Project Pro$per

Presents

Understanding Credit Cards

Participant Guide

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Based on Wells Fargo’s Hands on Banking ®

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For more information about our small no-interest loan program for immigrants and refugees you can
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I. CREDIT CARDS

A. What is Credit?
Credit allows a person to purchase products or services by borrowing money from credit card companies, or financial institutions based on the trust that repayment will be made in the future.

The most common way to use credit is through the use of CREDIT CARDS. These are small plastic cards that can be swiped, or inserted into machines for payment. Many countries use credit cards, while others do not.

B. How Do I Obtain A Credit Card?
1. Apply for a card at your financial institution, apply in person at a department store (e.g., Macy’s, Walmart, Best Buy) and/or Gas stations.
2. Complete a credit card application with a credit card company by mail or online (e.g., Capital One, Wells Fargo, etc....)
3. When you apply for a card, the Credit Card Company or financial institution will check your credit history and decide whether or not to give you a card. The company or financial institution that gives you a credit card is known as the “card issuer”.
4. They’ll also decide how much you’re allowed to borrow, or “charge.” This is called your CREDIT LIMIT.

C. How Do Credit Cards Work?
1. Credit cards are considered REVOLVING CREDIT. As you repay the money, your credit becomes available for you to use again and again.
2. Each time you use your credit card to pay for something, you are borrowing money from the card issuer. The card issuer will charge you INTEREST until the BALANCE, amount of money charged to the card, is repaid.
3. Most card issuers require you to pay a minimum payment amount each month. This is the smallest portion of a credit card bill that a you must pay in order to remain in good standing, avoid late fees, and have a good repayment history on his credit report.
   - It is advisable to pay at least double the minimum payment or to pay the balance in full each month. The minimum payment may only pay the interest accrued and very little of the principle borrowed.

D. Choosing the Right Card for You
1. The most common types of major credit cards are:
   - Visa
   - MasterCard
   - Discover
   - American Express
2. Retail store credit cards allow you to make purchases specifically at that named store. Some store credit cards also include a MasterCard or Visa logo which allows the cards to be used wherever those major credit cards are accepted.
3. Look for low-fee, and low-interest rate cards.

- Credit cards can charge high interest rates and fees. If you have a card that charges high rates, you can always call the company and request that they lower their rate. If you are a good customer with a good repayment history they may do this for you.
- If you do not pay at least the minimum payment on time every month, the card issuer may increase the interest rate even higher.

II. DIFFERENCE BETWEEN CREDIT CARDS AND DEBIT CARDS

1. Debit Cards

A. Debit Cards are directly tied to your checking account and withdraw money from your checking account immediately.

B. A debit card can be used anywhere credit cards are accepted as long as it has the Visa or Master Card logo

C. Like credit cards, debit Cards also have an expiration date.

D. You must use your 4 digit PIN number to make purchases, receive cash back or withdraw from an ATM.

2. Credit Cards

A. When using a credit card, you’re actually borrowing money from a company that issued you the card. They pay for the product or service and then you repay them, typically with Interest.

B. Credit cards can be more convenient than carrying cash, but remember, you always have to repay the money. If you don’t pay your credit card balance in full each month, you will be charged interest for the credit you received.

3. Credit Exercise: Place an “X” underneath the appropriate card

<table>
<thead>
<tr>
<th></th>
<th>Credit Card</th>
<th>Debit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied to a personal checking account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges an interest rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Can withdraw money from ATMs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Can be used to shop online</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allows you to use someone else’s money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used to help build your credit score</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides Protections in case of identity theft/lost or stolen card</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Other Kinds of Credit Cards

A. Secured Credit Cards
   1. Obtain credit application and account from your financial institution
   2. Deposit money in a savings account for collateral
   3. Bank gives you a credit card and a credit limit
      a. Your credit limit could be less than your deposit
      b. Banks will pay interest on your collateral
   4. Secured Credit Cards help to establish or reestablish credit history so that you can qualify for a regular, unsecured credit card in the future.

