Course Objectives

• Increase your knowledge about financial planning
• Improve your ability to make informed decisions
Credit Cards: It’s Not that Scary
Presenter

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Lesson Objectives

• Understand the benefits and disadvantages of using a credit card
• Understand features of a credit card
Dangers

• Easy to overspend
• Expensive way to borrow
• Trading future consumption for current consumption
• Easy to endanger your credit
Meet Jane

- Recent high school graduate
- Wants new laptop for college
- Just got a credit card
Example: The Purchase

Jane purchased a $2000 laptop

• Paid with her new credit card
• 19.8% APR (Annual Percentage Rate)
• 2% minimum monthly payment
• Jane stopped using the card
• She paid $40 per month
  • Minimum payment = 2% = $40
• It would take 9 years to pay off
• Interest alone is $2261

Total cost is: $4,261
Pay More than Minimum Monthly Payment

- Jane stopped using the card
- She paid $80 per month
  - Minimum payment = 2% = $40
- It would take 3 years to pay off
- Interest alone is $601

Total cost is: $2,601
Benefits

• Convenient
• Make reservations
• Safer than cash
• Available cash in emergencies
• Limited interest-free loan
• Safer on-line purchasing
• Bonus points
Four Tips to Establish Good Credit

1. Always pay your bills on time
2. Always pay your balance in full
3. Undercharge (Stay under 80% of your credit limit)
4. Don’t overextend yourself and be realistic
Credit Card Features

APR (Annual Percentage Rate)
- Teaser Rate
- Rate for Purchases
- Rate for Balance Transfers
- Rate for Cash Advances
- Penalty Rate
Common Fees

• Annual
• Balance Transfer
• Cash Advance
• Foreign Transaction
• Penalty
Understand the Offer

- Long grace period (at least 20 days)
- Interest is calculated using the Average Daily Balance method
- Low interest rate
- No annual fee
- Low penalty fees
Before using credit, ask yourself

Is this something I need or just something I want?
Before using credit, ask yourself

Can I pay for it without hurting my existing cash flow?
Before using credit, ask yourself:

Do I understand all the terms and obligations of using credit?
Before using credit, ask yourself

If I can’t afford it now, will I be able to afford it at the end of the month?
Summary

1. Always pay your bills on time
2. Always pay your balance in full
3. Undercharge (Stay under 80% of your credit limit)
4. Don’t overextend yourself and be realistic
Financial Literacy Program
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Actresses in Skits

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