



CREDIT CONTROL

"When I started college, I had 5 credit cards ... I felt like I had expenses and I put those expenses on my credit card. Trust me. I regretted it!"

Crystal, Recent College Graduate & College Teacher

CRYSTAL'S CHARGES



Crystal was a typical young adult. She went to college with no emergency savings. Soon after she got to college, her car was broken into, and she had no funds to repair it. Like $\frac{3}{4}$ of young adults, Crystal had a credit card. She put the repairs on her credit card!

Unfortunately, Crystal did NOT realize how the interest or extra charges on her credit card would add up. Pretty soon Crystal was stuck in debt. Because she was only paying the minimum, almost all of Crystal's payments went to her extra charges. Crystal could hardly make a dent in her debt!

HOW LONG WOULD IT TAKE TO PAY OFF CRYSTAL'S DEBT OF \$500 WITH MINIMUM PAYMENTS OF \$10?

TAKE A GUESS ... YOU DO NOT NEED TO CALCULATE THE ANSWER!

OVER _____ YEARS!

HOW COULD THAT BE?!

IF CRYSTAL HAD CHARGED \$500 ON HER CREDIT CARD AND HAD AN 18% APR OR INTEREST RATE, PAYING THE MINIMUM OF \$10 SHE WOULD PAY ...

OVER \$ _____ EXTRA IN INTEREST!



CHAPTER SEVEN: CREDIT CONTROL

I thought I was smart. I was going to pay the minimum balance and then I was going to pay the finance charges, but it adds up! If I would have kept doing that, I would have been paying those credit cards for like 5 years!

Crystal, Young Adult – Now Credit Card Debt Free!



Respond to these questions below using Crystal's story from Page 50 or the Video: Trouble with Credit.

- 1) Why did Crystal get into trouble with credit?
- 2) What could Crystal have done differently?

Opportunity Cost Example: The average credit card debt among young adults under 35 is \$5,808! (Value Penguin/Lending Tree, 2020). At a 18% APR, the young adult would pay \$1,045 in interest on this debt annually.

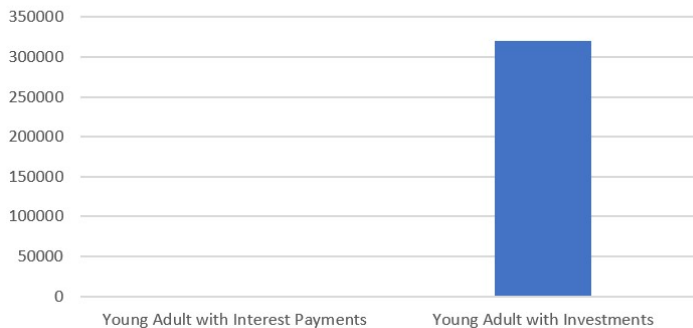
If instead of paying this interest each year the young adult invested the \$1,045, they would have \$320,555 for retirement at age 65 (if they earned 7% APR each year).



"Only get one [credit card] ... definitely pay off the whole amount you put on there. Otherwise, the interest that they charge on that adds up to astronomical amounts."

Hannah, College Student

Investment Value of \$1,045 Invested Annually at 7% for 45 years



AVOIDING FEES

In selecting and using a credit card, be careful to avoid any unnecessary fees.

Common fees include annual fees, application fees, over the limit fees, late fees, returned check fees, balance transfer fees, cash advance fees and of course interest or finance charges. Read the fine print for any credit cards you apply for! You may want to keep your first credit card for a long time – even annual fees can add up!

CHAPTER SEVEN: CREDIT CONTROL

DEAR DICTIONARY: WHAT IS CREDIT REALLY?

Dear Dictionary,

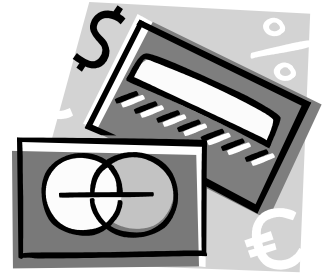
Please help!!! I just got my first credit card offer and I can't understand what all these things mean! Thanks!

