

Participant Guide

CHARGE IT RIGHT

FDIC

Money Smart



FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

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Money Smart for Young Adults Modules

Bank On It

An introduction to bank services

Borrowing Basics

An introduction to credit

Check It Out

How to choose and keep a checking account

Charge It Right

How to make a credit card work for you

Setting Financial Goals

How to keep track of your money

Paying for College and Cars

Know what you are borrowing before you buy

Pay Yourself First

Why you should save, save, save

A Roof Over Your Head

What home ownership and renting are all about

Your Guides

Students from Lakeview High are going to be your guides in this lesson.



Jasmine

Hobbies: Hanging out with friends, shopping, collecting teddy bears

School life: Likes English class, swims on the swim team

Job: Works weekends and holidays at her aunt's gift shop

Family: Younger brother named Dominique, large extended family

Future plans: Go to an in-state college and become an exercise physiologist



Todd

Personality: Shy, good sense of humor, intelligent

School life: Likes school, but does not work very hard at it

Jobs: Two part-time jobs (fast food and a grocery store)

Family: Mom and sister

Future plans: Attend college; he is not sure where he wants to go or how he will pay for it, but is saving all he can

Ramón



Hobbies: Going to the movies or playing mini golf with his girlfriend

School life: Plays on the soccer team

Family: Born in the United States (U.S.), but his parents are from Peru; he has a little sister and an older brother who is a pilot in the Air Force

Job: Repairing computers; wants to work for NASA some day

Future plans: Attend college on a soccer scholarship to study engineering

Grace



Hobbies: Art, drawing fashion sketches

School life: Does not really fit into the “high school scene”

Family: Two parents, no siblings

Job: Works at a clothing store at the mall

Future plans: Enroll in Fashion Design School

Checking In

Welcome



Welcome to *Charge It Right!* One of the first steps to financial security is planning and following through on a personal spending plan or budget. Budgeting is about choices—choosing how to make money and choosing how to spend money.

Purpose

The *Charge It Right* module will teach you about credit cards and how to use them responsibly.

Objectives



After completing this module, you will be able to:

- Describe the purpose of credit cards.
- Determine which credit card is best for you, or if a credit card is a good option for you.
- Identify the factors credit card companies look for when making credit decisions.
- Describe how to use a credit card responsibly.
- Identify the steps to take when a credit card is lost or stolen.

Student Materials

You have a copy of the *Charge It Right* Participant Guide. You can take it home and use it as a reference. It contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module



Pre-Assessment

1. Which of the credit card terms below is most important to consider if you expect to carry a balance on your credit card from time to time?
 - a. Annual fee
 - b. Annual Percentage Rate (APR)
 - c. Late fee
 - d. Over-the-limit fee

2. What is the main source of information credit card companies use to decide whether to issue you a credit card?
 - a. Personal references
 - b. Balance computation method
 - c. Truth in Lending Disclosure
 - d. Credit report

3. What should you do when choosing a credit card?
 - a. How you plan to use the credit card
 - b. Read and compare credit card terms
 - c. Determine which credit card is best for you
 - d. All of the above

4. If you carry a balance on your credit card and would like to pay less interest and pay the balance off faster, you should:
 - a. Make the minimum payment every month
 - b. Talk with your credit card company about removing your annual fee
 - c. Pay more than the minimum payment (as much as possible) each month
 - d. Close your account and continue to transfer your balance each month to a different credit card

5. Are you eligible to receive a free credit report from each credit reporting agency once every 12 months?
 - a. Yes
 - b. No

6. Who should you call first if your credit card has been lost or stolen?
 - a. A credit reporting agency
 - b. The merchant where you last used the card
 - c. The credit card company
 - d. The police

7. What steps can you take to avoid identity theft? Select all that apply.
 - a. Protect your computer (e.g., install a firewall)
 - b. Shred financial information before throwing it away
 - c. Share your passwords and personal information with friends
 - d. Provide financial information to a stranger that calls or emails you

8. How can you reduce the interest you pay on a credit card and the time to pay off the debt?
 - a. Skip making the minimum payment
 - b. Pay more than the minimum payment
 - c. Pay the minimum payment
 - d. Pay off the balance in full each month
 - e. b and d

9. Which of the following accurately describes credit cards?
 - a. They always allow you to make unlimited number of purchases with no set dollar limit
 - b. They are used to purchase goods and services and pay for them over time
 - c. You must always pay the balance in full each month
 - d. When you purchase items, the money is withdrawn from your checking account

10. What is the first step you should take if your credit card is lost or stolen?
- Review your statement to see if any purchases were made by someone other than yourself
 - File a police report
 - Call the credit card company immediately to report the lost or stolen card
 - Have a new card issued
11. Which of the following are examples of using credit cards responsibly?
Select all that apply.
- Apply for multiple cards (e.g., 3 or 4)
 - Pay off your balance each month, or more than your minimum payment if possible
 - Pay your bill on time
 - Accept offers to skip your monthly payment
12. When you want to apply for a credit card, you should:
- Apply for the first offer you receive or find
 - Apply for retail store cards only
 - Compare several cards and choose the one that seems best for you
 - Apply for credit cards with the lowest introductory rates
13. Which type of credit card is linked to a savings account for collateral?
- Secured credit card
 - Unsecured credit card
 - Pre-approved credit card
 - Stored value card
14. Before applying for a credit card, the most important thing to read is the:
- Truth in Lending Disclosure for the credit card
 - Financial institution's lending policy statement
 - Credit card perks or reward systems
 - Monthly credit card statement



Credit Choices



Credit:

- Can be useful in times of emergencies
- Is more convenient and safer than carrying large amounts of cash
- Allows you to make a large purchase (e.g., car or house) and pay for it over time
- Can affect your ability to obtain a job, buy or rent a house, or obtain insurance

“Good credit” means you:

- Make your loan payments on time to repay the money you owe
- Have a good credit record, and it will be easier to borrow money in the future

Types of Credit Cards

What is a Credit Card?

