TRAINER'S GUIDE

The ABCs of Credit Card Finance
– Essential Facts for Students –

2010

Carol A. Carolan, Ph.D.

The ABCs of Credit Card Finance

Pre-Test

1. Your Annual Percentage Rate (APR), which represents the interest you pay on unpaid credit card balances, is a function of:
   a. Your age
   b. The length of time you have had the card
   c. The amount of money you owe on your credit card
   d. The terms and conditions offered by your credit card issuer

2. All credit cards:
   a. Have the same credit limit
   b. Must be used each month or they become inactive
   c. Have an annual fee
   d. None of the above

3. It would take longer, but it wouldn't cost more to pay off your credit card balance if you paid just the minimum monthly payments rather than paying more than the minimum monthly payments.
   a. True b. False

4. A credit report:
   a. Is produced monthly by the federal government
   b. Is changed only once a year
   c. Is a financial report card
   d. Is usually only of interest to individuals who plan to purchase a house

5. When you use a credit card
   a. You are withdrawing money from savings
   b. You are borrowing money from checking
   c. Your credit card issuer is loaning you money
   d. None of the above

6. Which of the following statements are true:
   a. A credit card is required if you want to establish credit
   b. All credit cards are the same
   c. Credit cards are a privilege
   d. You pay a fee every time you use a credit card

7. When you have a credit card:
   a. You can buy what you want, as long as you can afford the card's minimum monthly payment
   b. You will have a better credit score than if you do not have a credit card
   c. You will not be allowed to charge over your credit limit
   d. None of the above

8. Keeping a revolving balance on your credit card account means you pay more for your purchases.
   a. True b. False

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Message to Trainers

The ABCs of Credit Card Finance is revised yearly to ensure the accuracy of its content and to continually improve its effectiveness. This year's materials contain a number of changes in the "Credit Card Costs" section due to the passage of the Credit Card Accountability, Reliability and Disclosure Act (CARD Act) which was signed into law by President Obama on 5/22/09 to establish a more fair and transparent credit card industry. This Act, in its entirety, will take effect 2/10. As usual, we appreciate your participation and recognize your role in making this a successful learning experience. If you have suggestions or comments to improve the program, please email us at feedback@cscce.com.

The program, ending with "Consequences of Irresponsible Credit Card Use," takes approximately one hour to teach. Instructors who want to review the "Identity Theft" section will need to allocate approximately ten to fifteen minutes more. You may also want to include the Pre-Test and Post-Test which are printed on the inside covers of the Trainer's Guide. In addition, and as time permits, the classroom exercises listed below are provided for your consideration.

Downloading Materials

CSCCE is attempting to find a new sponsor so that we can continue to offer the student primer and Trainer's Guide in print format. Until a new sponsor is obtained, the program is only offered in PDF format. Please contact CSCCE at staff@cscce.com to obtain the PDF files and PowerPoint.

Suggested Classroom Exercises

- Bring into class several credit card offers and have students choose the best program. Refer to the sample Schumer Box on page 6 of the student primer. Students should consider the card's APR, whether or not there is an annual fee, the length of the grace period, default rates, etc.

- Using the Budget Form printed on page 2 of the student primer, have students complete a budget exercise. The Internet also offers many helpful sites on the topic of budgeting. For example, a useful site is: http://faao.concordia.ca/main/finmanage/

- Using the first table printed on the inside cover of the primer, ask students to determine the total payout amount and payout time required to pay off specific credit card balances when card use is discontinued, payments are on time, and only the minimum monthly payment is paid on the account. Then direct students to the second table, and use the same credit card balances and APRs. Have them compare the payout times and payout amounts between the two tables to observe the impact of adding just $10 to a minimum monthly payment.

- Bring into class a Credit Report so that students can see what is included in an actual report.

- Have students list the advantages and disadvantages of credit cards. For more information, go to: www.mtstcil.org/skills/budget-12.html.