Confused

Dear Confused,

You are not alone - most credit card users do not understand the terms of their credit card! Check out the definitions listed below to learn more.

Dictionary



37% of people do not have any idea how their credit score is determined.
(Consumer Card by Lending Tree, 2019)

CREDIT CONTROL DEFINITIONS THAT MAKE CENTS

Credit: Buying a product or service NOW but agreeing to pay for it at some date in the future. (Mary pays for her new jacket with a credit card, but her payment is not due for two weeks.)

Borrower: Someone who gets money or buys something and agrees to pay for it in the future. (Mary was a borrower when she bought the jacket using a credit card.)

Lender: Someone who gives money to someone for them to borrow or to use to buy something if they agree to pay the money back in the future. (Mary's credit card company was her lender.)

Credit Card: A card that allows someone to buy something on credit (see above). (Mary pays for her new jacket with a credit card, but her payment is not due for two weeks.)

Interest: Money charged to a borrower by a lender for the use of the lender's money. (Mary's total balance on her credit card at the end of the month was \$1,000. If Mary does not pay this full balance by the due date, she will be charged \$15 in interest this month.)

Interest Rate: The cost of borrowing money, usually shown as an annual percentage rate. (Mary's interest rate is listed as an **APR** of 18% or an 18% **annual percentage rate**. This means she would owe \$18 on \$100 borrowed for one year.)

Balance: The amount of money you still owe to the bank or lender. (If Mary paid \$600 at the end of the month on the \$1,000 she borrowed, her balance would be \$400.)

Minimum Payment: The least amount of money you must pay towards your bill each month. (Mary has a minimum payment of 5% of her balance, but this cannot be less than \$10.)

Grace Period: The time from when you are billed for something until the time when you have to pay for it or be charged interest. (Mary buys something on May 2nd but does not owe any money until May 22nd as she has a 20-day grace period.) **The grace period ONLY applies if the previous month's balance was paid in full.**

Credit Limit = The most a credit card user can spend or borrow on their card. (Mary's credit limit is \$500. She cannot have a balance of more than \$500 on her card.) **It is recommended that individuals do not use (or carry a balance of) more than 30% of their credit limit.**

CHAPTER SEVEN: CREDIT CONTROL

WHAT SHOULD YOU DO BEFORE YOU GET A CARD?

What do other young adults recommend doing **BEFORE** getting a credit card?

- 1) **Build EMERGENCY SAVINGS!** If you never spend more on your credit card than you have in your account, then you can always use some of your emergency funds to pay your bill if you get into trouble!
- 2) Many people spend more when they switch to paying with plastic. Open a **CHECKING ACCOUNT**. Practice keeping your checking account balanced and using a **DEBIT CARD** BEFORE getting a credit card. Successfully **BUDGET** your money for several months **BEFORE** getting a credit card.
- 3) Learn about managing credit and building a positive credit record. Complete the “Be Credit Ready” playlist at www.FutureFinancePrep.com.
- 4) **CHECK your CREDIT RECORD** at www.annualcreditreport.com **BEFORE** getting a credit card. Ideally, the status for all credit lines will be “paid on time as agreed.” If you find an error on your record or think someone else may have put bills in your name, see Ch. 8 for help.
- 5) **Make a commitment to PAY OFF YOUR BALANCE IN FULL EVERY MONTH BEFORE getting a credit card.** Make a commitment to use your credit card only for a set amount of purchases that fit into YOUR budget and keep your balance low. When you reach your set amount, put the card away!

#5

“[At first] instead of using credit, use debit because then you won’t be as tempted to spend because you know that’s your “real money” you’re spending.”

Tanisha, Young Adult



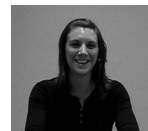
“You really have to read the fine print [with credit cards]...just know there are no freebies out there.”

