**A First Look at Credit Cards and Open Credit:**

* Credit involves receiving cash, goods, or services with an obligation to pay later.
* Open credit \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) is a line of credit extended before the purchase.
  + Pay back debt at whatever pace you like, paying a specified minimum balance each month.
* Unpaid balance plus interest carries over to next month.

**Interest Rates:**

* The main determinant of the cost of a line of credit is the Annual Percentage Rate (APR). This is the true \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ paid over the life of the loan.
* APR is calculated the same way by all lenders, but there can be a difference in what is included.
* The Truth in Lending Act requires disclosure of APR in bold print for all consumer loans.

**Interest Rates:**

**Variable Rate Cards**

* Are tied to another interest rate, usually the prime rate.
* Charge \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_a percentage.
* In 2005, the national average APR was 13.4%.

**Fixed Rate Cards**

* The interest rate may change once the card company notifies the cardholder.
* In 2005, the national average APR was 12.9%.

**Calculating the Balance Owed:**

* The method of determining the balance (balance calculation method) varies from one credit account to another.
* Remember: If you pay off your outstanding balance each month and don’t carry a balance, there is \_\_\_\_\_ interest charge.
* 71% of cardholders ages 25-34 don’t pay off their credit cards every month.

**Calculating the Balance Owed:**

* 3 ways to determine interest charges on unpaid balances:
  + Average daily balance method
  + Previous balance method
  + Adjusted balance method
* There are numerous variations on these methods, including a two-cycle average daily balance.

**Average Daily Balance Method:**

* The most common method - used by \_\_\_\_\_% of bank card issuers.
* Sum of daily balances/number of days in billing period.
* Interest payments are based on this balance.

**Previous Balance Method**

* Interest payments are charged against what was owed at the end of the previous billing period, with no credit given for the current month’s payments.
  + This method is very simple – but very \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Adjusted Balance Method**

* Interest is charged against the previous month’s balance only after subtracting payments.
  + Results in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest charges than the previous balance method.
* A favorable variation of the previous balance method.

**Buying Money: The Cash Advance:**

* Cash advances at ATMs are just like taking out a loan.
  + Begin to pay interest immediately.
* Higher interest rate charged on cash advances and an up-front fee of 2-4% of the amount advanced.
* May be required to pay down the balances for purchases before paying down the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest rate cash advance.

**Grace Period:**

* Grace period of 20-25 days is common, interest is then charged on outstanding balance.
  + About 25% of credit cards do not have a grace period.
* Finance charges may not be assessed against credit card purchases for nearly 2 months.
* No grace period with cash advances.
* Usually, if previous balance is not paid off, then the grace period does not apply.
  + Pay interest \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on new purchases.

**Annual Fee:**

* Some issuers impose an annual fee for using the credit card.
  + Typical charge of $10-$100, but AmEx charges $300 for Platinum card.
* Over 70% of biggest credit card issuers do not charge an annual fee.
* Many don’t charge the fee if the card is used at least once a year.
* Merchant pays a percentage of the sale, called the “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.”

**Pros and Cons of Credit Cards:**

**Advantages**

* Necessary part of today’s society
* Convenience
* Source of temporary funds
* Use product before paying for it
* Bill consolidation
* Extended warranties

**Disadvantages**

* Too easy to spend money
* Lose track of spending
* Spend more than original amount due to interest
* Obligating future income
* Less budget flexibility when paying off credit card expenditures

**Bank Credit Cards:**

* Credit card issued by a bank or large corporation.
* Visa and MasterCard don’t issue cards themselves.
  + They are a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Wide acceptance of bank cards with over 7,000 to choose from.
* Co-branded or “rebate” cards have a brand name on the card (GM) and may charge an annual fee.
* Discover Card is issued by one bank, no annual fee.

**Bank Card Variations:**

* **T**here are several different card classes, referring to credit levels of cardholder.
  + Standard – limits $500-$3000
  + Gold - $5000 and up, plus incentives
  + Premium or prestige – as high as $100,000 plus benefits
* Affinity card
  + Credit card issued in conjunction with a charity or University, or an organization.
  + Card bears sponsor’s name and the sponsor receives a portion of the annual fee or percent of purchases.
* Secured credit card
  + Regular bank card backed by collateral.
  + Asset lost if you can’t pay off the charges.

**Travel and Entertainment Cards:**

* Travel and entertainment cards (T&E)
  + Initially aimed at business customers, providing a means of paying for travel and other business expenses.
  + Do not offer revolving credit, requiring \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of balance each month.
  + Have an interest-free grace period.
  + Issuers receive annual fee, up to $300 per year, and the merchant’s discount fee.
  + American Express, Diners Club, and Carte Blanche are the primary issuers.

