about recording debit card transactions.

OTHER CARDS

Instructions

Match the name of the card with the description that best matches it.

What is a card that looks like a credit card but has a computer chip embedded inside it?

What is a card on which you can “load” money to be used for future purchases?

What is a card that contains a set amount of value that can be used to make purchases like a credit card or debit card?

SAMPLE TRUTH IN LENDING DISCLOSURE STATEMENT

ANNUAL PERCENTAGE RATE (APR)	Grace Period	Annual Fee	Minimum Finance Charge	Method of Computing the Balance for Purchases
19.4%	25 days	\$35.00	None	Average Daily Balance

Late payment fee—\$20.00; Over-the-limit fee—\$20.00; Returned check fee—\$20.00; ATM transaction fee—\$2.00. The grace period does not apply to cash advances. The annual percentage rate for cash advances is 24%.

WHAT'S THE BEST OFFER FOR YOU?

Credit Card Offer #1

- Super Preferred Credit Card
- 1% APR!!!
- No Annual Fee

Truth in Lending Disclosure Statement

Annual Percentage Rate (APR)	The current introductory APR for purchases made with the Super Preferred card is 1%. This APR will expire 6 months after you open the account or if your monthly minimum payment is late. After that, your APR will be 24%.								
Annual fee	None								
Grace period for repayment of balance for purchases	You will have a minimum of 25 days to repay without a finance charge if you have paid your previous balance in full by the due date.								
Method of computing the balance for purchases	Average daily balance								
Miscellaneous fees	<table style="width: 100%; border: none;"> <tr> <td style="padding-right: 20px;">Cash advance fee:</td> <td>Greater of \$5 or 3% of the amount of cash advance</td> </tr> <tr> <td>Late payment fee:</td> <td>\$30</td> </tr> <tr> <td>Over-the-limit fee:</td> <td>\$30</td> </tr> <tr> <td>Closing fee:</td> <td>\$25</td> </tr> </table>	Cash advance fee:	Greater of \$5 or 3% of the amount of cash advance	Late payment fee:	\$30	Over-the-limit fee:	\$30	Closing fee:	\$25
Cash advance fee:	Greater of \$5 or 3% of the amount of cash advance								
Late payment fee:	\$30								
Over-the-limit fee:	\$30								
Closing fee:	\$25								

Suppose you received this credit card offer in the mail. After reading the Truth in Lending Disclosure Statement, would you apply for this card? Explain your answer.

WHAT'S THE BEST OFFER FOR YOU? (Continued)

Credit Card Offer #2

- Super Secured Credit Card
- No Credit? No Problem!
- Just open a savings account with NE Bank to establish your credit card account. Your credit limit will be based on the amount of money in your savings account.

Truth in Lending Disclosure Statement

Annual Percentage Rate (APR)	19.9% (Fixed)
Annual fee	\$35
Grace period for repayment of balance for purchases	You will have a minimum of 25 days to repay without a finance charge if you have paid your previous balance in full by the due date.
Method of computing the balance for purchases	Average daily balance
Miscellaneous fees	Cash advance fee: Greater of \$3 or 3% of the amount of cash advance Late payment fee: \$30 Over-the-limit fee: \$20 Returned check fee: \$20

Suppose you received this credit card offer in the mail. After reading the Truth in Lending Disclosure Statement, would you apply for this card? Explain your answer.

WHAT'S THE BEST OFFER FOR YOU? (Continued)

Credit Card Offer #3

- Super Unsecured Credit Card
- APR 19.9%
- Sign up for just \$5 a month

Truth in Lending Disclosure Statement

Annual Percentage Rate (APR)	19.9% (Fixed)
Annual fees	Annual membership fee: \$50 Annual participation fee: \$60 (\$5 monthly)
Grace period for repayment of balance for purchases	You will have a minimum of 25 days to repay without a finance charge if you have paid your previous balance in full by the due date.
Method of computing the balance for purchases	Average daily balance
Miscellaneous fees	Cash advance fee: Greater of \$2 or 3% of the amount of cash advance Acceptance fee: \$100 (one-time fee) Program fee: \$25 (one-time fee) Late payment fee: \$20 Over-the-limit fee: \$20

Suppose you received this credit card offer in the mail. After reading the Truth in Lending Disclosure Statement, would you apply for this card? Explain your answer.

CREDIT CARD COMPARISON CHART

	Credit Card 1	Credit Card 2	Credit Card 3
Name of credit card issuer/card			
What is the annual percentage rate (APR)? <ul style="list-style-type: none"> • Introductory APR? • Penalty APR? 			
What is the finance charge?			
What is the annual fee?			
What are other fees (late fees, over-the-limit fees, closing fees, etc.)?			
Is there a grace period?			
What are other benefits (points earned, etc.)?			
What is my credit limit?			
Other? (for example, customer service hours; online access; can you talk to a real person?)			