Correct Responses to Pre-Test and Post-Test

Pre-Test – 1-d, 2-d, 3-b, 4-c, 5-c, 6-c, 7-d, 8-a
Post-Test – 1-a, 2-d, 3-b, 4-d, 5-b, 6-a, 7-a, 8-c

PowerPoint – TITLE PAGE (Slide 1)

Start *The ABCs of Credit Card Finance* by placing on the blackboard the seven points listed below. To emphasize their importance, ask students to copy them into a notebook. Each of these topics will be discussed during the presentation.

1. Charge only what you <u>know</u> you can afford to repay.
2. You pay more when you use your credit card and keep a revolving balance (i.e., you don't pay your bill in full each month) because you pay interest on your outstanding balance.
3. Pay your credit card bill in full each month. If you can't pay in full, **<u>ALWAYS</u>** make more than the minimum monthly payment.
4. Don't spend over your credit limit … over-credit-limit fees are expensive.
5. Pay your bills on time. You pay a late fee, risk the chance of losing a low APR, and your credit score is negatively affected when you make late payments.
6. Learn how to protect your credit rating … it's your financial report card.
7. Never use one credit card to pay another (i.e., don't take out a cash advance on one card to pay another). In fact, obtain only one card to avoid many problems.

SUGGESTED INTRODUCTORY STATEMENTS TO CLASS

<u>Asset or Liability</u> – Begin the lecture by telling students that credit cards can either be a financial asset or a financial liability. A suggested statement is: *When used and managed properly, credit cards offer us convenience, a sense of security, and allow us to build a healthy credit history. Irresponsible credit card use can result in excessive debt and can produce a poor credit rating and become a long-term financial liability.*

<u>Definition of Credit</u> – Ask students if they can define credit. *Credit is a system of doing business where you promise to pay at a later date for goods and services received today.*

<u>Credit Cards Function as a Loan</u> – Many students do not understand that they are borrowing money from their issuer when they use a credit card. Emphasize that credit card charges are unsecured loans that must be repaid.

<u>Budgeting</u> – If the class is to be taught in one hour, there will be insufficient time to conduct a budgeting exercise. Here is a suggested statement to students to stress the importance of budgeting. *Please turn to page 2 in your primers where you will find a sample budget. Students can benefit immensely from having a clear understanding of their financial needs and spending habits. By creating a realistic budget, an individual has a personal plan for spending and saving money. Giving your financial behavior a structure can provide a sense of comfort and guidance, so if you don't already have a budget, please take the needed time outside of class to complete this exercise.*

PowerPoint – ESSENTIAL FACTS (Slide 2) – Primer Page 3

Make a statement to the class that credit card education can be grouped into two main categories:
- Credit cards costs, which includes how to wisely choose a card
- Credit card behaviors, which includes how to responsibly use a card

The lecture will begin with credit card costs.

PowerPoint – CREDIT CARD COSTS (Slides 3, 4, 5) – Primer Pages 3 & 4

Annual Fees – Some issuers charge an annual fee to use their card, which is assessed the same time each year. Students should look for cards without an annual fee, but they may become more difficult to find due to the CARD Act.

Interest – Issuers charge card holders monthly interest on unpaid credit card balances. Interest rates are expressed as an Annual Percentage Rate (APR). The higher the APR, the more money one pays in interest. APRs can be variable or fixed. A variable rate APR is based on a published index, like the prime interest rate, plus a few percentage points more, which is determined by the card issuer. The CARD Act includes many changes pertaining to credit card interest rate charges.

- Interest rates cannot be increased on an existing balance during the first year an account is open unless:
  - You were offered an introductory rate for a limited period of time and the issuer disclosed what the new rate would be after the introductory period expires. Promotional rates must last a minimum of 6 months.
  - You have a card with a variable rate APR and the index changes. E.g., if your APR is based on the prime rate plus 4% adjusted annually, your rate will change if the prime rate changes.
  - You are more than 60 days behind in payment. If after 6 months, you pay at least the minimum monthly payments on time, the lower rate will return to the account.
  - Your rate had been lowered during a temporary hardship arrangement that is either completed or dropped out of.
- Per the CARD Act, after the first year, your issuer can raise rates on new (not existing) balances with 45 days notice. This takes effect 2/10. (As of 8/20/09 issuers are required to give 45 days notice on rate increases on existing balances. Previously, issuers were only required to give 15 days notice.)
- The practice of universal default, which allowed an issuer to raise your APR if you were more than 30 days late on any payment to anyone, is no longer allowed.

