Charge It Right

FDIC Money Smart for Young Adults

PNC is proud to work with the FDIC to offer their Money Smart program to our customers, to support lifelong learning in Financial Education.
Objectives

• Describe the purpose of credit cards
• Determine which credit card is best for you, or if a credit card is a good option for you
• Identify the factors credit card companies look for when making credit decisions
• Describe how to use a credit card responsibly
• Identify the steps to take when a credit card is lost or stolen
Charge It Right

THAT WILL BE $35 FOR THE BOOKS AND MAGAZINES.

WOW, THAT ADDS UP FAST.

UH! I HAVE THE CLASS TRIP NEXT WEEK. CASH? OR SHOULD I CHARGE IT?

HERE YOU GO. I’LL HAVE TO CHARGE IT.
Why Is Credit Important?

- **Credit:**
  - Can be useful in times of emergencies
  - Is more convenient and safer than carrying large amounts of cash
  - Allows you to make a large purchase (e.g., car or house), and pay for it over time
  - Can affect your ability to obtain a job, buy or rent a house, or obtain insurance
What Is a Credit Card?

• **Credit cards:**
  – Are a convenient form of borrowing
  – Provide a revolving line of credit
  – Require you to pay the minimum payment each month

• **Charge cards:**
  – Require you to pay the entire balance every month
ATM/Debit Cards

- Automated Teller Machine (ATM) and debit cards are tied to your checking account at a bank
- Be sure you have money in your checking account before you use an ATM or debit card
Stored Value Cards

• **Types:**
  – Payroll cards
  – Government disbursement cards
  – General purpose cards
  – Gift cards

• You cannot build a credit history with stored value cards.
Activity 2: Which Card is This?

Complete Activity 2 in your Participant Guide

– Select the best answer from the list provided
Secured and Unsecured Cards

• Most credit cards are unsecured; requiring no collateral
• Collateral: an asset that you promise to give the bank if you do not repay a loan
• Consider a secured credit card if you have no credit history or have had credit problems in the past
Student Credit Cards

• May have lower credit limit
• Intended to help young people establish credit
• Remember to read the terms and conditions
Rewards Cards

- Earn points toward goods or services
- Receive cash rebates
- Many charge an annual fee

- Make sure the rewards you expect to earn justify the annual fee
Statistics

• In 2008
  – Approximately 84% of undergraduates had at least one credit card
  – Only 17% of undergraduates paid off all their credit card balances each month
  – College seniors were graduating with an average balance of more than $4,100.00
Credit Card Solicitations

• List some of the places where you may be approached or see ads for credit cards?

• What type of tactics do creditors use to try and sell you on a credit card?
Pre-Approved Offers

There are NO Guarantees!

• You are “pre-approved” but must still qualify for the card
• Read the agreement carefully
• Shop around!
• Opt-out by
  – Calling 1-888-5-OPTOUT (567-8688)
  – Visiting www.optoutprescreen.com
Truth in Lending Disclosure

• Legally required
• States all credit card terms, including:
  – Specific account fees
  – The reason why penalty rates may be applied
  – Key terms (at account opening and when terms are changed)
Credit Card Terms

- Read disclosures for important credit card terms:
  - Annual Percentage Rates (APRs)
  - Fees
  - Grace period
  - Balance computation method
APR

• The cost of borrowing money on a yearly basis
• Includes interest and fees
• Rate may be fixed or variable
• Different APR for types of use
  – Purchases
  – Balance transfers
  – Cash advances
  – Penalties
Fees

• Annual fees
• Late fees
• Over-the-limit fees
• Balance transfer fees
• Cash advance fees
• Credit-limit increase fee
• Foreign transaction fee
Grace Period

- Avoid or minimize finance charges by paying your balance in full, or making the minimum payment, on or before the due date.
- Many credit card companies never provide a grace period for cash advances or balance transfers.
Balance Computation Method

- Method for calculating interest
- Most common method is the Average Daily Balance
Activity 3: Is It a Decent Offer?

Complete Activity 3 in your Participant Guide

- Use the sample Truth in Lending disclosure
- Answer the questions
Other Factors to Consider

- Customer service
- Additional protection (e.g., extended warranties)
- Credit limit
Applying for Credit

• Individual credit
  – Based on your own assets, income, ability to pay, and credit history

• Joint credit:
  – Based on the assets, income, ability to pay, and credit history of both applicants
Application Requirements

• Must be at least 21 years old unless you:
  – Can show independent means of repaying the debt
  – Have a cosigner

• Providing false information on a credit application is a crime
Credit Report

• A credit report tells creditors:
  – Who you are
  – How much debt you have
  – Whether you have made payments on time
  – Whether there is negative information about you in public records
  – How many inquiries are listed in your credit report
Credit Reporting Agencies

- Equifax
- Experian
- TransUnion
Credit Scores

• A number that helps lenders determine your credit risk

• Two types:
  – The Fair Isaac Corporation (FICO) Score
  – VantageScore
Credit Denial

• You have the right to have the credit card company give you the reasons that the credit was denied.

• Reasons for denial might include:
  – Bad credit history
  – Do not meet income or residence criteria
Activity 4: Credit Card User Case Studies

Complete Activity 4 in your Participant Guide

- Read each scenario
- Determine whether the credit card user is responsible or irresponsible with their credit card use
- Briefly explain your answer
Lost or Stolen Credit Card

• Tell your credit card company immediately if:
  – Your card is lost or stolen
  – You identify errors on your statement

• Never give your confidential personal information over the telephone unless you have made the call
What is Identity Theft?

• When thieves steal your personal information and pretend to be you

Identity theft is a serious problem!
Common Forms of Identity Theft

• Phishing
  – Unsolicited emails that appear to be from a legitimate source

• Pharming
  – Fake websites seeking personal or private information by appearing legitimate

• Skimming
  – Special storage device used to obtain credit/debit card numbers
Identity Theft Information

Federal Trade Commission (FTC):
– www.ftc.gov/idtheft
– 1-877-IDTHEFT (438-4338)
Credit Card Statement Information

1. Account Summary
2. Payment Information
   www.federalreserve.gov/creditcardcalculator/
3. Credit Counseling Statement
4. Notice of Interest Rate Changes
5. Transactions or Account Activity
6. Interest Charge Calculation
Activity 5: Sample Credit Card Statement

Complete Activity 5 in your Participant Guide

– Use the Sample Credit Card Statement
– Answer the questions
1. Keep your credit card receipts to compare with monthly statements

2. Check your monthly statement for mistakes

3. Report mistakes right away
Paying Your Credit Card Bill

• Pay attention to and consider your:
  – Credit limit
  – Minimum payment
  – How increased payments affect what you owe
Activity 6: Making More Than the Minimum Payment

Complete Activity 6 in your Participant Guide

– Compare the two tables
– Answer the questions
THIS NEW UNDERWATER DIGITAL CAMERA WOULD BE GREAT FOR OUR TRIP!

YEAH, YOU'RE RIGHT. WHY DON'T YOU GRAB IT?

I DON'T HAVE THE CASH RIGHT NOW.

JUST CHARGE IT. THAT'S WHAT THE PLASTIC IS FOR.

YOU KNOW WHAT? I DON'T THINK SO. I TRY TO PAY THAT BILL EVERY MONTH. I CAN'T REALLY AFFORD IT. BUT MAYBE I CAN BUG MY PARENTS...
Congratulations! You learned:

• The purpose of credit cards
• Where you can go to apply for a credit card
• How to decide which credit card is best for you or if a credit card is a good idea for you at this point
• What credit card companies look for before they issue you a card
• How to use a card responsibly and how to safeguard against identity theft