TIPS TO CONSIDER WHEN SHOPPING FOR A CREDIT CARD

- Decide how you will use the credit card and what you will purchase with it.
- Start small. Do not charge too much on your credit card until you get comfortable with the monthly bill.
- Shop around for the plan that best fits your needs. Make sure you understand the terms of the plan before you accept the card. Read the fine print.
- Beware of introductory rates. You might start out with a credit card that has no annual fee for the first year, but you will be charged a fee in the second year. You might start out with a low interest rate and then find the interest rate is much higher after a few months.
- Beware of credit card issuers who require application fees. Most credit card issuers do not charge fees to open accounts.
- Make sure you understand the implications of fixed and variable rates, as well as penalty APRs.

HOW TO GET A FREE COPY OF YOUR CREDIT REPORT ONCE A YEAR

To order your free annual report from one or all of the credit reporting agencies, do not contact the three nationwide consumer reporting companies individually. You can obtain free annual credit reports by doing one of the following:

- Submit a request online at www.annualcreditreport.com.
- Call toll-free: 877-322-8228.
- Complete the Annual Credit Report Request Form and mail it to:
Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281.

You can print a copy of the Annual Credit Report Request Form from www.annualcreditreport.com or www.ftc.gov/credit.

- You need to provide your name, address, Social Security number, and date of birth.
- If you have moved in the last 2 years, you may have to provide your previous address.
- To maintain the security of your file, each credit reporting agency may ask you for some information that only you would know, like the amount of your monthly mortgage payment.

Each company may ask you for different information because the information each has in your file may come from different sources.

Remember, you may also be able to obtain a free credit report if:

- Your application for credit, insurance, or employment is denied based on information in your credit report.
- You are unemployed and plan to look for a job within 60 days.
- You are receiving public assistance.
- Your report is inaccurate because of fraud, including identity theft.

If you are not eligible for a free annual credit report, a credit reporting agency may charge you up to \$10.00 for each copy. To buy a copy of your report, contact one of the following:

- Equifax: 800-685-1111 or www.equifax.com.
- Experian: 888-EXPERIAN (888-397-3742) or www.experian.com.
- TransUnion: 800-916-8800 or www.transunion.com.

TIPS ON HOW TO USE YOUR CREDIT CARD RESPONSIBLY

- Protect your credit card and account numbers to prevent unauthorized use. Draw a line through blank spaces on charge slips so the amount cannot be changed. Tear up carbon copies of your receipts.
- Keep a record of your account numbers, expiration dates, and the phone numbers of each credit card issuer in a safe place, separate from your credit card, to quickly report a loss.
- Carry only the credit cards you think you will use.
- Pay off your total balance each month. If you cannot pay the total balance, try to pay more than the minimum amount.
- Read the fine print. Low advertised interest rates might not last as long as you think. You might not have a grace period with balances you have transferred from other credit cards.
- After you have established a good credit history, ask the credit card issuer to waive the fee or lower the interest rate.
- Do not keep more than two or three credit cards. Too many cards make overspending tempting. Many people do not control their spending or manage their finances wisely.
- There are, however, good reasons to have more than one card, especially if your credit limit is not high enough on one card to cover an emergency.
- Many financially responsible people can become overwhelmed by expenses or reduced income triggered by a serious illness, a job loss, or some other unexpected event.

CREDIT CARD USER CASE STUDIES

Read the scenario; then answer the question.

Maria receives a credit card bill. She gets a cash advance on another credit card to pay part of the bill.

What do you think about Maria's use of a credit card?

Marvin has a credit card bill of \$3,000. He makes only the minimum payment and is always close to the limit on his credit card.

What do you think about Marvin's use of a credit card?

Jerome uses his credit card for convenience. He pays cash for most small purchases. He pays his credit card bill in full each month.

What do you think about Jerome's use of a credit card?

Cathy was excited to get a credit card offer in the mail. She applied for the credit card without reading the terms. When the card came, she bought several new outfits. When the credit card bill came, she was surprised to find additional fees charged to her account.

What do you think about Cathy's use of a credit card?

COST OF MAKING THE MINIMUM PAYMENT

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500	18%	\$216	\$716	5
Computer	\$1,000	18%	\$516	\$1,516	7
Furniture	\$2,500	18%	\$1,415	\$3,915	10

Assumptions for the table include:

- Eighteen percent APR (If the APR is higher, the item would be more expensive and would take longer to pay off).
- Minimum monthly payment equals greater of \$10 or 4 percent of balance.
- Average daily balance method is used to calculate interest.
- Finance charge for one day = $(18\%/365) \times$ daily balance.
- No grace period.
- No late payments are made.
- No additional purchases are made.
- Minimum payment is received by the bank on the last day of the billing cycle (most likely, the interest charges would be greater because the customer's minimum payment usually will not be received by the bank for several additional days).
- Years are rounded to the nearest whole year.
- Dollar amounts are rounded to the nearest dollar.

