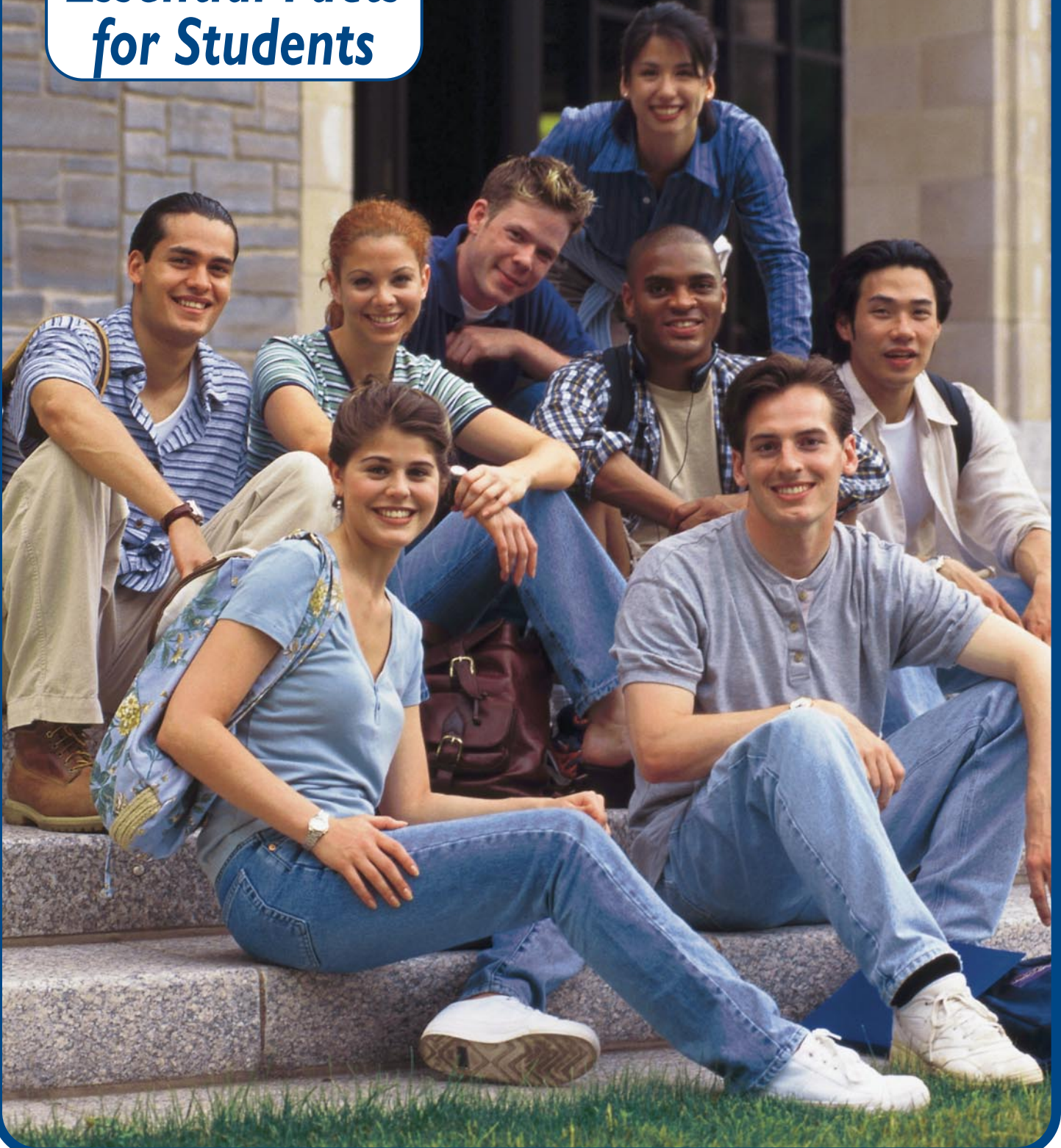


The ABCs of Credit Card Finance

Essential Facts for Students



Carol A. Carolan, Ph.D.

HOW LONG AND HOW MUCH DO I HAVE TO PAY?

Use the following chart to find your payoff time and total payoff amount for credit card balances ranging from \$500 - \$10,000 with APRs from 12% - 20%. Calculations are based on making a minimum monthly payment of 2% of the outstanding balance or a payment of \$20, whichever is greater. This chart assumes discontinued use of your credit card.