Credit cards are a convenient form of borrowing. People generally use credit cards to purchase goods and services. Credit cards provide a *revolving line of credit*.

You must pay at least a part of the bill every month. This is called a minimum payment. It is often a certain percentage of your balance.

Charge cards are used like credit cards, but you must pay the entire balance every month.

Automated Teller Machine (ATM) and *debit cards* are similar to credit cards except that they are tied to your checking account at a bank. When you use

them to make a purchase or to take out money at an ATM, the money is immediately taken out of your checking account. You need to be sure you have money in your checking account before you use an ATM or debit card.



Activity 1: Credit Cards and ATM/Debit Cards

Although they look similar, credit and ATM/debit cards allow you to use money differently. Review the chart and answer the following questions.

	ATM/Debit Cards	Credit Cards
Payments	<ul style="list-style-type: none"> Buy now, pay now. 	<ul style="list-style-type: none"> Buy now, pay later.
Interest Charges	<ul style="list-style-type: none"> No charges apply as funds are automatically debited from your checking account. 	<ul style="list-style-type: none"> Charges will apply if you carry a balance or if your card offers no grace period and you incur interest charges.
Fees	<ul style="list-style-type: none"> Fees on certain transactions (e.g., an ATM fee charged for withdrawing funds from an ATM not operated by the bank that issued your debit card). Potentially costly fees if you try to spend more money than is available in your account. 	<ul style="list-style-type: none"> Fees and penalties can be imposed if payments are not timely. Some cards have annual fees. Not all cards offer grace periods (time to repay without incurring interest charges).
Other Potential Benefits	<ul style="list-style-type: none"> Easier and faster than writing a check. No risk of losing cash that you cannot replace. Some cards may offer freebies or rebates. As long as you do not overdraw your account, debit cards are a good way to pay for purchases without borrowing money and paying interest. 	<ul style="list-style-type: none"> Freebies sometimes offered (e.g., cash rebates, bonus points, or travel deals). You can withhold payment on charges in dispute. Purchase protections offered by some cards for faulty goods. If you manage your credit card carefully, your credit score may go up and you may qualify for lower interest rates on loans.
Other Potential Concerns	<ul style="list-style-type: none"> Usually there are no protections against faulty goods and services. You need another way to pay for unexpected emergencies (e.g., car repairs) if you do not have enough 	<ul style="list-style-type: none"> Overspending can occur, since the credit limit may be higher than you can afford. If you do not pay your card balance in full each month, or your card does

	money in your bank accounts.	not have an interest-free grace period, you will pay interest. This can be costly, especially if you only pay at or near the minimum amount due each month.
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Questions:

1. Which card requires you to have enough money at the time you pay for something?

2. The balance on which card can increase if you do not pay the entire amount each month and accrue charges? _____
3. Which card(s) may have fees associated with them? _____
4. Which card generally offers purchase protection against faulty goods? _____
5. Which card allows you to pay for unexpected emergencies when you do not have enough money to pay for it? _____

**Differences Between ATM and Debit Cards**

ATM cards are generally used to withdraw or deposit funds into your bank account through an ATM. An ATM card typically has your bank's logo on it, but not a Visa or MasterCard logo.

A debit card will usually have a Visa or MasterCard logo on it. That means you can use the card at any merchant that accepts the major payment system. You can also use a debit card at an ATM to withdraw cash, make deposits, or transfer funds between accounts, like an ATM card.

Purchase Protections

Using a credit card generally offers more purchase protection than a debit card. Federal law limits your losses to a maximum of \$50.00 if your credit card is lost or stolen, although industry practices may further limit your losses.

But, your liability limit for a debit card purchase you did not make is \$50.00 if you notify the bank within 2 business days of losing the card or noticing an unauthorized transaction—it could be up to \$500.00 or even more if you wait longer.

Stored Value Cards

There are four main types of stored value cards:

1. *Payroll cards* are used by an employer to pay wages instead of giving you a paper paycheck.
2. *Government disbursement cards* are provided by government agencies to pay benefits.
3. *General Purpose cards* can be purchased from retailers. Some come with a set value, while others require you to “load” (add) money to the card after obtaining it.
4. *Gift cards* can be purchased in fixed amounts and redeemed for purchases from particular businesses.

Remember, the use of a stored value card will not allow you to build a credit history because no money is being borrowed. Read all information that comes with the card so you understand which fees are mandatory and which ones you can avoid.

Take additional precautions to protect yourself from fraud or theft.