Because this method often resulted in higher interest payments, credit card issuers will no longer be able to use double-cycle billing. It is likely most issuers will continue to use the Average Daily Balance Method which requires a simple calculation as follows:

- Charges and payments are tallied on a daily basis to determine how much is owed each day. These totals are then added and divided by the number of days in the statement period. This figure reflects the average daily balance.
- To determine the "daily periodic rate," the APR is divided by 365.
- The average daily balance is multiplied by the daily periodic rate and then multiplied by the number of days in the statement period to obtain monthly interest charges.

Cash Advances – These are cash loans one can get with a credit card. Because they are expensive, students should avoid cash advances unless faced with an emergency. Most cash advances have an up-front fee assessed (transaction fee), which is often 3% of the advance or a minimum of $5 to $10, they usually have a higher APR and they are offered no grace period.

Convenience Checks – These are pre-printed checks linked to a credit card account that are typically attached to one's credit card statement. They function like cash advances (up-front fee, no grace period, and higher APR) and should be avoided unless it is an emergency. Convenience checks should be shredded before they are placed in the trash.

Payment Allocation – If an account has different APRs (e.g., one applying to purchases and the other applying to cash advances) any payment in excess of the minimum monthly payment and finance charges must first be credited to the balance with the highest interest rate. (Before the passage of the

CARD Act, it was common practice for issuers to apply these payments to the balance with the lowest interest rate.)

Default Rates – A default rate is a high APR. Traditionally these high rates have been applied when a cardholder went over a credit limit, bounced a payment check, missed a payment or made a late payment. Due to the CARD Act, issuers will not be able to apply a default rate on an existing balance unless the cardholder is more than 60 days behind in payment. If after 6 months, the cardholder pays at least the minimum monthly payments on time, the lower rate will be returned to the account.

Introductory Rates – A low interest introductory rate (promotional rate) offers a low APR and must be of at least 6 months' duration. Issuers are required to disclose in the initial credit card offering the rate that will occur at the end of the first six months.

Balance Transfers – Credit card issuers solicit new customers by offering low introductory rates to individuals who transfer their balance from one card to the new program. First, determine if there is a balance transfer fee. Second, determine how long the low rate will be in effect and the APR that will replace it when the time limit is complete. (There are some balance transfer offers that are not time limited.) Third, determine if the new rate applies to both the transferred balance as well as new purchases. Choose a balance transfer offer that has no balance transfer fee and a long-term, low APR that applies to both the transferred balance and new purchases.

Late Fees – When a credit card payment is received after the due date, a late fee will be assessed. The payment due date, date a late fee will be charged and amount of the late fee must be disclosed in a conspicuous location on the billing statement. If a due date falls on a weekend or holiday, an issuer cannot count one's payment late if it is received the next business day. Per the CARD Act, as of 8/20/09, issuers must mail statements no later than 21 days before the due date rather than 14 days, previously allowed. Cardholders will now be able to pay at any local branch with the payment credited that same day. It used to be common practice for issuers to require 24 hours before processing a payment made in a branch office. It is common for issuers to charge a tiered fee based on the amount of the outstanding balance. Fees typically range from $15 to $39. Late and missed payments will continue to be reported to the credit reporting agencies, negatively affecting one's credit score.

Over-Credit Limit Fees – Issuers are no longer allowed to automatically approve a purchase that takes you over your credit limit, resulting in the assessment of monthly over-credit-limit fees until the balance of the account is brought under its credit limit. An issuer *can* charge you an over-limit fee, however, if you have given them permission to go over your limit. Note that issuers are not required to authorize such purchases; they are free to decline them. Most issuers charge a flat fee of $29 to $39. Some charge a tiered fee based on the amount of the balance. Issuers won't be able to charge account holders more than one over-limit fee during each billing cycle and if you only go over the limit once, you cannot be charged over-limit fees more than three months in a row even if your minimum monthly payments don't bring you back under the limit. Your issuer is not able to charge an over-the-limit fee if you go over the limit just because of interest charges or fees.