CARD BALANCE	12%		14%		16%		18%		20%	
	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS
\$500	\$578	2.4	\$595	2.5	\$612	2.6	\$631	2.7	\$652	2.8
\$1,000	\$1,393	5.8	\$1,510	6.3	\$1,659	6.9	\$1,862	7.8	\$2,168	9.1
\$2,000	\$3,393	11.6	\$3,910	13.3	\$4,659	15.6	\$5,862	19.3	\$8,168	26.3
\$3,000	\$5,393	14.9	\$6,310	17.3	\$7,659	20.7	\$9,862	26.1	\$14,168	36.5
\$4,000	\$7,393	17.3	\$8,710	20.2	\$10,659	24.3	\$13,862	30.8	\$20,168	43.7
\$6,000	\$11,393	20.7	\$13,510	24.2	\$16,659	29.3	\$21,862	37.6	\$32,168	50+
\$8,000	\$15,393	23.1	\$18,310	27.0	\$22,659	32.8	\$29,862	42.3	\$44,168	50+
\$10,000	\$19,393	24.9	\$23,110	29.3	\$28,659	35.7	\$37,862	46.1	\$56,168	50+

\$10 EXTRA - PAY OFF YOUR BALANCE FASTER

The following chart illustrates how you can significantly reduce the time and total cost required to pay off your credit card debt. This is achieved by simply adding \$10 to the minimum monthly payment described above. This chart assumes discontinued use of your credit card.

CARD BALANCE	12%		14%		16%		18%		20%	
	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS	PAYOUT	YEARS
\$500	\$550	1.6	\$559	1.6	\$569	1.6	\$580	1.7	\$591	1.7
\$1,000	\$1,223	3.4	\$1,274	3.6	\$1,331	3.8	\$1,397	3.9	\$1,472	4.2
\$2,000	\$2,819	6.8	\$3,047	7.3	\$3,325	7.9	\$3,675	8.7	\$4,130	9.7
\$3,000	\$4,533	9.2	\$4,992	10.0	\$5,574	11.1	\$6,339	12.4	\$7,400	14.3
\$4,000	\$6,311	11.0	\$7,035	12.2	\$7,974	13.6	\$9,248	15.4	\$11,092	18.1
\$6,000	\$9,976	13.8	\$11,290	15.4	\$13,047	17.4	\$15,526	20.3	\$19,328	24.3
\$8,000	\$13,726	15.9	\$15,680	17.8	\$18,340	20.3	\$22,191	23.9	\$28,323	29.4
\$10,000	\$17,526	17.6	\$20,151	19.8	\$23,768	22.8	\$29,100	27.0	\$37,821	33.6



THE ABCs OF CREDIT CARD FINANCE **ESSENTIAL FACTS FOR STUDENTS**

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INTRODUCTION

Dear Student:

The following pages provide essential information that will help you wisely choose and responsibly use a credit card.

College students are a privileged group of individuals who are able to obtain a credit card without need of a prior credit history, employment, or a parent's cosignature. Most young adults gladly take advantage of this opportunity. After all, a credit card is a great financial tool. It can be more convenient than cash, it can be especially useful in emergencies, it allows one to establish a credit rating, and it offers valuable consumer protections under federal law.

At the same time, credit cards are a big responsibility. Young adults can face life-altering consequences if excessive credit card debt is accumulated during their college years simply because they didn't have the financial literacy skills to responsibly manage their accounts. Rather than building a positive credit history, irresponsible credit card use can result in a negative credit score, which will be a long-term financial liability as students graduate and embark on their adult lives. When burdened with excessive credit card debt, research has shown that GPAs can suffer, and feelings of depression may prevail. Some students even drop out of school or default on school loans.

In its 2004 nationwide survey, the Jump\$tart Coalition reported that participating high school seniors scored 52.3% on personal financial basics. Although this is a slight improvement from 2002's average score of 50.2%, it is obvious that knowledge of this important information is still lacking. These results highlight the need to learn how credit cards work and to also learn how to responsibly manage your accounts.

Managing money, like many other things, is simply a learned skill than can be developed if we have the desire and determination to do so. And since having money seems to depend more on how well we manage it rather than on how well we earn it, money management is best learned early in life. Please take the necessary time to acquaint yourself with the information in this primer. Mistakes avoided today are sure to have a positive impact on your tomorrows.