- Experts suggest that you be wary of any offer to sell you a prepaid card for less than its face value because it may have been stolen or otherwise obtained improperly.
- When you first receive a card, inspect it for indications of tampering of any protective stickers.
- It is always important to promptly review your monthly statement (online or on paper) to check for errors or fraud.



Activity 2: Which Card is This?

Selecting the best answer from the list provided.

1. Which card requires you to have money in a bank account to cover the purchases you make?
 - Debit Card
 - Stored Value Card
 - Credit Card

2. Which card allows you to “load” money on it for future purchases?
 - Debit Card
 - Stored Value Card
 - Credit Card

3. Which card has a spending limit and can be paid back over time?
 - Debit Card
 - Stored Value Card
 - Credit Card



Secured and Unsecured Credit Cards

Most credit cards are unsecured. This means you do not have to provide collateral in order to get a credit card. Collateral is what you promise to give the bank if you do not repay a loan.

You might want to consider a secured credit card if you have no credit history or have had credit problems in the past. To get a secured card, you generally need to pledge a bank savings account as collateral.



Student Credit Cards

There are many credit cards today aimed at young adults. These cards may have a lower credit limit than other cards, as they are intended to help young people establish credit for the first time. Remember to read the terms and conditions associated with the card before applying.



Reward Cards

Reward cards are credit cards that offer “rewards” for using them. Many airlines and hotels offer reward cards. When you use these credit cards you earn points toward goods or services, and you may receive cash rebates. Remember, unnecessary spending can result in you accumulating a substantial debt to the credit card company and having to pay interest, which can more than cancel out any rewards you would earn.

Credit Card Solicitations



Pre-approved Cards

When you receive a pre-approved credit card offer, it means that the bank offering the card has looked at your credit report and determined that you **MIGHT** qualify for the interest rates and credit limit being offered. Whether or not you get the best rates depends on your income, employment, and credit history.

Always read the credit agreement carefully **BEFORE** signing on the dotted line. There may be limitations or conditions that are not obvious in the advertisement. Confirm what interest rates and credit limit you qualify for, ask about fees and penalties, and shop for the best possible deal.

You have the right to “opt out” of receiving most mailed credit card offers. You can opt out of receiving prescreened offers by calling **1-888-5-OPTOUT (567-8688)** or visiting www.optoutprescreen.com. You can opt-out for 5 years or permanently. Review the instructions on the website.

Shopping for the Best Deal



Credit Card Terms

Federal law requires that you receive a Federal Truth in Lending Disclosure Statement from any credit card company offering you a credit card. When you receive a credit card solicitation and initial disclosures, credit card companies must highlight or disclose:

- Specific account fees
- The reason why penalty rates may be applied
- Key terms (at account opening and when terms are changed)

The important credit card terms you should look for are:

- APRs for:
 - Purchases
 - Balance transfers
 - Cash advances
 - Penalties

- Fees, including:
 - Annual and other periodic monthly fees
 - Transaction fees
 - Cash advance fees
 - Balance transfer fees
 - Penalty fees
 - Grace period, if applicable
 - Balance computation method

1

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	8.99% to 19.99% when you open your account, based on your creditworthiness. After that, your APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	15.99% This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	21.99% This APR will vary with the market based on the Prime Rate.
Penalty APR and When it Applies	28.99% This APR may be applied to your account if you: <ul style="list-style-type: none"> • Make a late payment; • Go over your credit limit twice in a 6-month period; • Make a payment that is returned; or • Do any of the above on another account that you have with us. If your APRs are increased for any of these reasons, the Penalty APR will apply until you make 6 consecutive minimum payments when due and do not exceed your credit limit during that time period.
How Long Will the Penalty APR Apply?	
How to Avoid Paying Interest on Purchases	Your due date is at least 25 days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.

2

Fees	
Set-up and Maintenance Fees	
Annual Fee	\$30.00
Account Set-up Fee	\$30.00 (one-time fee)
Participation Fee	\$30.00 annually (\$2.50 per month)
Additional Card Fee	\$15.00 annually (if applicable)
Account Maintenance Fee on Closed Accounts	\$30.00 annually (\$2.50 per month on closed accounts with an outstanding balance of \$30.00 or more)
Transaction Fees	
Balance Transfer	Either \$5.00 or 3% of the amount of each transfer, whichever is greater (maximum fee: \$100.00).
Cash Advance	Either \$5.00 or 3% of the amount of each cash advance, whichever is greater.
Foreign Transaction	2% of each transaction in U.S. dollars.
Penalty Fees	
Late Payment	\$35.00 and higher
Over-the-Credit Limit	\$40.00 and higher
Returned Payment	\$35.00

4

Other Fees Required Account Protector Plan	\$0.79 per \$100.00 of balance at the end of each statement period. See back for details.
How we will calculate your balance:	We use a method called “average daily balance (including new purchases).”
Loss of introductory APR:	We may end your introductory APR and apply the Penalty APR if you make a late payment.



APR

The APR represents the cost of borrowing money on a yearly basis. It includes both the interest you are charged and fees.

If you plan to keep a balance on your credit card account, you want to look for a low APR. If you expect to pay your credit card bill in full each month, it will be more important to compare the annual fee and other charges.

