

Presented by



Getting a Credit Card

What Is Credit?

You just found the perfect jacket at your favorite clothing store. It looks great on you, so you'd like to buy it and wear it right now. Unfortunately, the jacket costs \$99.95, and you have only \$48 to cover all your expenses until your next payday.

You could wait until you have more cash and hope the jacket is still available. You could also use credit: buy the jacket now and pay for it later. That sounds perfect! But wait; it's not that simple.

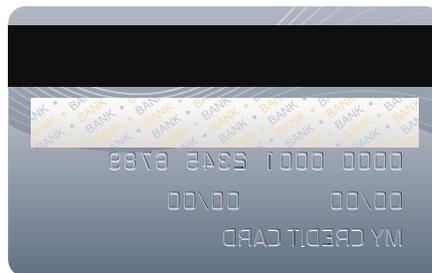
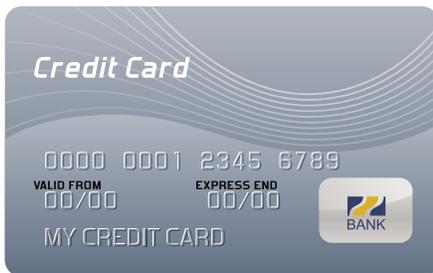
When you buy on credit, someone—the store or maybe a bank—loans you money. You become a borrower, or debtor, and the business or bank becomes the lender, or creditor. The creditor will expect you to pay the principal—in this case, \$99.95 for the jacket. Plus, you will need to pay interest—a preset percent of the purchase amount—as the monetary price for the use of the money.

What Is a Credit Card?

For creditors, a credit card is a convenient way to loan money for everyday consumer purchases, such as clothing, gasoline, or restaurant meals. For consumers, "plastic" is also very convenient: just swipe the card at a checkout line, and pay for everything on one monthly bill.

Credit or Debit—What's the Difference?

Credit cards and debit cards often look the same. Both can carry the familiar Visa, MasterCard, or similar logos. You can use both of them in the same way when making a purchase. So does it really matter which type of card you use?



Your signature goes on the back of the card. On the front of the card is the expiration date, card number, and your name.

Main Idea

A credit card is a useful financial tool. If you understand how it works, you can make it work for you.

After completing this lesson you will be able to:

- Understand how credit and credit cards work
- compare credit card offers and apply for a card
- name advantages and disadvantages of using credit
- explain what's wrong with making just the minimum payments on a credit card

Key Terms

- APR
- Credit
- Credit Card
- Creditor
- Debtor
- Finance Charge
- Interest Rate
- Introductory Rate
- Late Fees
- Minimum Payment
- Principal

Despite their similar appearance, credit cards and debit cards work in very different ways. When you use a credit card, you are borrowing money to make your purchase. You'll receive a bill later, and if you can't pay the full amount of your purchase by the due date, you'll be charged interest on the loan.

A debit card provides a way to use your checking account. It's like writing a check, only faster. When you use a debit card, your bank will debit, or subtract, the purchase amount from your account. (To confuse matters, sometimes your debit card company will encourage you to press the "Credit" button instead of "Debit" after you swipe the card. The card itself is what's important, not the button.)

Are you buying a new laptop computer? If you pay for it with your debit card, the purchase price will be deducted immediately, so be certain you have funds in your checking account to cover the full purchase price. You might use a credit card instead to give yourself more flexibility. On the other hand, you might prefer to "pay as you go" with a debit card for purchases such as pizza. Otherwise, you'd be using credit to pay for something that would be gone before the bill arrives!

Credit cards and debit cards may be nearly identical, but they behave very differently. Both can be useful tools if you understand how they work.

What Are the Pros and Cons of Using Credit?

Credit cards let you buy things you can't otherwise afford. That can be fun for a while, but not when you realize you're deep in debt. So why do most people carry credit cards?

- Credit can be a big help in an emergency. If you're facing a large, unexpected expense that is more than you can cover with your checking or savings accounts, a credit card can give you more time to pay.
- Credit cards are useful for making purchases online or over the phone.
- Responsible use of a credit card helps you establish a good credit history, which can help you in many ways in the future, such as in getting a job you want or a good deal on a car loan.
- If you pay your credit card bill in full every month, you can avoid finance charges. In effect, you can borrow money (if only for a short time) for free!
- Most importantly, credit cards are convenient. You can buy what you want without the need to carry around large amounts of cash.

Convenience can sometimes carry a price, however. Using credit has disadvantages, such as:

- It's easy—really easy—to buy more than you can afford.
- Interest rates on credit cards are usually high, especially for young people who haven't yet established a good

credit history. If you don't pay your bill in full each month, then you actually have a high-interest loan.

- Credit card companies allow you to make a small minimum payment each month, but beware! If you regularly make only the minimum payment, your balance can continue to grow, even if you don't put any new charges on the bill. Using a credit card and making only minimum payments is like digging yourself into a very deep financial hole. Later you'll be able to work through the computer exercise to see how this can happen.

How Do I Get a Credit Card?

Applications for credit cards are easy to find. Most people get plenty of them in the mail every week. Be smart and know that important information about the cards is buried in the fine print, and the terms may not be the best for you. You'll do better if you learn the differences between credit card offers and think about how you plan to use your card. Then, go shopping for a card that meets your needs.

Credit cards are available from banks, credit unions, and many businesses. Magazines such as *Consumer Reports* list cards and compare their terms and features. Information is also available at Web sites such as www.CardWeb.com, where you can narrow your search, for example, to cards with low interest rates or no annual fees.