B. Pre-Paid cards
   1. You have to deposit money on a card in order to use, (Like a debit card, you are using your own money when you use a pre-paid card.)
   2. Can be purchased at any local store that sells pre-paid credit cards
   3. Pre-Paid Cards may have usage fees and generally offer no protection if lost or stolen.
   4. This card does NOT help to establish or reestablish credit history

III. CREDIT CARD OFFERS (Pre-Approved Offers and Invitations to Apply)

A. These offers do not equal guaranteed acceptance. Most applications are subject to a credit check, and income verification.

B. Usually consumers receive these offers as a part of a card issuer’s mass mailing/emailing campaign.

C. Promotional or introductory rates are for a limited time. Look for or ask what the interest rate (APR) will be after the promotional period. Your interest rate may increase dramatically!

D. You must read the FINE PRINT.
   - By law, credit card offers must show you important information about the credit card’s interest rates and fees, including:
     - Annual percentage rate (APR): The interest rate charged on the balance you owe. You should also find whether there is a special introductory APR that will increase later; whether there is a different (usually higher) APR for cash advances obtained with your card; and whether a higher “Penalty APR” may be charged if you do not comply with the terms of your account.
     - Finance Charge: The charges that will be added to your account when the APR is applied to your account balance; the disclosure will explain how the credit card company determines the balance to which the APR is applied; it will also explain whether there is a Minimum Finance Charge.
     - Fees: These can include Annual Fees, late payment fees, cash advance fees, and “over-the-limit” fees if your balance exceeds your approved credit limit.
     - Grace period: The time between the date of your monthly statement and the payment due date. Many credit cards won’t assess a Finance Charge on credit purchases if you pay your account balance in full by the due date.
E. 0% interest vs. Deferred interest financing

1. A zero percent interest promotion will not add interest on the balance of your promotional purchase during the promotional period. Even if you still have an unpaid balance when the promotional period is over, you will start to pay interest on that remaining balance only from the date the promotional period ends. You may see a phrase like, “0% intro APR for 12 months,” to describe this type of promotion.

2. Deferred Interest Financing is when retailers offer “No interest if paid in full in 12 months.” Watch out for the “if.” That means that if you do not pay off the entire balance of your purchase within 1 year, then interest from the date of the purchase will be added on top of the remaining balance.

<table>
<thead>
<tr>
<th>PROMOTIONAL EXAMPLE</th>
<th>0% INTEREST PROMOTION</th>
<th>DEFERRED INTEREST PROMOTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotional offer</td>
<td>0% for 12 months</td>
<td>No interest if paid in full in 12 months</td>
</tr>
<tr>
<td>Purchase amount</td>
<td>$400</td>
<td>$400</td>
</tr>
<tr>
<td>What you pay off during the promotional period (assume payment of $25 per month)</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>Remaining principal balance after promo ends</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>Interest rate during the promotional period</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Accrued interest during the first 12 months</td>
<td>$0</td>
<td>$65</td>
</tr>
<tr>
<td>Interest rate starting after the promotional period</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Amount you owe at the end of the promotional period</td>
<td>$100</td>
<td>$165</td>
</tr>
</tbody>
</table>

3. If you made a purchase using a card with the 0% interest promotion, you will only owe the remaining $100 after the promotional period ends. However, if you made a purchase using a card with the deferred interest promotion, you will owe $165 after the promotional period ends. That is $100 and another $65 in interest charges. Remember, your interest was only delayed and since you didn’t pay off the balance by the end of the promotional period, the creditor will charge you the $65 interest that had been accruing during the promotional period.
F. Promotional Activity

EXAMPLE OF PROMOTIONAL PERIOD FINE PRINT

Citi Simplicity® Visa Card

Highlights:

- 0% Intro APR on Balance Transfers and Purchases for 18 months.
- After that, the variable APR will be 12.99% - 21.99% based on your creditworthiness.
- There is a balance transfer fee of either $5 or 3% of the amount of each transfer, whichever is greater.
- No late fees – EVER *No penalty rate – EVER *No annual fee - EVER

