

Student Take-Home Guide

Money Smart

Charge It Right



NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Table of Contents

Table of Contents	1
Money Smart	2
Charge It Right	3
Sample Disclosure	4
Credit Card Comparison Chart	5
Tips When Shopping for a Credit Card	6
Credit Reporting Agencies	7
Cost of Making Minimum Payment	8
Benefit of More Than The Minimum Payment.....	9
Tips for Using a Credit Card	10
Glossary	11
For Further Information	13
Acknowledgements	14
Course Evaluation – Charge It Right.....	15
What Do You Know – Charge It Right.....	16

Money Smart

The *Money Smart* curriculum is brought to you by the National Association of Federal Credit Unions (NAFCU). *Money Smart* is adapted from a curriculum developed by the Federal Deposit Insurance Corporation (FDIC). The *Money Smart* Program includes the following courses:

- **Credit Unions: Here To Serve You**
an introduction to consumer financial 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're borrowing before you buy
- **Your Own Home**
what homeownership is all about

Charge It Right

Welcome to Charge It Right! Using a credit card can be both a convenience and a necessity. However, many people get into trouble by not using a credit card wisely.

Credit cards are a convenient form of borrowing. People generally use credit cards to purchase goods and services. Credit cards represent a revolving line of credit. This means you can make an unlimited number of purchases, up to a pre-approved dollar limit. You must pay a portion of the balance every month.

Before you decide to apply for a credit card, decide what it will be used for. Keep in mind a credit card is not free money. It is a loan you must repay. When you decide to apply for a credit card, it is very important you read all disclosures and understand the terms of your credit card agreement.

When you have completed this course, you will know more about the costs and benefits of having a credit card.

Sample Disclosure

ANNUAL PERCENTAGE RATE (APR)	Grace Period	Annual Fee	Minimum Finance Charge	Method of Computing the Balance for Purchases
17.4%	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 17.9%.

Credit Card Comparison Chart

	Credit Card A	Credit Card B	Credit Card C
Name of credit card issuer			
What is the annual percentage rate (APR)?			
What is the finance charge?			
What is the annual fee?			
What are other fees (late fees, over-the-limit fees, etc.)?			
Is there a grace period?			
What are other benefits (points earned, etc.)?			
What is my credit limit?			

Tips When Shopping for a Credit Card

- Decide how you will use the credit card and what you will purchase with it.
- Start small. Don't 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 don't charge fees to open accounts.
- Make sure you understand the implications of fixed and variable rates.

Credit Reporting Agencies

Equifax

P.O. Box 740241
Atlanta, GA 30374-0241
1-800-997-2493

www.equifax.com

Experian

P.O. Box 949
Allen, TX 75013
1-888-397-3742

www.experian.com/consumer/index.html

TransUnion

760 West Sproul Road
P.O. Box 390
Springfield, PA 19064-0390
1-800-888-4213

www.transunion.com

Cost of Making Minimum Payment

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500	18%	\$439	\$939	8
Computer	\$1,000	18%	\$1,899	\$2,899	19
Furniture	\$2,500	18%	\$6,281	\$8,781	34

This chart assumes you are not making additional purchases and you are making your payments on time.

Benefit of 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	404	34	\$8,781
\$2,500	18%	\$50	94	8	\$4,698
\$2,500	18%	\$100	32	3	\$3,163

This chart assumes you are not making additional purchases and you are making your payments on time.

Tips for Using a Credit Card

- Pay your bills on time to keep finance and other charges to a minimum.
- Keep your receipts to compare charges when your monthly bill arrives.
- 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 can't 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.

Glossary

Annual Percentage Rate (APR)

The APR represents 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.

Convenience Checks

A convenience check is a cash advance that is used like a regular check. However, the money is charged against your credit limit. There is usually no grace period, and the finance charge is usually higher than for purchases.

Fees

These 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 automatic 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.
- 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 five 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.

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 three to four 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 people who carry monthly balances. The interest rates on credit cards vary widely, from 0% introductory rates to over 25%. Credit unions do not charge more than 18%.

Minimum Payment

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

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% APR is 1.5% (18% divided by 12 months). If your monthly balance were \$1,000, you would multiply it by 1.5% to get your monthly finance charge of \$15 ($\$1,000 \times 1.5\% = \15). The daily periodic rate for the same 18% APR is 0.04932% (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 balance remaining on a loan, not including interest or other fees.

For Further Information

National Credit Union Administration

1775 Duke Street
Alexandria, VA 22314
1-703-518-6300

www.ncua.gov

Federal Deposit Insurance Corporation (FDIC)

Division of Compliance and Consumer Affairs
550 17th Street, NW
Washington, DC 20429
1-877-ASK-FDIC (877-275-3342)

Email: consumer@fdic.gov

www.fdic.gov

Federal Trade Commission

Consumer Response Center
6th and Pennsylvania Avenue, NW
Washington, DC 20580
202-326-2222
1-877-FTC-HELP (1-877-382-4357)

Email: consumerline@ftc.gov

www.ftc.gov

National Fraud Information Center

1-800-876-7060

www.fraud.org

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- Naylor Road One-Stop Career Center, Washington, D.C.
- Government of the District of Columbia, Department of Employment Services
- Government of the District of Columbia, Department of Banking and Financial Institution

Reference materials from the following sources were especially helpful in the development of the *Money Smart* program:

- *Consumer Action Handbook*, 2001, Federal Consumer Information Center, United States General Services Administration
- Fannie Mae
- *Gateway to a Better Life—Making Every Dollar Count*, 1998, Cooperative Extension, University of California
- *Helping People in Your Community Understand Basic Financial Services*, Financial Services Education Coalition
- Internal Revenue Service
- *Saving Fitness A Guide to Your Money and Your Financial Future*, U.S. Department of Labor, Pension, and Welfare Benefits Administration
- Social Security Administration
- United States Department of Agriculture, Rural Development, Rural Housing Service
- United States Department of Housing and Urban Development
- United States Veterans Administration, Department of Veterans Affairs Home Loan Program

Course Evaluation – Charge It Right

Instructor: _____ Date: _____

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information/skill taught in the course is useful to me.	1	2	3	4
8. I am confident that I can use the information/skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

What was the least helpful part of this course?

Would you recommend this course to others?

Any comments/suggestions?

What Do You Know – Charge It Right

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about your rights and responsibilities as a consumer of financial products and services both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

<i>I know:</i>	Before-the-Course				After-the-Course			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The characteristics of credit cards	1	2	3	4	1	2	3	4
2. The costs of using credit cards	1	2	3	4	1	2	3	4
3. How to recognize potential problems with credit card use	1	2	3	4	1	2	3	4