Bounced Check Fees – Issuers will charge a fee (typically $29 to $39) if a credit card payment is returned due to insufficient funds. This information will likely be given to the credit reporting agencies, negatively affecting one's credit score.

Currency Conversion Fees – Issuers charge a currency conversion fee of 3% on foreign purchases.

Payment Fees – The CARD Act prohibits issuers from charging a fee for phone or Internet payments. (Pay by phone fees of approximately $15 per transaction have been common.)

Transaction Fees – A transaction fee is an up-front fee often assessed when making a balance transfer, using a convenience check or taking out a cash advance.

PowerPoint – HOW TO WISELY CHOOSE & RESPONSIBLY USE A CREDIT CARD (Slides 6, 7, 8) – Primer Page 5

Advise students that not all credit cards are equal since credit card issuers are free to offer the terms and conditions they desire. They may want to check out Internet sites such as www.bankrate.com or www.CardRatings.com for the best offers. Students should also understand that cards obtained on campus might not have the best rates.

When Choosing a Credit Card Look for …

- A Low, Fixed Annual Percentage Rate (APR)
- No Annual Fee
- A Long Grace Period … at least 20 days. A grace period is the length of time between the previous month's closing date and the next month's due date when you can avoid finance charges on new purchases if you pay your total new balance in full.
- Interest Calculated Using the Average Daily Balance Method. As of February 2010, issuers will no longer be allowed to use any of the two cycle billing methods.
- Low Penalty Fees

Convenience Users – Convenience users pay their credit card balances in full each month and pay no interest on their purchases since they are able to take advantage of their issuer's grace period (defined above). Convenience users especially are looking for a card with a long grace period. This method of payment is the most cost effective.

Even if a student plans to be a convenience user, they should still look for a credit card with a low APR just in case they can't pay their balance in full one month. If one doesn't pay their balance in full one month, they will not be granted a grace period for the following month and will pay interest on all their credit card purchases.

"Revolvers" – Revolvers keep a revolving balance on their credit card account and pay interest on all their purchases. They do not benefit from a grace period. If a student plans to keep a revolving balance on an account, they should be especially careful to choose a card with a low APR so they can minimize the amount of interest they pay. Revolvers must learn to **ALWAYS PAY MORE THAN THE MINIMUM MONTHLY PAYMENT (MMP).** Making just the MMP is the most costly way to pay off credit card debt. Direct students to the bottom of page 5 of the primer and review this example:

If you had a credit card balance of $2,000, an 18% APR, stopped using your card, made on-time payments, and made only the minimum monthly payment based on 1% of the outstanding balance plus accrued monthly interest or a payment of $20, whichever was greater, it would take 12.8 years to pay off your debt and your total payout would be $4,231.

Direct students to the tables on the inside cover of their primer. Use different examples to teach the importance of paying more than the MMP. Importantly, the CARD Act requires issuers to display on monthly statements a warning indicating that making only the MMP will increase the amount of interest paid and time required to repay one's balance. This information is to include the number of months and the total cost to the consumer, including interest and principal payments, to pay the balance in full if only the MMP is made. This assumes no further charges are made on the account.

Similar information to pay off the debt in 36 months will also be required. A toll free number to obtain information on credit counseling and debt management services will also be compulsory.

PowerPoint –THE SCHUMER BOX – (Slides 9 & 10) – Primer Page 6

The Schumer Box was introduced by Senator Chuck Schumer to make it easier to compare credit card offers. Have students turn to page 6 in their primer and review with them the information contained in the chart. Emphasize that important card terms and conditions are also printed beneath the box. Note that the Credit CARD Act of 2009 requires issuers to post on the Internet cardholder agreements.

PowerPoint – DOs & DON'Ts (Slides 11, 12, 13, 14) – Primer Pages 7 & 8

The "Dos and Don'ts" section moves the lecture from the "credit card costs" category to "credit card behaviors."