Credit card companies may offer low introductory APRs (teaser rates) for a limited time to attract new customers. Credit card companies must include clear information on how long these introductory rates will last. They cannot impose new rates until after the advertised period, which must be at least 6 months. That rate may be either *fixed* or *variable*.

- *Fixed rate* means the interest rate will not change.
- *Variable rate* means the rate can change—it can go up or down.

Generally, the credit card company cannot increase the APR on your existing card balances except under any of these conditions:

- They inform you at the time you open the card account that they will give you a temporary rate for the first 6 (or more) months and then they plan to increase your rate.
- The APR for variable-rate cards changes due to a change in an index (e.g., U.S. Treasury Securities) that the creditor cannot control.
- You neglect to satisfy a workout arrangement (a debt reduction or other concessions agreed to by you and the creditor to help repay).
- You do not make the required minimum payment within 60 days of the due date.

The creditor generally cannot increase the interest rate that applies to new transactions for a year after the card was issued (unless there is a promotional rate).

- After a year, the creditor can raise the rate but has to inform you 45 days before the change takes effect.
- The creditor must provide you with a 45-day advance notice of any rate increase or significant changes in account terms.
- You have the right to cancel the card before the changes take effect. You are effectively closing the account.

The terms of your credit card agreement may also provide that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time. This is called the *penalty APR*.

Fees

Check how much you will pay for:

- **Annual fees:** The cost of obtaining the card on an annual basis.
- **Late fees:** Fees for not making timely payments.
- **Over-the-limit fees:** A fee for borrowing more money than the bank agreed in advance to lend you (your credit limit).
- **Balance transfer fees:** Fees that are charged for transferring balances from one credit card to another.
- **Cash advance fees:** Fees that are charged for getting cash on your credit card from an ATM.
- **Credit-limit increase fee:** A fee charged if you ask for and receive an increase in your credit limit.
- **Foreign transaction fee:** A fee charged for purchases made in a foreign country.

Grace Period

The grace period lets you avoid or minimize finance charges by paying your balance in full, or making the minimum payment, on or before the due date.

All credit card companies must mail your bill at least 21 days before the due date so you will have enough time to pay and avoid finance charges. Keep in mind that many credit card companies never provide a grace period for cash advances or balance transfers.

Balance Computation Method

The balance computation method is used to determine how interest on your account is calculated. There are a variety of methods. The most common method used is the Average Daily Balance.

To calculate this:

$$\frac{\text{Balance} \times \text{APR} \times \# \text{ of days in the billing cycle}}{\# \text{ of days in the calendar year}}$$

See if you can calculate Jerome's Average Daily Balance. He has a balance of \$200.00, an APR of 10 percent, and 30 days in the billing cycle. There are 365 days in the year. What is his Average Daily Balance?

$$\frac{200 \times 0.10 \times 30}{365} =$$



Activity 3: Is It a Decent Offer?

Use the sample Truth in Lending disclosure to answer the following questions.

1. Is this an offer for a fixed or variable rate credit card?

2. Is there an annual fee for this card? If so, how much is it?

3. If you make a late payment, what is the penalty APR? How much greater is this rate over the APR for purchases?

4. How can you avoid paying interest on purchases?

5. What method is used to calculate your balance?

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	8.99% to 19.99% when you open your account, based on your creditworthiness. After that, your APR will vary with the market based on the Prime Rate.
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How Long Will the Penalty APR Apply?	
How to Avoid Paying Interest on Purchases	Your due date is at least 25 days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.
Fees	
Set-up and Maintenance Fees	
Annual Fee	\$30.00
Account Set-up Fee	\$30.00 (one-time fee)
Participation Fee	\$30.00 annually (\$2.50 per month)
Additional Card Fee	\$15.00 annually (if applicable)
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Foreign Transaction	2% of each transaction in U.S. dollars.
Penalty Fees	
Late Payment	\$35.00 and higher
Over-the-Credit Limit	\$40.00 and higher
Returned Payment	\$35.00
Other Fees	
Required Account Protector Plan	\$0.79 per \$100.00 of balance at the end of each statement period. See back for details.
How we will calculate your balance:	We use a method called "average daily balance (including new purchases)."
Loss of introductory APR:	We may end your introductory APR and apply the Penalty APR if you make a late payment.



Customer Service

Most credit card companies offer you some customer service features via telephone and Internet, including:

- Access to account information (e.g., balance and recent charges)
- Ability to pay your bills online
- Ability to update personal information (e.g., your address)

Additional Protection

The law protects you against billing mistakes and unauthorized charges. It allows you, under certain circumstances, to withhold payment on defective goods until the problem has been corrected. However, you have to contact your card issuer promptly to exercise these rights.

If you believe your credit card company has made a billing mistake, or you are unsatisfied with a purchase, you have certain protections for:

- A charge for an item you did not buy
- A purchase by a person not authorized to use your card
- An amount on your bill that is different from the actual amount you paid
- A charge for an item that you did not accept on delivery
- Payments not credited to your account

Some credit cards may also offer additional protections (e.g., extending the warranty period on certain products you purchase). Credit card companies may offer to sell you additional protection (e.g., a credit protection program or what may be referred to as a debt suspension program) and impose charges for this coverage. These programs may provide coverage if you:

- Become disabled or die
- Lose your job and are temporarily unable to pay your bills

Credit Limit

If you are approved for credit, the credit card company will set a credit limit. This is the maximum amount of credit the credit card company is granting you.