Do Credit Card Offers Differ?

Whenever you apply for credit, make sure you understand the terms. Fortunately, the federal government requires credit card companies to disclose their terms in a box somewhere on the application. One of the most important terms is how much interest you'll be expected to pay. The interest rate on a credit card is expressed as APR, or Annual Percentage Rate. You can use this APR information to compare credit card offers.

Many cards are advertised with a very low APR—but read the disclosure box before you apply. That low rate is probably an “introductory rate” that is in effect for just a few months or even less. After the introductory period, the APR will increase. The disclosure box will tell you how long the introductory rate will be in effect and what the rate will be afterward.

APR is important, but a low APR may not be what is most important to you. For example, if you're certain that you will avoid finance charges by paying off your bill in full every month, you might want to consider only cards that don't assess an annual fee on your bill, even if the APR is higher.

What Happens if I Don't Pay Off My Balance?

Your monthly credit card statement will look something like the one on the following page. It will include all the purchases you charged to the card during the month, as well as any fees or finance charges. The bill will show the total amount you owe, plus the minimum payment you must make that month to remain in good standing with the creditor.

In the computer simulation, you'll go on a spending spree with your credit card and make only the minimum monthly payment. You'll be able to see just how quickly your bill gets out of control—and you'll better understand a common way that many people get into financial trouble!

What Should I Do if My Credit Card Is Stolen?

If you can't find your credit card, call the card issuer right away; the phone number should be on your monthly statement. Keep a record of important dates and times, such as when you first noticed your card was missing and when you reported it.

To keep thieves from using your card, the company will cancel it and

		Jane Doe Account Number: 2498 Statement Date: 05/28/2016									
ACCOUNT SUMMARY		ACCOUNT SUMMARY									
New Balance Total Current Payment Due Total Minimum Payment Due Payment Due Date	\$1,616.26 \$64.65 \$64.65 06/28/2016	Previous Balance \$0.00 Payments, Credits \$0.00 Purchases \$1,616.26 Fees Charged \$1,616.26 Interest Charged New Balance Total Credit Line \$3,377.78 Credit Available \$1,761.52 Closing Date Days in Billing Cycle									
<p>Late Payment Warning: If we do not receive your Total Minimum Payment by the date listed above, you may have to pay a late fee of up to</p> <p>Total Minimum Payment Warning: if you make only the Total Minimum Payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:</p> <table border="1"> <tr> <td> If you make no additional charges using this card and each month you pay </td> <td> You will payoff the balance shown on this statement in about </td> <td> And you will end up paying an estimated total of </td> </tr> <tr> <td> Only the minimum payment </td> <td> 31 months </td> <td> \$2,004 </td> </tr> <tr> <td> \$103 </td> <td> 18 months </td> <td> \$1,862 </td> </tr> </table>			If you make no additional charges using this card and each month you pay	You will payoff the balance shown on this statement in about	And you will end up paying an estimated total of	Only the minimum payment	31 months	\$2,004	\$103	18 months	\$1,862
If you make no additional charges using this card and each month you pay	You will payoff the balance shown on this statement in about	And you will end up paying an estimated total of									
Only the minimum payment	31 months	\$2,004									
\$103	18 months	\$1,862									
TRANSACTIONS											
Posting Date	Description	Amount									
4/28	Opening Balance	0									
4/28	SuperMarket, Inc.	370									
4/28	Lawrence's Store	1246.26									

When you have a credit card, you receive a monthly statement that includes all your purchases for the month. It also lists your previous balance, new balance, credit limit, available credit, and minimum payment due.

send you a new one. After you report your card missing or stolen, you will need to check your next statement carefully for unauthorized charges on your account. If you find any, report them promptly to the card issuer. You will probably be asked to fill out a written report for each charge that you did not authorize.

If a thief has gone on a shopping spree with your card, don't worry. By law, you cannot be held responsible for more than \$50 worth of unauthorized charges, and many credit card companies will remove all of the fraudulent charges from your bill. That protection is one of the advantages of using a credit card!

Summary

A credit card gives you a convenient and safe way to make purchases. When you use it, you are borrowing money. You must pay the monthly bill, which may include finance charges, fees, and purchases. If you use credit cards to buy more than you can really afford, the debt can grow larger than you can manage. Understand the terms used in credit card offers so that you can get a credit card that meets your needs. Then use it responsibly by charging only what you know you can pay.

Key Terms

APR

Annual Percentage Rate, or the interest rate that the user of a credit card will pay. The APR advertised by creditors varies and should be used to compare different credit card offers.

Credit

Making purchases now and paying for them later (also known as borrowing!).

Credit Card

A plastic card used to make purchases now and pay for them later.

Creditor

Any bank or business that extends credit to others; a lender.

Debtor

Anyone who owes money; a borrower.

Finance Charge

A fee for borrowing money, added to a monthly credit card bill.

Interest Rate

The fee, expressed as a percentage, a borrower owes for the use of a creditor's money. At an interest rate of 10%, a borrower would pay \$110 for \$100 borrowed.

Introductory Rate

A temporary interest rate, advertised as a low APR to entice customers to apply for a credit card. After the introductory period, the interest rate will increase to the regular APR.

Late Fees

Additional fees that can be added to a credit card bill if the card holder fails to make at least the minimum payment by the due date.

Minimum Payment

The smallest required payment that a credit card holder can pay on a monthly bill and still remain in good standing with the lender.

Principal

The amount of money borrowed. On a credit card bill, the principal is the purchase price of all items bought with the card.