Students Should Limit Themselves to One Card – This "Do" statement is based on the concept of temptation. Simply put, the more credit one has, the more tempting it can be to overspend. As young adults become more familiar with credit, they can obtain a second card.

Student Loans, Not Credit Cards, Should be Used for Tuition – Student loans are far more cost effective for tuition since they typically offer a lower APR than the average credit card. Another benefit is that payment usually starts six months after graduation. Advise students that it is well worth the time and trouble to complete the application process for a student loan.

Wants DO NOT EQUAL Needs – Students need to stop and think, "Is this something I want or something I really need?" "Can I do without this purchase?" Many young adults saddled with excessive credit card debt report that they have nothing of substance to show for their large balance(s)! Plastic can make it easy to overspend.

Credit Cards Offer Convenience – Although credit cards offer us many advantages, they do not change our socioeconomic status. Students should buy only what they know they can afford to repay.

Pay More than the Minimum Monthly Payment – Several items listed under "Dos and Don'ts" have previously been discussed under "Credit Card Costs." When this is the case, take the opportunity to ask students to explain why they should adopt a certain behavior. For example, students have previously been advised why they should be striving to pay off their credit card balance in full each month or to at least make more than the MMP. Instructors should ask, "… *Now why should we pay more than the minimum monthly payment?"* Making just the minimum monthly payment is the most costly form of credit card payment and should be avoided.

Manage a Credit Card Account like a Checking Account – Students need to actively manage their credit card accounts, just like they manage their checking accounts. For example, they should write down purchases so they know how much they've charged for the month. They should also know how close they are to their credit limit so they don't go over. Emphasize that money should always be budgeted and available to make one's credit card payment.

<u>Don't Skip Payments</u> – Sometimes a credit card issuer will declare that a payment is not required that month. Instruct students that payments should <u>not</u> be skipped even if their issuer says it's okay. Stress to students that they will owe more the next month even if they don't use their credit card because of the continued accrual of interest.

<u>Pay Bills on Time</u> – Ask students, "*Why should we always pay our credit card bills on time?"* As previously discussed, credit card issuers assess late fees when a payment is received after its due date. Under the CARD Act of 2009, issuers can retroactively raise one's APR if the cardholder is more than 60 days behind in payment. (If they make on-time payments for the next six months, the lower APR will be reapplied to the account.) Also, late payments can be reported to the credit reporting agencies, lowering one's credit score. This is further detailed under "Credit Reports & Credit Scores."

<u>Don't Exceed Your Credit Limit</u> – Ask students, *"Why should we be careful to avoid exceeding our credit limit?"* Although creditors can no longer automatically approve purchases taking one over their credit limit and triggering monthly over-credit-limit fees, individuals can still opt to go over their limits. (Issuers are free to decline such requests.) If they go over their limit just once, they will be charged over-credit-limit fees for a maximum of three months if the account is not brought under its limit. Many issuers charge a flat fee of $29 to $39; some charge a tiered fee based on the amount of the balance. You will not be charged an over-limit fee resulting from interest charges or fees. Emphasize that if students actively manage their credit card account(s) they won't be put in this dilemma.

<u>Avoid Cash Advances</u> – Ask students, *"Why should we avoid cash advances unless it is an emergency?"* Cash advances often have an up front fee of 3% of the advance (with a minimum $5 or $10 charge), a higher APR, and offer no grace period. Instructors may also want to ask students, *"What constitutes an emergency?"*

<u>Avoid Convenience Checks</u> – Ask students, *"Why should we avoid convenience checks unless it's an emergency?"* Convenience checks are very similar to cash advances which typically have an up-front fee of 3% of the check (with a minimum $5 or $10 charge), a higher APR, and no grace period. The Credit CARD Act of 2009 requires balances with the highest APR be paid down first, so a cardholder no longer faces the problem of being unable to pay down a cash advance or convenience check balance while keeping a revolving balance which includes a purchases balance with a low APR.

<u>Introductory Rates</u> – Ask students *"What do we need to know before we accept an introductory rate?"* Introductory rates must now be a minimum six months' duration. It is important to know what the new rate will be after the initial six months has passed.