Best Wishes,

Carol Q. Carlson, Ph.D.

PLANNING A BUDGET

No educational material on credit card use would be complete without first stating the importance of planning a budget. By simply putting into writing your monthly income minus your monthly expenses, you take the first step in creating a realistic budget ... your own personal plan for spending and saving money. Begin the budget process by tracking your spending for a full month and writing down all expenditures, including small items such as gum, sodas, and snacks. If some costs will not occur on a monthly basis, average these expenditures to allow a monthly allocation so that the money will be available when needed. A sample budget form looks like this:

MONTHLY BUDGET

MONTHLY INCOME

Allowance	\$ _____
School Loan	\$ _____
Employment Salary	\$ _____
Grants/Scholarships	\$ _____
Interest from Savings	\$ _____
Other	\$ _____
TOTAL MONTHLY INCOME	\$ _____

ACADEMIC EXPENSES

Tuition	\$ _____
School Meal Plan	\$ _____
Books/School Supplies	\$ _____
Loan Payments	\$ _____
Library Copy Cards	\$ _____
Other	\$ _____
TOTAL ACADEMIC EXPENSES	\$ _____

PERSONAL EXPENSES

Rent	\$ _____
Utilities	\$ _____
Phone	\$ _____
Internet/Cable	\$ _____
Car Payment	\$ _____
Food	\$ _____
Clothing	\$ _____
Transportation	\$ _____
Movies	\$ _____
Insurance	\$ _____
Laundry	\$ _____
Entertainment	\$ _____
Gifts	\$ _____
Spending Money	\$ _____
Other	\$ _____
TOTAL PERSONAL EXPENSES	\$ _____

TOTAL INCOME	\$ _____
TOTAL EXPENSES	\$ (_____)
AMOUNT LEFT OVER	_____

ESSENTIAL INFORMATION

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 score and become a long-term financial liability.

Basic information necessary to help you wisely choose and responsibly use a credit card can be grouped into two main categories:

1. A complete understanding of the cost of credit.
2. Behaviors that reflect financial literacy and personal responsibility

CREDIT CARD COSTS

The following identifies the numerous costs and fees associated with credit card use. Some are evident and others are not so obvious. These costs apply equally to MasterCard, Visa, Discover and American Express cards.

Annual fees – Banks may charge an annual fee for the privilege of using their card. It is becoming more common to find cards without annual fees and those who do assess this fee are often willing to waive it with a simple request from you!

Interest – Financial institutions charge card holders monthly interest on credit card balances. Interest rates are expressed as an Annual Percentage Rate (APR). The higher the APR, the more money you pay for the privilege of credit. 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 rate can change without notice. A fixed APR can also change, but you must first be given 15 days notice. It is best to shop around for a card with a low interest rate.

Interest Calculation – Credit card issuers have a number of ways to calculate interest, the most common of which is the Average Daily Balance Method. This method works as follows:

- Charges and payments are calculated on a daily basis to determine how much is owed each day. The bank then adds these totals and divides by the number of days in the month. This figure reflects your average daily balance.
- To determine the “daily periodic rate,” the bank’s 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.

Some banks calculate interest charges based on the average daily balance of the last two billing cycles. This is called the Two-Cycle Average Daily Balance method.

Cash Advances – These are cash loans you can get with your credit card, but they are not inexpensive. Cash advances typically have a one-time fee applied at the time the money is issued, are usually assessed higher APRs, and are granted no grace period. As a rule, cash advances are only for emergencies.

Convenience Checks – These are pre-printed checks linked to your credit card account that are mailed to your home. Although they are tempting to use, they are similar to cash advances and should be used only for emergencies. You typically pay an up-front fee, pay a higher APR, and there is no grace period. Destroy convenience checks before placing them in the trash.

Penalty Rates – Many banks will raise your interest rate if you make late payments, miss payments, exceed your credit limit, etc. Some issuers even have a schedule of penalty rates that escalates according to the number of payments missed.

Low Interest Teaser Rates – These interest rates are usually time-limited, so it's important to know in advance when your interest will be bumped to a higher rate and how much it will increase. Teaser rates are typically raised to a significantly higher penalty rate if just one late payment is made.

Balance Transfers - Before you transfer your credit card balance from one issuer to another, be aware that balance transfers may have fees associated with them. Also be aware that the lower APR typically applies only to the transferred balance and not new purchases made on your account. The low APR is often time-limited.