Beginning around 2008, you will be able to contact credit card companies by phone to find out the time and interest amount required to pay off a credit card balance if only the minimum monthly payment is made.

BENEFITS OF MAKING MORE THAN THE MINIMUM PAYMENT

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	Total of Payments
\$2,500	18%	Minimum Payment (MP)	123	10	\$3,915
\$2,500	18%	MP + \$25	50	4	\$3,258
\$2,500	18%	MP + \$50	33	3	\$2,839

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	Total of Payments
\$1,000	18%	Minimum Payment (MP)	87	7	\$1,516
\$1,000	18%	MP + \$25	26	2	\$1,187
\$1,000	18%	MP + \$50	16	1	\$1,119

These charts assume you are not making additional purchases and you are making your payments on time. The minimum payment is 4 percent.

Of course, the best way to save money and avoid paying interest charges is to pay off your balance in full when you first get your bill.

SAMPLE CREDIT CARD STATEMENT

Credit Card Issuer	New Balance	\$203.00	Billing Date	5-1-01
	Credit Line	\$2,000.00	Credit Available	\$1,797.00
Name	Minimum Payment		Payment Due Date	5-20-01
	Due	\$10.00		

Account Number

Posting Date	Trans. Date	Transactions	Charge	Credit
4-1-20XX	4-1-20XX	Cash advance	\$180.00	
4-1-20XX	4-1-20XX	Cash advance fee	\$20.00	

Account Summary

Previous Balance	0	Credits	0
Purchases	0	Finance Charge	\$3.00
Cash Advances	\$180.00	Payments	0
Other Debits	\$20.00	New Balance	\$203.00

	APR	Daily Periodic Rate	Average Daily Balance	Finance Charge	Balance
	18%	0.0493%	\$200.00	\$3.00	\$203.00

Finance Charge Calculation

Assume:

- Your billing cycle is the same as the calendar month.
- On April 1, you got a cash advance of \$180 and were charged a \$20 fee. Interest started accruing immediately.
- At the beginning of May, you receive your April billing statement. Your average daily balance for the month of April is \$200, since you made no additional payments.
- The finance charge is calculated using a periodic rate. The periodic rate is the interest rate, or cost of credit, in relation to a specific time period.
- If the APR is 18 percent, the periodic rate is 0.0493 percent, or 18 percent divided by 365 days.

$$\begin{aligned}
 & \$200 \text{ (Average Daily Balance)} \\
 & \quad \times 0.0493\% \text{ (Daily Periodic Rate)} \\
 & \$0.10 \text{ per day (for each day you have the \$200 balance)} \\
 & \$0.10 \times 30 \text{ days} = \$3 \text{ (finance charge)}
 \end{aligned}$$

WHAT DO YOU KNOW? – CHARGE IT RIGHT

Instructor: _____ Date: _____

This form will enable you and the instructors to see what you know about credit cards both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

I know:	Before-the-Training				After-the-Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The purpose of credit cards.	1	2	3	4	1	2	3	4
2. How to determine which credit card is best for me.	1	2	3	4	1	2	3	4
3. The factors creditors look for when making credit decisions.	1	2	3	4	1	2	3	4
4. How to use a credit card responsibly.	1	2	3	4	1	2	3	4
5. The steps to take when my credit card is lost or stolen.	1	2	3	4	1	2	3	4

EVALUATION FORM

This evaluation will enable you to assess your observations of the Charge It Right module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

1. Overall, I felt the module was: <input type="checkbox"/> Excellent <input type="checkbox"/> Very Good <input type="checkbox"/> Good <input type="checkbox"/> Fair <input type="checkbox"/> Poor	Strongly Disagree Disagree Neutral Agree Strongly Agree
2. I achieved the following training objectives: a. Describe the purpose of credit cards. b. Determine which credit card is best for me. c. Identify the factors creditors look for when making credit decisions. d. Describe how to use a credit card responsibly. e. Identify the steps to take when a credit card is lost or stolen. 3. The instructions were clear and easy to follow. 4. The overheads were clear. 5. The overheads enhanced my learning. 6. The time allocation was correct for this module. 7. The module included sufficient examples and exercises so that I will be able to apply these new skills. 8. The instructor was knowledgeable and well prepared. 9. The worksheets are valuable. 10. I will use the worksheets again. 11. The students had ample opportunity to exchange experiences and ideas.	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5
12. My knowledge/skill level of the subject matter before taking the module. 13. My knowledge/skill level of the subject matter upon completion of the module.	None Advanced 0 1 2 3 4 5 0 1 2 3 4 5

Continued on next page . . .