<u>Avoid the "Credit Card Shuffle"</u> – When short on funds, some students will resort to taking out a cash advance on one card to make a minimum monthly payment on another card (called the "Credit Card Shuffle"). This action simply creates more debt and should be avoided. Students should use savings, responsibly borrow money to make a payment or advise their issuer that they're having trouble meeting their obligation and ask for assistance. Some issuers will offer an alternate payment schedule under these circumstances. Instructors should stress that this problem could be avoided if one has only one card!

<u>Keep a Low Credit Limit</u> – Sometimes an issuer will raise a student's credit limit after they demonstrate that they pay their bills on time and are a low credit risk. It is recommended that students advise their issuer that they prefer to remain with their lower credit limit until they become more familiar with credit. Again, this statement is based on the concept of temptation … the less credit one has, the less temping it is to overspend. If the student is under the age of 21 and required a co-signer to open the account, the limit may not be increased unless the co-signer approves the increase in writing and assumes joint liability for the increase.

Quickly Mail Payments on Credit Card Accounts with a Revolving Balance – If a student keeps a revolving balance on their credit card account, they should make their payment as soon as possible and not wait for the "due date" to mail their check. By immediately mailing a payment, one reduces the average daily balance on the account and therefore reduces the interest paid on the account.

Credit Card Receipts Should be Saved – Receipts should be saved and compared to the charges appearing on one's monthly credit card statement. After accuracy has been verified, all but important receipts should be shredded before placing them in the trash. If an error exists, the issuer should immediately be notified. They will provide forms, which are to be completed in writing and returned to the issuer.

Credit Card Issuers Should be Advised of a Change of Address – College students are notorious for making frequent residence changes. They should not depend on a change of address filed with their local post office and, instead, should directly advise their credit card issuer of their new address. Many students needlessly pay late fees and face the other consequences of a late payment simply because their credit card issuer was not advised of their move and they received their credit card statement too late to make a timely payment.

Immediately Advise Your Credit Card Issuer if a Card is Lost or Stolen – If a lost or stolen card is reported before it has been used, the cardholder is not liable for any unauthorized charges. If the card is reported after it has been used, the cardholder may be liable for up to $50 per card. Individuals are not liable if the account number, but not the card itself, is used illegally.

PowerPoint – THERE'S ALWAYS A SOLUTION (Slides 15 & 16) – Primer Page 8

Students who may have already accumulated burdensome credit card debt need to understand that there is always a solution to this problem. Overwhelmed by their predicament, some students try to deny that a problem exists. This further exacerbates a serious situation.

If a student is unable to pay even the minimum monthly payment on a credit card, skipping a payment is NOT a solution! First, they should stop using the card. Second, the student should call their credit card issuer and tell them that they are having difficulty making even the minimum monthly payment on their account. After describing their predicament, the representative may be able to offer a more manageable payment plan. If this is the case, it is best to get the offer in writing. Also, it is best to pay down high APR credit card accounts before low APR accounts.

Clearly, a student who is faced with excessive debt should look to increase their monthly income while reducing their expenses. If unemployed, seeking work is an obvious solution. If already employed, a second job may be required. Doing without extras seems obvious. Managing excessive debt can be psychologically stressful. Students should be informed not to isolate themselves and to talk about their problem. They should consult a school counselor, parent, or a therapist so that they don't feel alone as they resolve their financial difficulties.

If all else fails, students can contact the National Foundation for Credit Counseling to discuss entering a debt consolidation program. They can be contacted at (800) 388-2227, or at: www.nfcc.org. Individuals who enter debt consolidation programs pay off their debt more quickly since they typically pay lower interest rates on their outstanding credit card balances.

PowerPoint – CREDIT REPORTS & CREDIT SCORES (Slides 17, 18, 19, 20) – Primer Page 9

Since our credit reports and credit scores have such a profound effect on our every-day lives, students should be clear about these topics.