Zero Interest Rates – This is a teaser rate for purchases, balance transfers, or cash advances. Some issuers give you a 0% APR for a limited period of time.

Late Fees – Credit card issuers charge a late fee when payments arrive after the due date. It is now common practice for banks to charge a tiered fee based on the amount of your balance. These fees typically range from \$15 to \$39.

Over-Credit Limit Fees – Even though you've reached your credit limit, you will likely be allowed to make additional charges and will then be assessed an over limit fee. Most banks charge a flat fee of \$29 or more in over limit penalties.

Bounced Check Fees – If you bounce a credit card payment check, your credit card issuer will likely charge you a penalty fee of \$29.

Currency Conversion Fees – Your credit card issuer will typically charge a currency conversion fee of 3% on foreign purchases.

HOW TO CHOOSE THE BEST CREDIT CARD

Not all credit cards are equal since credit card issuers are free to offer the terms, services, conditions, and perks they desire. When choosing a credit card, it's best to look for:

- ✓ A Low Annual Percentage Rate (APR)
- ✓ No Annual Fee
- ✓ A Long Grace Period (at least 20 days). This is the length of time after the receipt of your credit card statement to your payment due date when no interest is charged.
- ✓ Interest Calculated Using the Average Daily Balance Method
- ✓ Low Penalty Fees

Convenience Users – Convenience users pay their credit card balance in full each month and avoid paying interest on their credit card purchases. This benefit is attained because of the bank's grace period, defined above. This method of credit card use is the most cost effective. You get to use the bank's money to make purchases and have several weeks in which to pay them back free of interest charges! Convenience users still want a low APR just in case they can't pay their credit card statement in full some months. If you do not pay your balance completely one month, you will not be granted a grace period the following month and will pay interest on all of your credit card purchases. Convenience users especially want a long grace period ... at least 20 days.

"Revolvers" – These individuals keep a revolving balance on their account and pay interest on everything they purchase. They do not benefit from a grace period. Revolvers are especially looking for a card with a low APR to minimize the interest they must pay. They should avoid cards that use the two-cycle average daily balance method to calculate interest because this method can result in a higher interest charge. Banks will only require a minimum payment each month, which is often based on 2% of the balance or \$20, whichever is greater. **ALWAYS PAY MORE THAN THE MINIMUM MONTHLY PAYMENT.** Paying just the minimum monthly payment is the most costly and least desirable form of payment for you.

Example: If you had a credit card balance of \$2,000, an 18% APR, stopped using your card, and made only the minimum monthly payment which was based on 2% of the outstanding balance or \$20, whichever was greater, it would take 19.3 years to pay off your debt and your total payout would be \$5,862.

When choosing a credit card, just remember to shop around and to ask questions. Don't be embarrassed to ask a representative to explain the credit card contract so that you clearly understand what interest you will be charged, how long a low teaser interest rate will be in effect, how interest is calculated, whether or not there is an

annual membership fee, the length of a grace period, what happens to your interest rate if you should have one late payment, the penalty charges for late payments, over-limit fees, the expenses involved with a cash advance, etc.

DOs AND DON'Ts ONCE YOU HAVE A CREDIT CARD

Once you have a credit card, follow these guidelines to avoid financial problems.

Limit yourself to one card. Having more than one card tempts you in ways you do not want to be tempted and is a prescription for trouble. If you do have more than one card, manage your accounts carefully.

Don't use your credit card for tuition and limit its use for school related expenses. Student loans are far more cost effective for tuition.

Differentiate between needs and wants. The convenience of plastic makes it easy to overspend.

Remember that credit cards are a convenience. Your socioeconomic status is not changed once you have a credit card. They do not allow you to purchase items you cannot afford.

Pay your credit card bill off fully each month. If you can't pay your credit card bill fully each month, **ALWAYS MAKE MORE THAN THE MINIMUM MONTHLY PAYMENT.**

Manage your credit card account like you manage your checking account. Be sure you have enough money to pay your credit card balance.

Don't skip payments, even if your bank says you can. You will be charged full interest during this period and will end up owing more the following month.

Pay your bills on time. Avoid late fees and a poor credit rating.

Avoid exceeding your credit limit. Don't get charged over-limit fees or risk having your low APR replaced by a much higher penalty rate.

Avoid cash advances. Except in the most dire emergency, do not request a cash advance because of the fees you will be assessed. Ask your bank to explain to you their application of payment when a cash advance exists on your account.

