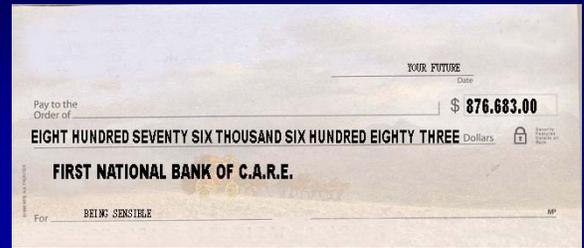




CARE Program

Presented by the Bankruptcy
Section of the Utah State Bar
Association



Test your financial knowledge

- True
- or
- False



- 1. You must be 18 years old or older to obtain a credit card in your own name.

true

- Before you become 18 you may obtain a credit card where an adult is the authorized user. When you turn 18 you may apply for a credit card in your own name and incur debt in your name.



- 2. All credit cards charge the same annual percentage rate of interest on the balance you owe.

false

- Different banks charge different rates. Other important terms vary also, such as annual fees, late fees, grace period.
- **Check out this website for a comparison of terms:**
www.cardtrak.com.
See also smartmoney.com

An advertisement for the Platinum MasterCard for Family Travelers. It features a large '9.99%' interest rate, a 'No Annual Fee' badge, and a 'FREE' badge. The text includes 'Introducing the Platinum MasterCard for Family Travelers', 'Fixed APR 9.99% (1% on introductory APR)', 'No Annual Fee Credit Line Up to \$100,000', 'Earn FREE Travel and Travel-Related Rewards!', and contact information for Brian T. Kantor at 48 Corey Rd., Brewster, MA 01936-2140. There is also a 'FREE Card' badge.

- 3. If you pay your credit card balance in full each month, it doesn't matter what rate of interest the bank charges on your credit card.

true

- Since you only pay interest on the unpaid amount each month, you *never pay any interest charge if you pay the entire debt.*
- Banks do not like it when you do this !!



- 4. You pay no interest on a debit card purchase.

true

- A debit card works just like a check. Your ATM card is probably a debit card.



- 5. There is a credit report for everyone over the age of 18.

false

- There is a credit report only for those who have established a credit history.
- Having **no** credit history can have adverse consequences.

- 6. If you are late making a few payments on your credit card, the interest rate you pay may increase sharply.

true

- For example, on one Platinum VISA card, the rate jumps from 4.9% to 24% if you pay late or miss even one payment. Late charges also accrue.



- 7. If you miss just one or two payments on your credit card, it won't hurt your credit rating.

false

- That negative information can legally remain on your report for up to 7 years.



- 8. If you apply for a car loan, the lender will probably review your credit report.

true

- People who lend you money will almost always review your credit report. If your credit is poor your interest rate will be higher.
- You may receive free copies of your credit report each year.



- When you apply for a job, your prospective employer may review your credit report.

true

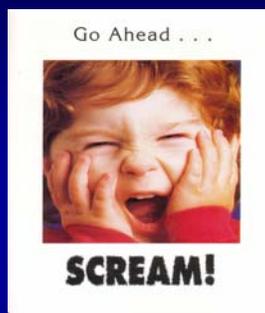
- A prospective employer can review your credit report if you give written authorization.
- More employers are asking to see credit reports.
- What happens if you refuse to let employers see report?



- 10. Bouncing just one check won't cause you credit problems.

false

- If you bounce a check your bank may put your name in ChexSystems. You could be "blacklisted" for up to 5 years - this means you cannot use a checking account.



- The average college student owes several thousand dollars in credit card debt today.

true

- Credit card debt is rising rapidly among young adults.
- Don't fall into the trap of spending money you don't have.
- Doing so may result in you having to file bankruptcy.



Pay Yourself \$876,683

	Potential Savings Per Loan	Number of Loans During Lifetime	Potential Savings Lifetime
30 Year Mortgage			
5 Year Auto Loan			
Credit Card Interest 40 Years			
Potential Lifetime Savings			\$876,683

30 Year Mortgage Interest Rate Comparison

\$300,000 Home Mortgage	
5.8 % Interest Rate	\$1,760 Monthly Payment
10.8% Interest Rate	\$2,812 Monthly Payment
Payment Differences	
Monthly Difference	\$1,052 per month
Annual Difference	\$12,624 per year
Total Payments on Loans	
5.8 % Interest Rate	\$633,600
10.8% Interest Rate	\$1,012,221
Difference Over Life of Loan \$378,720 total	

Pay Yourself \$876,683

	Potential Savings Per Loan	Number of Loans During Lifetime	Potential Savings Lifetime
30 Year Mortgage	\$378,621	1.5	\$567,931
5 Year Auto Loan			
Credit Card Interest 40 Years			
Potential Lifetime Savings			\$876,683