Fees will not be imposed for making a purchase or other transactions that would put your account over the credit limit unless you “Opt In” (agree) for the creditor to process over-the-limit transactions and impose a fee. Before you opt-in, understand what the fee is. Exceeding your credit limit may also lower your credit score.



Credit Card Comparison Chart

As you are shopping for the best credit card terms, consider using the Credit Card Comparison chart to guide you in the questions to ask.

	Credit Card 1	Credit Card 2	Credit Card 3
Name of credit card issuer/card.			
What is the APR? <ul style="list-style-type: none"> • Introductory APR? • Rate for purchases? • Rate for cash advances? • Penalty APR? 			
What are the fees? <ul style="list-style-type: none"> • Annual fee • Late fee • Over-the-limit fee • Cash advance fee • Other fees? 			
Is there a grace period?			
Are there any benefits (reward points earned, rebates, etc.)?			
What is my credit limit?			
Other? (e.g., customer service hours; online access; access to a real person?)			



Tips to Think About When Choosing a Card

Before signing up for a credit card, consider the following tips:

- Review online services and compare credit card companies.
- Make sure you understand the implications of fixed and variable rates and penalty APRs.
- Beware of introductory rates and know what the rate will increase to after the introductory period.
- Decide how you will use the credit card and what you will purchase with it.
- Shop around for the plan that best fits your needs. Make sure you understand the terms and conditions before you accept the card. Read the fine print.
- Beware of credit card issuers who require application fees. Most credit card issuers do not charge fees to open accounts.

Applying for a Credit Card

When you apply for a credit card, you are called the credit card applicant.

The card issuer, who issues you the card, is called the creditor.

- *Individual credit* is based on your own assets, income, ability to pay, and credit history. You are responsible for paying the credit card bill.
- *Joint credit* is based on the assets, income, ability to pay, and credit history of both people who apply (e.g., you and a cosigner).
 - You might obtain more credit this way.
 - Both applicants are responsible for the credit card bill, no matter who makes the charges on the credit card.



Application Requirements

You must be 21 years old to apply for a credit card unless:

- You can show that you have independent means of repaying the debt
- You have the signature of a cosigner over the age of 21

Keep in mind that providing false information about your age, income, or any other item on a credit application is a crime called fraud and is

punishable by fines or jail time.

Also remember that if you ask someone to be a cosigner, you are putting that person's finances and credit history in jeopardy if you do not pay your credit card bills on time. Make sure you let the cosigner know immediately if you are having any problems, including possible late payments. The two of you may need to work out problems with the lender before both of your credit records are damaged.

Another issue to be aware of is when you have an *authorized user* on the account. This is someone to whom you have given the privilege of using your credit card. An authorized user has no financial responsibility to pay the bill, so you are legally responsible for paying all charges, interest, and fees if the other person does not pay the bill.



What Credit Card Companies Look For

You have to demonstrate that you are a good risk before you are given credit. The proof is in your credit report. This is the main source of information creditors look at when deciding whether to give you a credit card.

Credit Reports

A credit report is a record of how you have paid your debts. Remember, debts are bills or money that you owe. A credit report tells creditors:

- Who you are
- How much debt you have, including how many accounts you have, how long you have had them, and how much of your credit limit is unused
- Whether you have made payments on time
- Whether there is negative information about you in public records (e.g., collection actions, bankruptcies, and judgments)
- How many inquiries are listed in your credit report

If you do not have a credit history, some credit card companies will consider other factors that tell them whether you may be a good credit risk. For example, they might ask for proof that you pay rent, utilities, and

other bills on time or that you make regular deposits to a savings account.



Credit Reporting Agencies

Your credit report is kept on file with three major credit reporting agencies. They are:

- Equifax
- Experian
- TransUnion

Financial institutions report information about you to the credit reporting agencies, which compile this information in the form of a credit report. Banks, in turn, ask the credit reporting agencies for this information when you apply for a credit card.



How to Get Your Free Annual Credit Report

You can obtain free annual credit reports from one or all of the credit reporting agencies by doing one of the following:

- Submit a request online at www.annualcreditreport.com
- Call toll-free: 1-877-322-8228
- Complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service

P. O. Box 105281

Atlanta, GA 30348-5281

You can print a copy of the Annual Credit Report Request Form from www.annualcreditreport.com or www.ftc.gov/credit. You must provide:

- Your name, address, Social Security Number (SSN), and date of birth
- Your previous address if you have moved in the last 2 years
- For security purposes—information only you would know (e.g., the amount of your monthly mortgage payment)
- Different information from each company; each has information in your file from different sources

In addition to the one free report a year, you may also be able to obtain a

free credit report if:

- Your application for credit, insurance, or employment is denied based on information in your credit report
- You are unemployed and plan to look for a job within 60 days
- You are receiving public assistance
- You have reason to believe that your report is inaccurate because of fraud, including identity theft

If you are not eligible for a free annual credit report, a credit reporting agency may charge you a fee for each copy. To buy a copy of your report, contact one of the following:

- **Equifax: 1-800-685-1111** or www.equifax.com
- **Experian: 1-888-EXPERIAN (397-3742)** or www.experian.com
- **TransUnion: 1-800-916-8800** or www.transunion.com



Credit Scores

A *credit score* is:

- A number that helps lenders determine how much of a credit risk you may be
- Calculated based on information in your credit report

Two of the scores used by lenders are:

- The Fair Isaac Corporation (FICO) score
- VantageScore

Your FICO score is the primary method lenders use to assess how deserving you are of their credit.