Avoid using convenience checks. The same precautions apply for convenience checks as for cash advances.

Be wary of teaser rates. Be sure to check the fees since it could end up costing you more money than if you had stayed with your original credit card issuer.

Don't use one credit card to pay another. If you only have one card, you won't be put in this dilemma. But if you do have multiple cards, this is a cardinal rule. Use savings, responsibly borrow from family or friends or talk to your bank and ask for help, but **NEVER USE ONE CREDIT CARD TO PAY ANOTHER.**

Don't rise to the occasion when your bank gives you an increased credit limit. Keep within your budget; this is not carte blanche to spend more.

Mail your check as soon as you receive your statement. If you keep a revolving balance, the earlier the bank receives your payment, the lower your average daily balance. This will reduce the amount you pay in interest.

Keep your credit card receipts. You should keep your credit card receipts so that you can verify the accuracy of the charges listed on your monthly statement. This audit is critical for detecting potential fraud or bank errors. When the audit is complete, keep your important receipts in a secure place and destroy all others.

Immediately notify your bank if you move. More than one young adult has paid late fees needlessly because they failed to advise their credit card issuer that they moved and did not receive their credit card bill in time.

Immediately notify your bank if your credit card is lost or stolen. If you report the loss before your card is used, you're not liable for unauthorized charges. If you report the loss after the card has been used, you may be liable for up to \$50. You are not liable if your account number, but not the card itself, was used illegally.

THERE IS ALWAYS A SOLUTION

If you are having difficulty paying your credit card bill, the worst thing you can do is ignore the problem. First, stop using your card.

Call your bank and ask for help. They may be willing to offer you a time-limited alternative payment plan. If your problem persists, you may want to contact a credit counselor for help. Credit counseling firms typically negotiate with your creditors for better interest rates on your various credit card accounts. Once you're on an acceptable repayment plan, you make one monthly payment to the firm and they, in turn, pay your creditors. The National Foundation for Credit Counseling can be located at www.nfcc.org or (800) 388-2227.

Those of you who are very stressed out about credit card debt should not hesitate to

speak to a school advisor, counselor, a parent or a psychologist. Remember, there is always a solution to this problem.

CREDIT REPORTS & CREDIT SCORES

Credit Report - A collection of information obtained from your creditors reflecting the extent of your credit and payment history. Think of it as your “credit report card.” Lenders use this information to determine if they will loan you money and at what rate. Experts recommend that you check the accuracy of your credit reports once a year.

The three major credit-reporting agencies are: Equifax (800-685-1111), Experian (888-397-3742), and Trans Union (800-888-4213). You can obtain a free annual credit report at www.annualcreditreport.com or by calling 877-322-8228.

Negative information can stay on your credit report for seven years, unless there is a bankruptcy, which remains for ten years.

Credit Score - A numeric value that is applied to your credit history by a credit-reporting agency or a lending institution. It is typically called a FICO score. Ranging from 300 to 850, the higher the number, the better the score.

Your score is based on several factors. The variable that is most heavily weighted is whether or not you pay your bills on time. Also considered is the amount owed on all your accounts and the number of credit cards held and their balances. The number of years one has credit is also considered, as is one's quest for new credit. Applying for many cards, even if they maintain a zero balance, is considered undesirable.

CONSEQUENCES OF IRRESPONSIBLE CREDIT CARD USE

Your credit history and credit score are extremely important. They speak volumes about your character. Lenders consider individuals with a high credit score to be low-risk, desirable customers who are worthy of the lowest interest rates. If you have a low credit score, you may face some or all of these negative consequences:

- You may be denied credit.
- If granted credit, you will likely pay high interest rates. This can be quite costly when purchasing a home, car, appliances, electronics, etc.
- You could have difficulty renting an apartment.
- Employers have access to your credit score and you can be denied employment because of a poor credit history.
- Graduate schools may reject your application for admission.
- You will likely pay higher insurance premiums.
- You may have to pay a large deposit for a cell phone.

IDENTITY THEFT

Identity theft is a crime in which an imposter 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 can be used to obtain credit, merchandise, and services in the name of the victim, or to provide the thief with false credentials.

Signs That You May Be an Identity Theft Victim

- You receive a credit card or a statement for an account you did not request.
- You don't receive your statement, signaling that a change of address may have occurred.
- Unauthorized charges appear on your statement.
- You're denied credit for no apparent reason.
- Debt collectors contact you regarding goods, services or credit that you didn't purchase or initiate.