Credit Reports – A credit report is a collection of information obtained from one's creditors reflecting the extent of the individual's credit and their payment history. It's like a financial report card or a financial resume that shows how one handles their bills. Lenders buy these reports to determine whether or not they will grant an individual credit and at what rate. The lower the perceived risk, the better the interest rate offered.

The three major credit-reporting agencies are Equifax, Experian and Trans Union. All are listed in the student primer, along with contact information. Experts recommend that we check our credit reports several times a year. Laws applying to credit bureaus allow us to obtain a free annual credit report from each of the three major agencies. This can be accomplished by calling 877-322-8228 or by going to www.annualcreditreport.com. This information is also listed in the primer. Negative information can stay on one's credit report for seven years, while bankruptcies can remain for ten years.

Credit Scores – A credit score is a numeric value given to an individual by a credit reporting agency or a lending institution, which is obtained from a credit report and reflects one's credit history. The most common scoring system is the FICO score. FICO scores range from 300 to 850; the higher the number, the better the score.

FICO scores are based on a number of factors:

- 35% – Payment History – Paying bills on time is of utmost importance and is most heavily weighted.
- 30% – Total Amount Owed – Combined balances on all credit cards and installment loans are compared to the total available credit limits on all cards. This is called a "debt-to-credit-limit ratio and it should be kept as low as possible. Less than 30% is optimal and more than 50% is too high.
- 15% – Length of Credit History – The longer one displays good credit habits, the higher the score.
- 10% – New Credit – The number of recently opened accounts and number of recent credit inquiries is also considered. Every time a balance transfer is made or a new account is opened, an inquiry is placed on the individual's credit report. Those with numerous inquiries on their reports are perceived to be a higher financial risk. Therefore, it's not wise to seek lots of credit in a limited period of time. Having too many cards is also undesirable. To minimize temptation, most students should have only one card; having more than three or four cards will negatively affect their credit score.
- 10% – Types of Credit – The mix of credit is evaluated. Higher scores go to those who show they can manage several credit cards along with installment loans such as a car or student loan.

PowerPoint – CONSEQUENCES OF IRRESPONSIBLE CREDIT CARD USE (Slides 21 & 22) – Primer Page 9

While reiterating that credit cards offer us many advantages, students should have a clear understanding that there are serious and long-lasting negative consequences for those who do not responsibly use and manage their credit cards.

Denial of Credit and High Interest Rates – Students with a poor credit report and a low credit score risk being denied credit as they move out into the world after graduation. If granted credit, it is likely they will be assigned high APRs since they will be considered a poor credit risk. They, therefore, will be unable to benefit from the low interest rates enjoyed by those who have behaved responsibly and consistently with their personal financial management. Emphasize to students that this will prove to be a tremendously expensive and long lasting burden as they assume adulthood and buy their first home, automobile, appliances, electronics, and all big ticket purchases.

Difficulty Renting an Apartment – Students with a low credit score may have difficulty renting an apartment because they are considered to be a poor credit risk.

Denied Employment – Employers and recruiters have access to our credit reports. Students may be denied employment, for which they are otherwise qualified, only because they have a poor credit report and a low credit score. This is especially true for those who are attempting to find employment where they would handle company funds.

Denied Financial Aid for College & Graduate School – College and graduate school Financial Aid Offices may deny aid requests for the individual with a poor credit score.

Higher Auto Insurance Premiums – Individuals with a poor credit report and low credit score typically pay higher insurance premiums.

Cell Phones – Cellular phone companies routinely check a customer's credit score before entering into a contract with the individual. Customers with a low credit score will usually have to pay a high security deposit whereas those with a high credit score pay no deposit.

Higher Deposits – Those with low credit scores may pay higher deposits for phone, gas and electric.

At the end of this lecture, the following statement is suggested: *Students should clearly understand that while credit cards are a great financial tool, they are also a big responsibility, which require maturity, consistency and sound financial management skills so that they can enjoy the benefits of credit while avoiding the pitfalls.*

PowerPoint – IDENTITY THEFT (Slides 23, 24, 25, 26, 27) – Primer Page 10

Definition of Identity Theft – First, define Identity Theft to students. *Identity Theft occurs when an impostor steals personal information such as a social security, driver's license, bank account or credit card number in order to impersonate someone else. The information is then used to obtain credit, merchandize, and services in the name of the victim or to provide the thief with false credentials.* Identity theft is the fastest growing crime in the United States.