- A FICO score is calculated using a computer model that compares the information in your credit report with thousands of other customers. FICO scores range from about 300 to 850.

VantageScore is a newer credit scoring system offered by all three credit reporting agencies. You should have a similar VantageScore from each of the three agencies.

- The VantageScore ranges from 501 to 990.
- It also groups scores into letter categories covering an approximately 100-point range, just like grades you receive on a

report card. For example, your credit grade would be “A” if you had 901 points or more.



What To Do If Your Request for Credit Is Denied

If your request for credit is denied, you will receive a denial notice; sometimes called an *adverse action notice*. You have the right to have the credit card company give you the reasons that the credit was denied.

If you are denied credit because of information in your credit report, federal law requires the creditor to give you the name, address, and telephone number of the credit reporting agency that supplied the information.

If you contact the credit reporting agency within 60 days of receiving the denial, you are entitled to a free copy of your credit report. You have a right to dispute any inaccuracy in your credit report with the credit reporting agency, and also with the company that furnished the information to the credit reporting agency.

It is important to review your credit report from all three agencies to ensure that they have correct information.

Using Your Credit Card Responsibly



How to Use Your Credit Card Responsibly

Here are some tips and guidelines for using credit responsibly and maintaining good credit. Good credit will help you get better loans and even better jobs, in some cases.

- Start small. Do not charge too much on your credit card until you are comfortable with the monthly bill.
- Check your monthly statement to verify that it accurately lists the things you bought. Call your creditor right away if you suspect errors in your statement.
- Pay off your total balance each month or try to pay more than the minimum amount.
- Pay on time to avoid late fees and to protect your credit history. If you cannot pay on time, call your creditor immediately to explain

the situation. The creditor may waive the late fees or be willing to make other payment arrangements.

- Protect your credit card and account numbers to prevent unauthorized use and to minimize a potential loss or theft. Draw a line through blank spaces on charge slips so the amount cannot be changed. Put your signature or the words “See ID” on the back of your credit cards.
- Keep a record of your account numbers, expiration dates, and the phone numbers of each credit card issuer in a safe place, separate from your credit card, so that you can report a loss quickly.
- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit.
- Ignore offers creditors may send you to reduce or skip payments. You will still be charged finance charges during this period.
- Read all notices and information you receive from credit card companies.
- Read and keep all documentation pertaining to the rules that govern your account (the cardholder agreement) that the bank sends.
- Ask the credit card issuer to waive the fee or lower the interest rate after you have established a good credit history.
- Limit the number of credit cards you have and monitor your credit card usage.
- Save cash for unexpected emergencies so that you do not have to use your credit card.
- Be careful with blank convenience checks that your credit card company may mail you as a quick way to write yourself a loan.



Activity 4: Credit Card User Case Studies

Sometimes people who use credit cards do not follow the tips and guidelines for responsible credit card use. Read each scenario and determine whether the credit card user is *responsible* or *irresponsible* with their credit card use. Briefly explain your answer.

Situation 1

Jason receives a credit card bill. He gets a cash advance on another credit

card to pay part of the bill. What do you think about Jason's use of a credit card?

Situation 2

The balance on Collin's credit card is \$3,000.00, which is his credit limit. He makes only the minimum payment and is always close to the limit on his credit card. What do you think about Collin's use of a credit card?

Situation 3

Lynda uses her credit card for convenience. She pays cash for most small purchases. She pays her credit card bill in full each month. What do you think about Lynda's use of a credit card?

Situation 4

Becca was excited to get a credit card offer in the mail. She applied for the credit card without reading the terms. When the card came, she bought several items. When the bill came, she was surprised to find additional fees charged to her account. What do you think about Becca's use of a credit card?



Correcting Credit Card Problems

Here are some tips for correcting credit card problems:

- Reduce your expenses by paying off the balance on your highest rate loans first.

- Pay for future purchases using cash or a debit card linked to your checking account.
- Turn to a reputable credit counselor if you have serious problems paying off your credit card debt.
- Beware of *debt consolidation loans*. These are loans that you get in order to help pay off what you owe on several credit cards.
- Beware of debt settlement companies that charge high rates and application fees.
- Use bankruptcy only as a last resort.



What To Do If Your Credit Card Is Lost or Stolen

If your credit card is lost or stolen, immediately tell your credit card company. Do the same thing if you spot something wrong in your monthly billing. Also, never give your confidential personal information over the telephone unless you have made the call.

If you contact your credit card company before any unauthorized charges are made on your lost or stolen credit card, you are not responsible for any unauthorized charges. Under federal law, if a thief uses your credit card or card number, the most you are liable for is \$50.00 per card if you notify the credit card company immediately.

There are other organizations you can contact for more information. One organization is the FTC, which is listed in the *For Further Information* section of your Participant Guide.