Evan, Young Adult



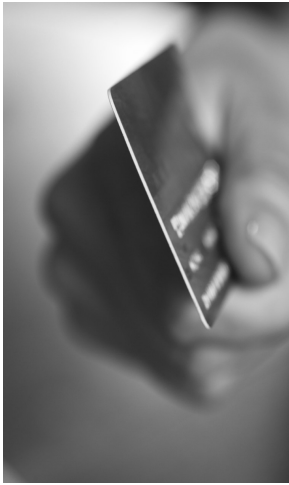
“Only [buy on credit] when you absolutely have to, keep an emergency savings account for unexpected expenses and [if you have debt] always pay more than the minimum.”

Debbie, Young Adult



CHAPTER SEVEN: CREDIT CONTROL

WHAT IS A CREDIT RECORD ANYWAY?



Credit Building Definitions

Credit Record: The history of your current & past borrowing and payment activities. This includes credit card payments, some utility bill payments or cell phone plans, bankruptcies, etc. (Mary's credit record shows the credit cards that Mary has had, her auto loan payments, some utility payments & more. A **credit report** is a report detailing your credit record. This can be thought of like your transcript for credit. Your **credit history** refers to your past borrowing & payments.)

Credit Score: A number that represents the quality of your credit and payment history. Scores range from 300 to 850. Scores of 720 or more are considered the "best." Forty-percent of card holders have a score over 749 (www.fico.com). (Mary's credit score can be thought of as being like her GPA or grade point average for managing credit.)

WHO CARES ABOUT MY CREDIT SCORE?

1. Lenders – Any corporation that is considering lending you money – auto dealers (auto loan), mortgage broker (home loan), etc. - care about your credit.
2. Employers – Many banks, large corporations, large hospitals, the military, employers that will have you handle cash or finances will now ask you for permission to check your credit score. If you have a bad credit score and say no to this, how do you think this will impact your chances of getting the job in a competitive market?
3. Apartment Rental Companies – Your future landlord or property manager may pull your credit as part of the application process.
4. Insurance – Your credit score can also have an impact on your insurance rates.

FACT: MANY EMPLOYERS NOW ASK TO LOOK AT YOUR CREDIT SCORE! A BAD CREDIT SCORE COULD COST YOU A JOB!

WHAT WOULD YOU WANT TO KNOW AS A LENDER?

How do credit reporting agencies decide what your credit score will be?
How do lenders choose to whom they will give a loan? Let's find out.

FLIP FLOP! Let's pretend that YOU are the lender...

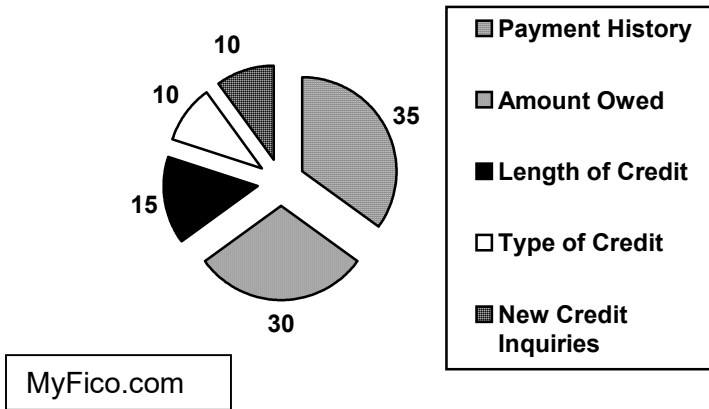
1. **What if you were lending a friend or others in your class \$1,000?**
(Fake money of course!)
2. **What you would want to know about the other people before you lend them your \$1,000? (List your top 3 questions below.)**



CHAPTER SEVEN: CREDIT CONTROL

WHAT MAKES UP YOUR CREDIT SCORE?

The chart below lists the things that credit reporting agencies think about when figuring out your credit score. It also shows how important each item is. (For example, “payment history” is the largest section of the chart at 35%. This means that “payment history” is the most important factor or item in setting your credit score.) A list of what each item means is included to the right.