5 Year Auto Loan

\$30,000 Automobile	
7% Interest Rate	\$594 Monthly Payment
13% Interest Rate	\$683 Monthly Payment
Payment Differences	
Monthly Difference	\$89 per month
Annual Difference	\$1,068 per year
Total Payments on Loans	
7% Interest Rate	\$35,640
13% Interest Rate	\$40,980
Difference Over Life of Loan \$5,340 total	

Pay Yourself \$876,683

	Potential Savings Per Loan	Number of Loans During Lifetime	Potential Savings Lifetime
30 Year Mortgage	\$378,621	1.5	\$567,931
5 Year Auto Loan	\$5,340	10	\$53,400
Credit Card Interest 40 Years			
Potential Lifetime Savings			\$876,683

Credit Card Analysis

•Assume that you pay the greater of \$20 or 2% of outstanding balance with interest at 18% (this is all industry standard)

•Assume monthly charges of \$300.

•Your balance in 10 years = \$26,533

•Your balance in 20 years = \$40,569

•Your balance in 30 years = \$47,988

•Your balance in 40 years=\$51,914

Total Credit Card Interest \$255,352

Pay Yourself \$876,683

	Potential Savings Per Loan	Number of Loans During Lifetime	Potential Savings Lifetime
30 Year Mortgage	\$378,621	1.5	\$567,931
5 Year Auto Loan	\$5,340	10	\$53,400
Credit Card Interest 40 Years			\$255,352 *
Potential Lifetime Savings			\$876,683

*This is the interest portion of credit card charges. If you pay off your entire balance each month and accrue no interest over the 40 year life of your credit card, this is your savings.

What are the consequences of bad credit?

How will it affect you in the future?

If your credit rating is poor

- You may not be able to get student loans for undergraduate or graduate school
- You may pay higher interest rates on vehicles
- Your insurance rates may be higher
- Your interest rates will be much higher
- You may be overlooked for jobs
- You may not be able to find housing

Young Adults

- Bombarded with credit card applications
- Tricks to get you to sign up
- No explanation on how to use
- Age group with largest increase in bankruptcy filings
- Many colleges receive money for allowing credit card companies to promote cards
- Credit problems are so serious for some students that they have committed suicide

Wants vs. needs



- To prepare an effective budget you should distinguish your wants versus your needs. Just because you can charge something it does not mean you can afford to pay for it.

Remember

- CHARGING SOMETHING ON A CREDIT CARD DOESN'T NECESSARILY MEAN YOU CAN AFFORD IT!

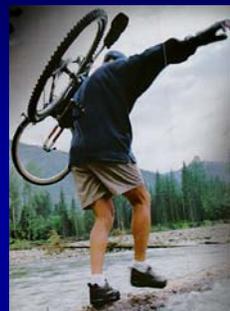


What are good reasons to have credit cards?



- Convenience
- Safety- Usually a \$50 limit on liability
- If used properly will help build a good credit rating
- Travel
- Internet purchases
- Emergency situations

- They often provide special consumer protections
- They can provide you leverage with a merchant





- Different credit cards offer different “rewards”, such as air mileage, savings bonds, sporting equipment. Evaluate whether these features are worth any extra credit costs to you.

What are the problems that arise from using credit?

- If your payment record is poor your credit rating will suffer.
- You may be denied credit or be required to pay much higher interest rates.
- You might lose a job opportunity or be denied an apartment lease.



What if you bought ...

- Speakers for \$1,200.00
- CD player \$500 and
- Tuner \$300
- TOTAL: **\$2,000**



- And what if you use your credit card to buy the system and you make monthly payments of **\$300**?
- Assume you never miss a payment and the annual percentage rate on your card is **8%**.

What will the system end up costing you?

How long will it take you to pay for it?

- Your total cost will be **\$2052**

It will take you **SEVEN MONTHS** to pay for it



- Now, instead of an 8% rate of interest , assume that, because of your poor credit rating , you must pay interest at the rate of **24%**.
- Also assume that you pay only the **MINIMUM MONTHLY PAYMENT** of \$50 per month.

How long will it take you to pay for the stereo?

How much will you end up paying for the system?

- It will take you **82 MONTHS**
- Almost **SEVEN YEARS**
- **TOTAL PAYMENT:**
\$4,062



- Your choices:
- Pay \$2,000 cash
- Pay \$2,052 over seven months
- Pay \$4,062 over seven years



Helpful tips

- Limit the number of cards you use to just one or two. Keep track of where they are.
- Cancel unused cards. Unused cards are a factor lenders consider in extending credit.
- Either use credit only for essential purchases or pay off the entire debt each month.
- Keep your card in view whenever you hand it to a merchant.

- Check your credit report yearly and correct errors. Find out what your credit score is.
- Shop around for a credit card with the best terms.
- Establish good credit by using a checking account, a debit card and paying all bills on time.
- Take out a small loan (perhaps with parent as co-signer) and repay it timely in order to establish a track record

It is not a magic carpet



CARE Program
weblink

www.careprogram.us