**Single-Purpose Cards:**

* A single-purpose card can be used only at a specific company.
  + Companies issue these to avoid merchant’s discount fees.
  + Terms vary greatly for each issuer, with some offering revolving credit.
  + Typically, they don’t charge an annual fee.

**Traditional Charge Account:**

* A traditional charge account is offered by a business.
  + Utility companies and doctors provide services to you and bill you later.
  + This payment system is a type of open credit account – one \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cards.
  + You are expected to pay monthly bill in full.

**Getting a Credit Card:**

* Should a student get a credit card?
* It Depends!
  + It can be used for emergencies.
  + By using it prudently, a student can build up a solid credit history.
  + Or it could be beginning of an End.

**Credit Evaluation: The Five C’s of Credit:**

* Creditworthiness is determined by 5 C’s:
  + Character- Sense of responsibility
  + Capacity- Current income and borrowing
  + Capital- Size of financial holdings/ investments
  + Collateral- Assets offered as security
  + Conditions- Impact of economic environment on your ability to repay

**Your Credit Score:**

* A credit bureau is a private organization that maintains credit information on individuals, which it allows subscribers to access for a fee.
  + Experian, Trans Union, and Equifax are examples.
* They compile a credit report on you and assign a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Your credit information not only impacts whether you get a loan, it affects your interest rate.

**Determining Creditworthiness:**

* Your credit information translates into a three digit number – your credit score – which measures your creditworthiness.
* Involves the numerical evaluation or “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” of applicants.
* Reduces the lender’s uncertainty, enabling the lender to make credit available to good risk customers at lower interest rates.

**How Your Credit Score is Computed:**

* A credit score is referred to as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ score.
  + Based on models developed by Fair Isaac Corporation.
* The models begin with information on your report, using it to calculate your score.
* Scores range from 300-850.
  + The majority are between 600 and 800.
  + They vary from one credit bureau to another.
* Visit www.myfico.com/ScoreEstimator.html to get an estimate of your score.

**How Your Credit Score is computed:**

* What is a good score?
  + The national average is 678.
  + This is often the minimum for receiving credit.
* A good credit score doesn’t just mean that you’ll get a loan, it also means you’ll pay less for it.
* A low FICO score may result in a credit card rate twice that of a high FICO score.

**What’s in Your Credit Report?:**

* Identifying Information: Name, address, date of birth, SS number, and employment information.
* Trade Lines or Credit Accounts: Type of account, balance, and date opened, payment history, and current status.
* Inquiries: Lists everyone who has accessed your report in the last 2 years.
* Public Record and Collection Items: Bankruptcies, foreclosures, law suits, wage attachments, and liens.

**Factors That Determine Your Score:**

* Your Payment History (35%)
* Amount You Owe and Your Available Credit (30%)
* Length of Credit History (15%)
* Types of Credit Used (10%)
* New Credit (10%)

**Factors That Determine Your Score:**

**Your Payment History**

* Lenders want to know how you have handled credit payments in the past.

**Amount You Owe and Your Available Credit**

* Shows the amount you owe on your mortgage, car loan, and all other outstanding debt, along with your total available credit.

**Length of Credit History**

* The longer the credit accounts have been opened, and the longer you have had accounts with the same creditor, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ your credit score.

**Types of Credit Used**

* The wider the variety of credit, the higher the score.
* Using different types of credit indicates you know how to handle your money.

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**New Credit**

* New applications for credit will lower your score.
* Those moving towards \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ take all available credit to stay afloat.

**Monitoring Your Credit Score:**

* Monitor your score to ensure there are no errors.
* The Fair and Accurate Credit Transactions Act (FACT Act) allows you to request one free copy of your credit report each year.
* Visit www.annualcreditreport.com to receive information about your free credit report.

**The Credit Bureau and Your Rights:**

* Congress passed the FACT Act in 2003.
  + Allowing individuals a free credit report annually.
* Contact the bureaus regarding incomplete or inaccurate information in your report.
* You have the right to have a statement in your file presenting your view.
* Bankruptcy information can only remain in your file for 10 years.

**If your Credit Card Application is rejected:**

* If your credit card application is rejected, you have 2 choices:
  + Apply for a card with another financial institution.
  + Find out why you have been rejected.
    - Set up an appointment with credit card manager.
    - Address the problem.