PAYMENT HISTORY = a record of previous credit payments including bill payments, credit card payments, etc. (Bankruptcies, delinquencies, accounts not paid or late payments will hurt your credit score.)

AMOUNT OWED = the amount that you owe as a percentage of your credit limit (pg. 52) (Owing too much or “maxing out” your cards hurts you.)

LENGTH OF CREDIT = a record of how long you have had your accounts open (Having a short credit history will hurt your score.)

TYPE OF CREDIT = a listing of the types of credit you have – loans, credit cards, etc. (Having a positive record of managing credit card and loan payments helps you.)

NEW INQUIRIES = a record of new inquiries or applications for credit (Having too many applications for credit can hurt your score.)

HOW DO I BUILD A GOOD SCORE?

- 1) **If you do not have credit, think about if or when you should obtain credit.** Be sure to weigh the costs of any fees, risks, or requirements with any benefits.
- 2) **Establish a savings account & limit your credit charges to the amount you have saved in your savings account.** Emergency savings can then be used to pay off your charges in a pinch!

If you are concerned about having the discipline to manage a typical credit card or cannot qualify for a traditional credit card, consider a **secure credit card**.

- 3) Many cards may have varying interest rates, fees or may not offer a grace period in certain circumstances. This can cost you big bucks! **Read the fine print of your credit card offer BEFORE you sign.**
- 4) **Pay your bills on time as agreed every month.** Once you have any type of credit, be sure to pay your bills on time EVERY month. Be sure to at least pay the **minimum on time as agreed**. *When you use a utility or service and pay for it later, this is credit! Some companies report these payments if you are late or have not paid. PAY YOUR BILLS ON TIME!*

SECURE CREDIT CARD = A credit card that requires a deposit in an equal amount to your credit limit. You can get your deposit back when you transition to a regular card. (Mary was nervous & had difficulty qualifying for a credit card so she put down a deposit to get a secured card.)

CHAPTER SEVEN: CREDIT CONTROL

HOW DO I BUILD A GOOD SCORE? (CONTINUED)

- 5) **Do NOT MAX OUT your credit cards!** Keep charges or utilization to **less than 30%** of your **credit limit**. This may help to improve your credit score.
- 6) **Once you decide that you are ready for a credit card, pay off the balance in full (or the total amount you charged) each month.** Once you do NOT pay the balance in FULL (for most cards), you will owe interest on ANY card purchases you make until your **balance is zero**.
- 7) **Keep the number of cards that you have small.** Having too many cards or applications for credit may be too hard to manage and may hurt your score.
- 8) **Continue to check your credit record at least once a year for free from each credit reporting agency at www.annualcreditreport.com.** Ideally, the status for all credit lines will be “paid on time as agreed.” If you find an error on your record or think someone else may have put bills in your name, see Ch. 8 for help. (You may also want to use free sites like Credit Karma, Experian, or others to get your credit score or a score estimate for free but remember to ignore the ads on many of these sites. Banks may also offer free credit score information.)
- 9) **If you are worried your credit record is compromised (see Ch 8 for additional steps), consider a credit freeze or fraud alert.**

CREDIT LIMIT = The most a credit card user can spend or borrow on their card. (Mary’s credit limit is \$500. She cannot have a balance of more than \$500 on her card.)

DEAR DICTIONARY

Credit Freeze = limits access to your credit so no new accounts can be opened when frozen; you can temporarily lift the freeze when you apply for new credit accounts; contact ALL credit bureaus.

Fraud Alert = makes it harder to open new credit accounts because your identity must be verified by contacting you before the account is opened; must be renewed annually; contact any credit bureau

Should you consider becoming an authorized user on someone’s credit card?

Be VERY careful about this. Although the primary credit card user will be the responsible party for your changes on this credit card, your use of the card will impact the primary user BUT the primary user’s use of the credit card will also impact YOU. (Mary was added as an authorized user on her aunt’s credit card. Her aunt lost her job and did not pay her bills for some time. This hurt Mary’s credit score.)