What is Identity Theft?

Identity theft occurs when thieves steal your personal information (e.g., your SSN, birth date, or credit card numbers). With sufficient information, another person can become you and use your identity to commit fraud or other crimes.

Common Forms of Identity Theft

Phishing is when criminals:

- Send out unsolicited emails that appear to be from a legitimate source: perhaps from your bank, utility company, well-known

merchants, your Internet service provider, or even a trusted government agency (e.g., the **Federal Deposit Insurance Corporation (FDIC)**)

- Attempt to trick you into divulging personal information

Pharming is similar to email phishing as follows:

- Criminals seek to obtain personal or private information by making fake websites appear legitimate
- Your browser will even show that you are at the correct website
- This makes pharming more difficult to detect than phishing

Also be careful of skimming. This is when criminals steal credit/debit card numbers by using a special storage device when processing your card.



How to Avoid Identity Theft

Here are some steps you can take to avoid identity theft:

- Protect your personal information (e.g., your full name and address, date of birth, SSN, bank account information, phone number, and your mother's maiden name).
- Protect your computer and account passwords or identification (ID) numbers from friends.
- Do not give out personal information (e.g., SSN and financial account information) in response to an incoming call or email from a stranger or an advertisement on the Internet. For more about avoiding phishing scams, or to obtain a brochure with tips on avoiding identity theft, visit www.fdic.gov.
- Protect your computer. Install a free or low-cost firewall, download and frequently update security patches, and use passwords that will be hard for hackers to guess. For practical tips to help you guard against Internet fraud, secure your computer, and protect your personal information visit www.OnGuardOnline.gov.
- Guard your mail.
For incoming mail: Use a locked mailbox or other secure location (e.g., a post office box).
For outgoing mail containing a check or personal information:

Deposit it in a U.S. Postal Service blue collection box, hand it to a mail carrier, or take it to the post office instead of leaving it in your doorway or home mailbox.

- Keep your financial trash “clean.” Before tossing out these items, destroy them, preferably using a crosscut shredder that turns paper into confetti that cannot be easily reconstructed.
- Beware of offers that seem too good to be true.
- Be alert to signs that require immediate attention. These include bills that do not arrive as expected, unexpected credit cards or bank statements, and calls or letters about purchases you did not make. Review your credit report once a year—even if you do not have any loans or credit cards—to look for accounts or inquiries you did not authorize. Review your monthly credit card statement to ensure the transactions are accurate. Call or write your credit card company to resolve any errors.

To get more information about identity theft, visit the FTC at www.ftc.gov/idtheft or call 1-877-IDTHEFT (438-4338).

Did Someone Steal Your Information?

Here are some actions you should take if you lose your wallet or think you are a victim of identity theft:

- File a report with the police. Keep a copy of the report in case the bank or creditors need it.
- Cancel your credit cards immediately.
- Contact your bank. Have them cancel your ATM or debit card and ask them for information about how to keep any checks you lost from being accepted.
- Contact the major check verification companies to request that they notify all stores that use their databases to not accept your lost checks. You can also ask your bank to notify the check verification service with which it does business. Two of the check verification companies that accept reports of check fraud directly from consumers are:
 - **TeleCheck: 1-800-366-2425**
 - **Certegy: 1-800-437-5120**

- Contact the fraud department of any of the three major credit reporting agencies (Equifax, TransUnion, and Experian). The agency you call is required to notify the other two credit agencies. Tell them you are an identity theft victim (or potential victim).
- Call the FTC's Identity Theft Hotline at **1-877-IDTHEFT (438-4338)** or visit www.ftc.gov/idtheft.

The Credit Card Statement



Information on a credit card statement includes the:

1. Account Summary:

- **Previous Balance:** The amount you owed at the end of the previous billing period.
- **New Balance:** The previous balance, plus any purchases, cash advances, and late fees, minus any payments and credits.
- **Credit Limit:** The maximum dollar amount you can borrow on the card at one time.
- **Credit Available:** The amount of credit remaining on your card after your balance and your current charges are subtracted from your total credit line.

2. Payment Information:

- **New Balance**
- **Minimum Payment Due:** The minimum dollar amount that must be paid. This may be only 3 or 4 percent of your balance.
- **Payment Due Date:** The date your payment must be received by the credit card issuer, not the date it is postmarked.
- **Late Payment Warning:** An explanation of how your account will be affected if you do not make your payment on time.
- **Minimum Payment Warning:** The monthly payment amount required to pay off the existing balance in 36 months, including the total cost (payments and interest). The Federal Reserve's Credit Card Repayment Calculator (www.federalreserve.gov/creditcardcalculator/) can estimate how long it will take you to pay off your credit card balance.

3. Credit Counseling Statement:

Information for contacting a credit counseling service, if needed.

4. Notice of Interest Rate Changes, if applicable

5. Transactions or Account Activity:

- **Finance Charges:** The cost of credit. It includes interest, service charges, and transaction fees for the statement period. This charge is calculated on your balance using different methods.
- **Annual Fee and Interest Totals:** The amount you have paid in fees and interest during the current calendar year.

