EXTRA CREDIT:
UNDERSTANDING THE DO'S & DON'TS OF USING CREDIT

TAKING CHARGE OF CREDIT: 10 TIPS TO CREDIT DISCIPLINE

Use the following suggestions as guidelines to self-discipline to keep your credit in order.

1. Don't have and use more credit cards than you need. This limits your potential credit liability and may encourage impulse buying.

2. Think it over: don't charge an item on impulse. Take a day or two to think it over unless it's an emergency.

3. Combine your credit use with a savings plan when possible. After paying off a revolving charge or installment loan, put that amount monthly into a savings plan.

4. If you're using a credit card or charge account, pay for a portion of the purchase in cash to reduce the amount charged.

5. Keep all credit receipts and check them against monthly statements for accuracy and excess spending.

6. Keep a record of your credit card purchases and credit limits to serve as a quick reference to your financial status.

7. Carefully review each statement you receive from your creditors and compare with the records you are keeping.

8. Stop using credit when credit payments are higher than 15% of your monthly net income.

9. Don't charge more than you can pay off in one billing cycle or within a maximum of two months.

10. Keep credit cards out of reach to avoid impulsive shopping.

ELEVEN DANGER SIGNALS OF DEBT PROBLEMS

1. Paying only the minimum balance each month on credit card bills while continuing to use credit.

2. Regularly using 3 or more credit cards.

3. Missing payments, making late payments, or choosing which bills to pay each month.

4. Using savings or credit cards to pay normal bills such as groceries or utilities.

5. Receiving second and third notices from creditors.

6. Intentionally using the overdraft or automatic loan features on checking accounts, or taking frequent cash advances on credit cards.

7. Not talking to your spouse or significant other about money, or talking only about money.

8. Rely on extra income to make ends meet.

9. Owe more than 20% of monthly income.

10. No saving for emergencies (should have a 3-month reserve minimum.)

11. Borrowing money to pay old debts.

Activity 1: Q & A VIDEO REVIEW QUIDE
Answer the questions as you view the video.

1. List 2 wise or reasonable uses of credit:

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2. Describe the following types of credit:

SECURED- ______________________________________

UNSECURED- ____________________________________

REVOLVING- _____________________________________

INSTALLMENT- ___________________________________

3. List 3 disadvantages of using credit:

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4. Explain 3 ways to build a good credit rating:

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Activity 2: TAKING CHARGE OF CREDIT

Calculate the True Cost of Credit

The Annual Percentage Rate (APR) is the rate of interest for a year. It pays to shop around and compare interest rates at various banks, credit card companies, or other lenders. In the following exercise, calculate the APR for the loan of $2,000.00 for 12 months.

BANK A
6.9% APR

Interest Amount $______________

Total to repay $________________

Monthly payment $_____________

COMPANY B
11.9% APR

Interest Amount $ _______________

Total to repay $_________________

Monthly payment $______________

BANK C
9.5% APR

Interest amount $_______________

Total to repay $________________

Monthly payment $_____________

CREDIT CARD D
18.9% APR

Interest amount $________________

Total to repay $_________________

Monthly payment $_______________

EXAMPLE FOR CALCULATING THE APR AND MONTHLY PAYMENT FOR ONE YEAR

Amount of loan: $500.00 Length of loan: 12 months
Annual Percentage Rate (APR): 8.5%
(Interest Rate= Finance Charge)

Step 1: 500 (amount of loan)
X 8.5% (APR)
$42.50 (finance charge)

Step 2: 500.00 (amount of loan)
\+ 42.50 (finance charge)
$542.50 (total amount to pay)

Step 3: 542.50 ÷ 12 months = $45.21 monthly payment.

ANSWER KEY

Q & A VIDEO REVIEW

1. - in a "real" emergency (illness, lost job, car breaks down)
   - when you can pay balance in full each month
   - to buy large items you can afford to pay for on the installment plan (car, appliances, etc)
   - to build a good credit rating

2. - SECURED: tied to a savings account or other form of collateral; ensures payment in case of default
   - UNSECURED: no collateral needed to get credit; borrower's signature is all that is required
   - REVOLVING: an agreement that provides a line of credit to a set limit (i.e. $1,000) that may be paid in full at the end of each billing cycle, OR a minimum monthly balance can be paid with additional finance charges on the unpaid balance.
   - INSTALLMENT: an agreement between buyer and creditor for buyer to have use of an item or items while paying a (usually) fixed monthly payment plus a finance charge. Creditor holds the title to the goods until all payments are made. (car, appliances, sound equipment, etc.)

3. - tendency to overspend
   - can't afford to make minimum monthly payments
   - expensive- high interest rates and finance charges
   - failure to pay damages credit rating

4. - pay monthly bills on time
   - get an installment purchase and pay it off promptly
   - pay off credit card balances in full each month
   - pay revolving charges on time

CALCULATIONS: TAKING CHARGE OF CREDIT

Bank A @ 6.9%	$138 interest	$2138 total repay	$178.17 month
Company B @ 11.9%	$238 interest	$2238 total repay	$186.50 month
Bank C @ 9.5%	$190 interest	$2190 total repay	$182.50 month
Credit Card D @ 18.9%	$378 interest	$2378 total repay	$198.00 month