



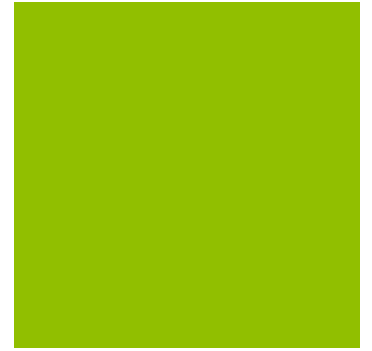
Unit Three—Credit Credit Cards

Standard 4.2.3

Financial Literacy
Riverton High School
Mrs. Morrey

OBJECTIVE:

Develop skills to compare and evaluate the terms and conditions of various credit cards, the differences between credit cards and the legal and financial responsibilities involved.



Types of Credit Card Accounts

- Bank Card
- Store Card
- Travel and Entertainment Card (Rewards Card)





Bank Credit Card

- The issuer of the card (usually a bank) creates a revolving account and grants a line of credit to the cardholder, from which the cardholder can borrow money for payment to a merchant or as a cash advance.
- Interest charges can be avoided if the balance is paid in full within the grace period.
 - VISA
 - MasterCard



Store Credit Card

- Store credit cards often carry higher interest rates. The average credit card interest rate is about 15 percent, but many retail credit cards charge interest rates of 20 percent or more.
- If you pay off your balance in full each month, a high interest rate may not faze you.
 - Macy's
 - Chevron
 - Nordstrom
 - Home Depot



Reward Credit Cards

- A rewards credit card can help you earn cash back, travel rewards and other perks with everyday purchases.
 - American Express (Travel Rewards)
 - Bank of America Travel Rewards (Travel Rewards)
 - Chase Freedom (Cash Back Rewards)
 - Capital One Quicksilver Cash (Cash Back Rewards)



Costs and Features of Credit Cards



- Annual Percentage Rate (APR)
 - The amount of interest on your total loan amount that you'll pay annually.
 - When shopping for a credit card, the lower the APR, the less you will pay in interest.

- Lenders cannot change the APR within the first 12 months of issuing the card
- 45 days required before change the APR after the first 12 months

Cost and Features of Credit Cards



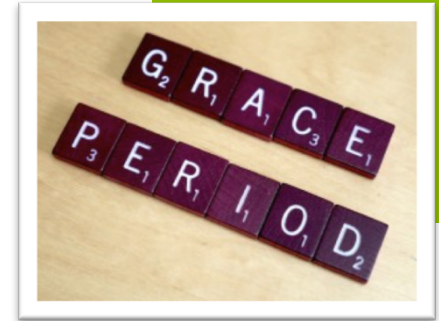
- **Minimum Payment**
 - This is the lowest amount you can pay towards your credit card balance. Your monthly payment is calculated as the percent (4%) of your current outstanding balance. Typically 4% of outstanding balance on credit card
 - \$1,000 → \$40 minimum payment
 - **IN ORDER TO PAY DEBT OF MORE QUICKLY—
ALWAYS PAY MORE THAN YOUR MONTHLY
MINIMUM PAYMENT!**

Costs and Features of Credit Cards



- Finance Charge
 - A finance charge is the total cost of using your credit card expressed in a dollar amount—**INTEREST & FEES**
- Default Rate
 - The default rate is a very high interest rate charged by the credit card issuer when a borrower does not make payments on time.
 - This penalty rate can be lowered -- or "cured" -- if the account holder makes six consecutive on-time payments immediately following the late payment.

Costs and Features of Credit Cards



■ Grace Period

- The period of time a credit card company gives you to pay your new charges, without having to pay interest on the new balance.
- The grace period runs from the end of a billing cycle to the next payment due date (January 15-February 15)

HOW DO YOU AVOID PAYING INTEREST ON YOUR CREDIT CARDS?

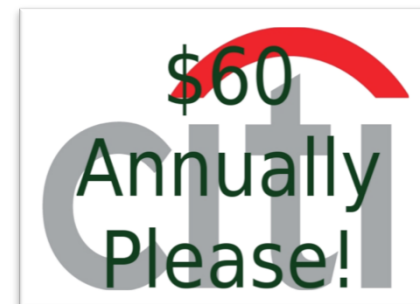
PAY BALANCE IN FULL WITHIN THE GRACE PERIOD!!!

Costs and Features of Credit Cards



■ Annual Fee

- An annual (yearly) fee charged by a credit card company each year for use of a credit card.
- This is a separate fee from interest rate on purchases.
- While annual fees were once common, they largely disappeared in the '80s and '90s, remaining only on a few classes of cards, such as **secured cards** or **reward cards**.



Costs and Features of Credit Cards

■ Late Payment Fee

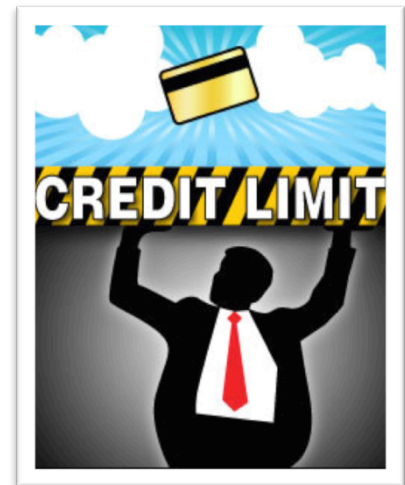
- If you pay your credit card bill a single day after the due date, you could be charged a late fee in the area of \$25, which will be reflected on your next billing statement.
- Late payments will affect your credit history negatively.
- Occasional late fees are capped at \$25 under federal regulations.



Costs and Features of Credit Cards

■ Credit Limit

- A credit limit is the amount of money that can be charged to a credit card.
- The amount of a credit limit is largely influenced on consumer credit scores.



Cost and Features of Credit Cards



- **Over-the-Limit Fee**
 - An over-limit fee is a fee charged when your balance goes over your credit limit.
 - When cardholders attempt to make purchases that will put them over limit, card issuers used to routinely decline the transactions.

Credit Card Protections

- **Prompt Credit for Payment**
 - A card issuer must credit your account the DAY payment is received
- **Refunds on Credit Balances**
 - When you return merchandise or pay more than you owe, you have the option of keeping the positive balance on your account or receiving a refund
- **Unauthorized Charges**
 - If you report your card lost before it is used, you cannot be held responsible for any fraudulent charges
 - If your card is used before you report it lost, you are liable for \$0 if reported within two business days. After that you are responsible for no more than \$50.00
- **Merchandise or Service Disputes**
 - In some circumstances, you have the right to withhold payment for unsatisfactory merchandise or services.