EVALUATION FORM (Continued)

Instructor Rating

Please use the response scale and circle the appropriate number.

Response Scale: 5 Excellent 4 Very Good 3 Good 2 Fair 1 Poor	Name of Instructor				
Objectives were clear & attainable	5	4	3	2	1
Made the subject understandable	5	4	3	2	1
Encouraged questions	5	4	3	2	1
Had technical knowledge	5	4	3	2	1

What was the most useful part of the training?

What was the least useful part of the training?

GLOSSARY

Annual Percentage Rate (APR)

The APR is the rate of interest you are charged, expressed as a yearly rate. If you plan to keep a balance on your credit card account, you want to look for a low APR. If you expect to pay your bills in full each month, it will be more important to compare the annual fee and other charges.

Balance Computation Method

This will determine how your interest is calculated. There are a variety of methods. The most common is the average daily balance.

Fees

Following are the most common credit card fees. There might be others. Be sure to read the disclosures with your credit card agreement.

- Annual fee. Some companies charge annual fees for the privilege of using their credit cards. Most cards that offer rewards (for example, airline miles or travel awards) charge a yearly fee.
- Balance transfer fee. You might be charged for moving balances from one credit card to another. This fee is usually a percentage of the balance transferred. It might have a minimum and a maximum limit.
- Cash advance fee. When you access cash through an automated teller machine (ATM) with your credit card, you are usually charged a transaction fee. The advance often carries a higher interest rate than regular purchases, and there usually is no grace period. Interest accrues immediately.
- Late fee. Payment must be received – not postmarked – on the due date to avoid a late fee. If you are mailing a payment, send it 5 days before it is due to avoid a late fee. A typical charge is \$29 per late payment.
- Over-the-limit fee. This fee is applied if your outstanding charges exceed your credit limit. The fee is typically \$20.

Finance Charge

The finance charge is the cost of credit. It includes interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.

GLOSSARY (Continued)

Grace Period

The grace period is the number of days you have to pay your balance before a creditor starts charging interest. Once you receive your monthly bill, you will have 3 to 4 weeks (with most creditors) to pay your bill interest-free. If your credit card issuer does not provide a grace period, a finance charge might be imposed from the date you use your card or the date the transaction is posted to your account.

Interest

Credit card companies earn interest from customers who carry monthly balances. The interest rates on credit cards vary widely, from 0 percent introductory rates to over 25 percent.

Minimum Payment

The minimum payment is the minimum dollar amount that must be paid each month. This is usually 2 to 3 percent of the amount owed and is often based on the balance at the billing date.

Opt Out

You have the right to “opt out” of receiving mailed credit card offers. You can tell the credit bureaus not to share your information with lenders and insurers who use the information to decide whether to send you offers of credit or insurance. You can opt out of receiving these prescreened offers by calling 888-5-OPTOUT (567-8688) or visiting www.optoutprescreen.com.

Periodic Rate

The periodic rate is an interest rate applied to your balance to calculate the finance charge. For example, the monthly periodic rate for a card with an 18 percent APR is 1.5 percent (18 percent divided by 12 months). If your monthly balance were \$1,000, you would multiply it by 1.5 percent to get your monthly finance charge of \$15 ($\$1,000 \times 1.5\% = \15). The daily periodic rate for the same 18 percent APR is 0.04932 percent (18% divided by 365 days).

Previous Balance

The previous balance is the amount you owed at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Principal

Principal is the total dollar amount of purchases made on a credit card, or the balance remaining on a loan, not including interest or other fees.

FOR FURTHER INFORMATION

General Resources

Federal Consumer Information Center (FCIC)

The Federal Consumer Information Center (FCIC) provides free online consumer information to help the public. The FCIC produces the *Consumer Action Handbook*, which is designed to help citizens find the best sources of assistance with their consumer problems and questions.

800-688-9889

www.pueblo.gsa.gov

Federal Deposit Insurance Corporation (FDIC)

Division of Supervision and Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, MO 64108

877-ASK-FDIC (275-3342)

Email: consumer@fdic.gov

www.fdic.gov

Federal Trade Commission

Consumer Response Center

Sixth Street and Pennsylvania Avenue, NW

Washington, DC 20580

202-326-2222

877-FTC-HELP (382-4357)

www.ftc.gov

Firstgov.gov: the Federal Government's Web Portal

FirstGov.gov is the official gateway to all government information.

www.firstgov.gov