AUTHORIZED USER = someone other than the primary user that is added to a credit card and may use the card but is not responsible for payments. The activities on the card WILL impact the authorized user’s credit.

Should you consider cosigning on a loan, rental agreement, etc.?

- **Be very cautious in considering cosigning. All activities will impact BOTH parties.**

COSIGNER = someone other than the borrower that assumes liability or responsibility for a loan or line of credit – actions will impact the credit of BOTH the borrower AND the cosigner

CHAPTER SEVEN: CREDIT CONTROL

WHAT SHOULD I DO IF I GO INTO DEBT?

1) Work with your lender, credit card company, utility, etc.

When many students realize that they will not be able to pay a bill, they panic. They are afraid to contact the company that they owe money to and try to ignore the problem. This is the worst thing that you can do.

If you contact the company, you will often find that they will help you to arrange a payment plan. You will still need to pay your debt of course, but this can help you to avoid missing payments which will cost you more money in fees and may hurt your credit record (costing you even more money in the future through higher interest).



2) Make a plan to pay off your debt.

Pay off as much as you can each month but be SURE that you at least make your minimum payments and make these ON TIME! Avoid making any additional purchases on credit unless you can pay off the balance in full.

HOW DO PAYMENTS MAKE A DIFFERENCE?

Payment amounts can make a huge difference in the total interest you pay.

For example, let's say you purchase \$500 worth of textbooks and school supplies on your credit card. Your credit card has a 16.5% interest rate and lets you make minimum payments of \$10.

How long do you think it would take you to pay off your \$500 balance (in years) and how much interest would you pay with the monthly payments listed below?

(You do not need to calculate this amount just take your best guess.)

1) Minimum monthly payment of \$10:

Time to Pay Off _____ Interest paid \$ _____

2) A larger monthly payment of \$25:

Time to Pay Off _____ Interest paid \$ _____

3) A larger monthly payment of \$100

Time to Pay Off _____ Interest paid \$ _____

**CRYSTAL IS NOW CREDIT CARD
DEBT FREE!**

*I tell everyone I know... just
one credit card and that's
just for emergencies and to
build your credit.*



For free, personalized credit counseling, find a reputable counseling agency that does NOT charge for education or consultation. See your program instructor for further information. See Resource List.

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CREDIT JEOPARDY: IT ADDS UP!

Let's see how much you have learned! **Complete this Credit Control Jeopardy review below by filling in the blanks with the appropriate term from Ch 7.**

- ▶ Question: If you just pay the minimum on your credit card bill, you usually must pay i _____ on the amount that is due and that you have not paid.
- ▶ Question: If you miss your credit card payment and do not pay your bill - even the minimum payment, you will be charged an extra fee and this will hurt or lower your credit s _____.
- ▶ Question: Mary's car just broke down she knows that she will not be able to pay her full balance on her utility bill. She wants to just ignore the bill and hopes the whole thing goes away, but she remembers that she should always c _____ the company if she can't make a payment.
- ▶ Question: Payments for some utility bills, your student loans, your auto loan, and your credit card may all show up on your c _____ r _____. By law you may receive a free c _____ r _____ once every 12 months from each of the 3 agencies.



Be sure to check your credit during your Get Real: Financial Literacy. Reach out to your financial literacy instructor with any questions or concerns.

Learn more at FutureFinanceReady.com & select **Be Credit Ready**.

I got my first credit card my freshmen year of college. I had some trouble getting a credit card because I didn't have a credit history, so I got denied from some of them, but my purpose for getting a credit card was to build my credit history.

Terri, College Student with Excellent Credit (Now)



REMEMBER: AN EMERGENCY SAVINGS ACCOUNT CAN HELP YOU TO STAY OUT OF DEBT. IF YOU NEVER SPEND MORE ON YOUR CREDIT CARD THAN YOU HAVE IN YOUR ACCOUNT, YOU CAN ALWAYS USE SOME OF YOUR EMERGENCY FUNDS TO PAY YOUR BILL IF YOU GET INTO TROUBLE!