<table>
<thead>
<tr>
<th>Intro APR:</th>
<th>Balance Transfer:</th>
<th>Regular APR:</th>
<th>Annual Fee:</th>
<th>Credit Needed:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% for 18 Months*</td>
<td>0% for 18 Months*</td>
<td>12.99%-21.99% (Variable)*</td>
<td>$0*</td>
<td>Excellent to Good</td>
</tr>
</tbody>
</table>

1. What type of promotion is this credit offering? _______0% Interest _______Deferred Interest

2. For how long is the promotional period? ________________

3. What will be the interest rate after the promotional period ends? __________

4. Is there an Annual Fee for this card? Yes ______ No ______

5. What type of credit will you need to get the best interest rate? ________________

G. How to save money on credit card interest

The less time it takes for you to repay a credit card debt, the less amount of interest you will likely have to pay. Let’s look at how interest works. Read the scenarios below and discuss.

✓ Sally and Bob each bought a television for $500 with a credit card. Both credit cards have an interest rate of 8%. Sally paid off her debt in 6 months while Bob paid it off in 24 months. Compare their situations:

<table>
<thead>
<tr>
<th>Bob</th>
<th>Sally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of product</td>
<td>$500</td>
</tr>
<tr>
<td>Interest rate for card</td>
<td>8%</td>
</tr>
<tr>
<td>Time to pay off</td>
<td>24 months</td>
</tr>
<tr>
<td>Total interest (APR)</td>
<td>$42.73</td>
</tr>
<tr>
<td>Total price</td>
<td>$542.73</td>
</tr>
</tbody>
</table>

✓ Bob paid $42.73 in interest, while Sally only paid $11.73.
H. Avoid Credit Mistakes

Credit cards can play a major role in establishing, improving, or destroying your credit rating. Therefore, it is important to use credit wisely. Here are some mistakes you should avoid when using credit.

1. Always pay your bill by (on or before) the due date listed on your credit card statement.
   - Late payments can seriously damage your credit and lower your credit score.
   - If you are unable to make a payment for any reason, always call your creditors and explain the situation. They may be able to offer assistance and/or a postponement.

2. Never pay less than the minimum payment shown on your credit card statement.

Stay within your credit limit. If you "max out" your credit card, your accrued interest will cause you to exceed your limit. That will cause you to incur an “over limit” fee, possibly result in an increase in your interest rate, and hurt your credit rating!

VI. HOW TO USE CREDIT CARDS RESPONSIBLY

When starting out with credit cards, consider getting just one credit card with a low credit limit. That will help you to get comfortable with using credit and paying it back, and it will stop you from getting into big trouble with debt.

A. Live within your means
   - Don’t use your credit cards to buy things you really can’t afford. Remember your budget.
   - Limit your credit card use and don’t have too many credit cards.

B. Avoid cash advances
   - Though cash advances allow you to withdraw cash from your credit cards at an ATM you want to avoid this option except for emergencies. You’ll be charged a fee, the interest rate is usually much higher and there is no "grace period". Interest on cash advances is assessed from the day of the advance.

C. Treat cards like cash
   - Protect your cards as if they were cash – Don’t lend your credit, debit, or ATM cards to anyone.

D. Keeping your Credit Cards safe
   - Always make sure that receipts are correct before you sign them. Keep copies of your receipts check them against your statement each month.
   - When shopping online, always make sure the website is secure by locating https:// in the address bar, or finding a closed padlock icon in the address bar.
   - Report lost or stolen credit cards immediately to your credit card company or bank if your ATM card or debit card is lost or stolen,
   - Make copies of the front and back of your credit cards and store in a safe place. This will help you to know who to contact if your cards are lost or stolen.
E. Review your monthly credit card statement

The card issuer will provide a monthly account statement. It is important that you review it carefully each month. The following page shows what information you should look for.