Signs of Identity Theft – Signs of Identity Theft are listed in the student primer. Instructors may want to review the list with students.
- A credit card or statement is received for an account that wasn't requested.
- A statement is not received, suggesting that an unauthorized change of address may have occurred.
- Unauthorized charges appear on the credit card statement.
- You are denied credit for no apparent reason.
- Debt collectors call and write regarding purchases, services and credit you didn't initiate.

Minimizing the Risk of Identity Theft – No one can totally protect himself or herself from Identity Theft, but the risk can be minimized. Ways to minimize the risk are listed in the student primer and are reviewed as follows.
- Don't give out personal information unless you initiate the contact.
- Try not to use your social security number for identification.
- Leave your social security card at home and don't print this number on checks.
- Carry in a wallet only what is needed. Leave extra cards at home.
- Obtaining a photo ID credit card can be helpful.
- Become familiar with billing cycles and when statements should arrive in the mail.
- Shred all but the most important credit card receipts after confirming their accuracy against your monthly statement.
- Don't leave mail in the mailbox and use the Post Office for outgoing mail.
- Use creative passwords. Avoid the last four digits of your social security number or your mother's maiden name.
- Only make online purchases if the website is secure and protected by an encryption system.
- Keep personal information in a safe place at home.
- Review credit reports at least once a year.
- Place virus protection software on your computer.

Victims of Identity Theft – Victims of Identity Theft can spend months or even years trying to clear up their good name. Listed in the student primer, experts recommend that victims take the following steps to start the process:
- First, contact the three major credit-reporting agencies and ask them to place a "fraud alert" on your file. Creditors will then know to contact you before opening new accounts.
- Order a free credit report from each of the agencies and review the reports.
- Contact the fraud departments for creditors who show either a false account or one that has been tampered with.
- Close these accounts and follow up with a letter.
- File a police report and ask for a hard copy.

Contact the Federal Trade Commission (FTC). They maintain the Identity Theft Data Clearinghouse that provides lots of important information for identity theft victims. They can be reached at (877)-IDTHEFT or www.ftc.gov/bcp/edu/microsites/idtheft/consumers/defend.html

The ABCs of Credit Card Finance
Post-Test

1. A credit card's APR is:
   a. Most important to a "revolver"
   b. Most important to a convenience user
   c. Is equally important to both "revolvers" and convenience users
   d. Is not important

2. What should someone new to credit look for in a credit card?
   a. A low APR
   b. No annual fee
   c. A long grace period
   d. All of the above

3. The CARD Act allows issuers to raise your APR if you are 30 days behind in payment.
   a. True b. False

4. Failure to responsibly manage your credit card can result in the following:
   a. You could have difficulty renting an apartment
   b. You could be charged more for your car insurance
   c. You could be turned down by an employer for a job
   d. All of the above

5. Which of the following is true?
   a. Costs and terms for a fixed rate credit card can only change once a year
   b. Your liability for unauthorized use of your credit card is usually limited to $50
   c. The more credit cards you have, the better your credit score
   d. Paying more than the minimum monthly payment doesn't appreciably reduce your total payoff time and costs

6. Under the CARD Act, your issuer can charge you an over-credit limit fee for three months in a row if you choose to go over your credit limit and don't bring your balance under the card's limit.
   a. True b. False

7. If you are having difficulty keeping up with your credit card payments, which of the following is the recommended course of action?
   a. Call your issuer, tell them your situation, and ask if they can offer an alternate payment plan
   b. Skip a few payments until you have the money
   c. Take out a cash advance on another card so you'll have the money to make the payment
   d. Relax … issuers understand that students don't have much money and they'll cut you a break

8. Which is the least costly way to pay off your credit card debt?
   a. Always make your minimum monthly payment on time
   b. Always make more than the minimum monthly payment, even if the payment is late
   c. Always pay your credit card balance on time and in full each month
   d. None of the above

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