How to Minimize the Risk

- Only give out personal information if you initiated the contact.
- Try to use an alternate form of identification other than your social security number.
- Keep your social security card at home and don't print this number on checks.
- Limit the number of cards and identifying information you carry in your wallet.
- Obtain a photo ID credit card.
- Know your billing cycles and when statements should arrive in the mail.
- Secure your important credit card receipts and shred all others.
- Don't leave mail in your mailbox and use the post office for outgoing mail.
- Use creative passwords ... avoid the last four digits of your social security number.
- Limit online purchases to secure websites protected with an encryption system.
- Keep personal information in a safe place in your home.
- View your credit reports from each of the credit reporting agencies once a year.
- Place virus protection software on your computer and update it regularly.

If You are a Victim of Identity Theft

- Contact the three major credit-reporting agencies and ask them to place a "fraud alert" on your file so that creditors know to contact you before opening new accounts.
- Order a copy of your credit report from all three agencies.
- Review the reports and contact the fraud department for creditors who show a false or tampered account. Close the account(s) and follow up with a letter.
- File a police report and ask for a hard copy.
- Contact the Federal Trade Commission (FTC), which maintains the Identity Theft Data Clearinghouse and provides important information to identity theft victims. They can be reached at www.consumer.gov/idtheft or (877)-IDTHEFT.



FOR MORE INFORMATION ON CREDIT CARDS

To learn more about credit cards, check out the web. Here are a few sites:

www.Students.UseCreditWisely.com (Citibank's educational website that includes an interactive budget builder tool)

www.bankrate.com (A financial calculator, bankcard rates)

www.mymoney.gov (Federal Government's website on money management)

www.consumer.gov/idtheft (National resource for identity theft)

www.jumpstart.org (Dedicated to the personal financial literacy of young adults)

www.aba.com/consumer+connection (American Bankers Association's consumer site)

www.equifax.com, www.experian.com, www.tuc.com (Credit reporting agencies)

www.annualcreditreport.com (Request your free annual credit report)

www.truthaboutcredit.org (A project of the state Public Interest Research Groups)

GLOSSARY OF IMPORTANT TERMS

Amount Due – Some banks use this term synonymously with “minimum monthly payment.”

Annual Fee – A one-time yearly charge similar to a membership fee.

Annual Percentage Rate (APR) – A measure of the cost of credit, expressed as a yearly percentage. Most credit card plans apply different APRs for different types of credit. For example, one APR will be applied to purchases, while typically higher APRs are applied to cash advances. Many banks increase the APR if a payment is late.

Cash Advance – A cash loan from your credit card. Cash advances typically have a one-time fee applied, are assessed higher APRs, and are granted no grace period.

Debit Card - A card that resembles a credit card that is linked to a checking or savings account. Funds are withdrawn immediately from the linked account with each purchase.

Due Date – The date your payment is due.

Finance Charge – The total cost of using your credit card, including interest charges and other fees.

Grace Period – The period of time during which you can pay your credit card bill without incurring finance charges. A grace period usually only applies if you pay your balance in full each month. If you carry a revolving balance, it does not apply. Grace periods also do not apply to cash advances and courtesy checks. Under these circumstances, interest will usually begin accruing the day the transaction takes place.

Late Fee – A fee that is assessed if your payment is received past its due date. Many credit card programs increase the APR if you have one or more late payments within a specified time period.

Minimum Monthly Payment – The smallest payment you can make and still be in good standing. It is the most expensive way to pay your credit card bills.

Monthly Periodic Rate – Represents one-twelfth of your APR. It is the rate at which interest is calculated during the monthly billing period.

New Balance – The total amount owed, after new charges and credits have been calculated.

Over Credit Limit Fee – A fee paid if you charge over your approved credit limit.

Penalty Rate – An increased APR triggered by late payments, over-limit charges, etc.

Prepaid Card - A card having a set monetary value which is reduced by each purchase.

Previous (Outstanding) Balance – The amount you owed last month.

Transaction Fee – A charge for various credit activities, such as using an ATM machine, getting a cash advance, or using a courtesy check.

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A website
designed to help
make credit work
for you,
not against you.

It includes tips
on budgeting,
saving and
avoiding credit pitfalls.

Because the more
you know
about credit now,

the less painful
your financial future
will be.

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