**How to Read Your Credit Card Statement**

1. **Summary of Account** — summarizes your transactions for this statement, including your payments and credits, purchases, interest charged, fees charged, balance transfers, and cash advances.

2. **Payment Information** — Provides your new balance (total amount you now owe), your minimum payment due, and the due date.

3. **Late Payment Warning** — Explains the fees and interest changes should you miss your due date.

4. **Minimum Payment Warning** — Informs you how long it will take you to repay the debt and how much it will cost you if you pay the minimum payment only.

5. **Notice of Change to Interest Rates** — Credit card company informing you in writing about an increase.

6. **Important Changes** — Notification in writing of upcoming account changes.

7. **Transactions** — shows a list of each charge and payment you made in date order. Be sure to review this section and report any errors to your card issuer.

8. **Fees** — Displays what fees the company may be charging you in addition to interest charges.

9. **Year to Date Totals** — shows total amount you have been charged since the beginning of the year.

10. **Annual Percentage Rate** — The interest rate charged on the outstanding balance of your purchased transactions, the rate charged on your cash advances and the resulting combined (composite) rate charged on your entire balance.
Personal Credit Quiz

1. When your monthly credit card bill is due, do you
   a. Pay the minimum payment
   b. Wait for the creditor to call you before making a payment
   c. Pay double the minimum payment
   d. What Bill?

2. You currently have a high interest credit card. What are your options?
   a. Pay monthly only on what you spent
   b. Call the credit card company and request that they lower your interest rate
   c. Continue to use the card that has the high interest rate
   d. There is nothing that you can do

3. If you are unable to make a monthly payment you should:
   a. Call the company who sent you the bill and talk to them about your current situation.
   b. Nothing, the company will get paid when you get paid.
   c. Continue to pay with your other credit cards.
   d. HIDE!

Answer Key:
1. C  2. B  3. A

If you have any other answers for these questions, then you may be at risk for having low credit scores or negative credit history
Glossary

Annual fee
The fee a card issuer charges a credit card holder to use the card for a year.

Annual percentage rate (APR)
A measurement used to compare different loans, the APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost borrowing.

Balance
A credit card balance is the amount of money owed to the credit card company.

Card Issuer
The company or financial institution that gives you a credit card

Card Member or Card Holder Agreement
This is the agreement between you and your card issuer. It includes information such as the interest rate (APR), fees, and other cost information associated with the account.

Credit limit
The maximum dollar amount the card issuer is willing to make available to the borrower according to the card member agreement.

Debt
Money, goods, or services you owe to others.

Finance charge
The amount of money a borrower pays to a lender for the privilege of borrowing money, including interest and other service charges.

Fine Print
The portion of a document, especially a contract, that contains qualifications or restrictions in small type or obscure language.

Interest
The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.

Interest rate
The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).
Late fees

The charge or fee that is added to a loan or credit card payment when the payment is made after the due date.

Creditor

A business that makes money available for others to borrow.

Lump Sum

A single sum of money that serves as complete payment.

Over limit fee

A fee charged by the card issuer when they process/pay a transaction on your behalf that is greater than the amount available within your credit limit.

Past due

A bill that is not paid by its due date is said to be past due.

Revolving credit

A type of credit allowing an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again. The most popular kind of revolving credit account is the credit card.

Secured credit card

A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the card issuer if the card holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.

Credit limit

The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.

Statement

A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of your transactions that your bank has processed during the month. Your statement also lists other interest charges and fees, such as late charges.

Term

A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Understanding Credit Cards
Post Course Survey

Please answer the following questions. When finished remove this paper and hand it to our instructor. Thank you for attending our class!

1. A secured credit card______.  
   - Does not help to establish credit history  
   - Requires money up front; a deposit  
   - Can be purchased at a grocery store  
   - I don't know

2. When is it secure to use your credit card online to make purchases?
   - Always!  
   - When the website starts with https://  
   - It's never safe to use your credit card online.  
   - When you trust the vendor/store.

School Name-________________________________________