6. Interest Charge Calculation

Sample Credit Card Statement
Account Number 1354680513
February 21, 2012 to March 22, 2012

1 Summary of Account Activity

Previous Balance	\$80.52
Payments	-\$50.00
Other Credits	+\$0.00
Purchases	+\$52.13
Balance Transfers	+\$0.00
Cash Advances	+\$0.00
Past Due Amount	+\$0.00
Fees Charged	+\$37.00
Interest Charged	+\$0.00
New Balance	\$119.65
Credit limit	\$2,000.00
Available credit	\$1,880.35
Statement closing date	3/22/2012
Days in billing cycle	30

2 Payment Information

New Balance	\$119.65
Minimum Payment Due	\$10.00
Payment Due Date	4/20/12

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

Minimum Payment Warning: If you make only the minimum payment on time each month and no other amounts are added to the balance, we estimate that it will take you approximately 13 months to pay off the balance shown on this statement.

Please send billing inquiries and correspondence to:
PO Box XXXX, Anytown, Anystate XXXXX

3 QUESTIONS?
Call Customer Service 1-888-888-8888
Lost or Stolen Credit Card 1-888-888-8888

If you would like information about credit counseling services, refer to www.usdoj.gov/ust/eo/bapcpa/code/oc_approved.htm or call 1-202-514-4100.

4 Notice of Changes to Your Interest Rates
You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:
Transactions made on or after 4/2/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.
Transactions made before 4/2/12: Current rates will continue to apply to these transactions. However, if you become more than 30 days late on your account, the Penalty APR will apply to those balances as well.

5 Transactions

Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
2340980TUH08	2/25	2/25	Payments and Other Credits Pymt Thank You	\$50.00-
			Purchases	
304958VM345	2/27	2/28	Item X Store XXX	\$45.00
0980PCJ34590	3/5	3/7	Item Y Store XXX	\$7.13
			Fees	
897263698VVO	2/23	2/23	Late Fee	\$35.00
234809RP980X	3/22	3/22	Minimum Charge	\$2.00
			TOTAL FEES FOR THIS PERIOD	\$37.00
			Interest Charged	
			Interest Charge on Purchases	\$0.00
			Interest Charge on Cash Advances	\$0.00
			TOTAL INTEREST FOR THIS PERIOD	\$0.00

6 2012 Totals Year-to-Date

Total fees charged in 2012	\$90.14
Total interest charged in 2012	\$18.27

Interest Charge Calculation
Your Annual Percentage Rate (APR) is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	\$113.80	\$0.00
Cash Advances	21.99% (v)	\$0.00	\$0.00
Balance Transfers	0.00%	\$0.00	\$0.00

(v) = Variable Rate



Activity 5: Sample Credit Card Statement

Use the Sample Credit Card Statement to answer the following questions.

1. What is the new balance? _____
2. When is the next payment due? _____
3. What is the minimum payment due? _____
4. What is the APR for purchases of this credit card?

5. What is the total interest charged in 2012? _____
6. What are the total fees for this period? _____



Keep Good Records

You should always keep your credit card receipts to compare them with your monthly statements.

Be sure to check your monthly statement for mistakes. If you find a mistake, contact the credit card company right away. To be fully protected, you must report a mistake to your credit card company in writing within 60 days from the day the bill was sent to you.

Paying Your Credit Card Bill



Credit Card Limit

If you are approved for credit, the lender that issues the credit card will set a credit limit. This is the maximum amount of credit they will allow you to borrow. If you go over this limit, the credit card company will likely charge you an over-the-limit fee. Exceeding your credit limit may also lower your credit score.



Activity 6: Benefits of Making More Than the Minimum Payment

Compare the two tables showing what happens when you make the minimum payment and when you pay more than the minimum payment. Use the tables to answer the following questions.

Assumptions for the tables:

- APR = 18 percent (If the APR is higher, the item would be more expensive and would take longer to pay off)
- Minimum monthly payment equals greater of \$20.00 or 2 percent of balance
- No late payments are made
- No additional purchases are made
- Interest is calculated by applying a monthly rate to the average daily balance
- Average daily balance method is used to calculate interest
- Years are rounded to the nearest whole year
- Dollar amounts are rounded to the nearest dollar

Years to Pay Off Making the Minimum Payment

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500.00	18%	\$132.00	\$632.00	3
Computer	\$1,000.00	18%	\$863.00	\$1,863.00	8
Furniture	\$2,500.00	18%	\$5,363.00	\$7,863.00	23

The best way to save money and avoid paying interest charges is to pay off your balance in full when you first get your bill. However, the following table shows the benefit of paying more than the minimum payment if you cannot pay off the balance in full.

Benefit of Making More Than the Minimum Payment

Original Balance	APR	Monthly Payments	Total Years to Pay Off	Interest Paid	Total of Payments
\$2,500.00	18%	Minimum Payment	23	\$5,363.00	\$7,863.00
\$2,500.00	18%	Minimum Payment + \$24.00	4	\$1,025.00	\$3,525.00
\$2,500.00	18%	Minimum Payment + \$41.00	3	\$754.00	\$3,254.00

Use the first table to answer the following questions:

1. If you purchase an item for \$500.00 using your credit card and only make the minimum payment, how much will you pay in interest? _____
2. If you have a balance of \$2,500.00 on your credit card and only make the minimum payment, how much will you pay in interest and how long will it take you to pay off the credit card? _____

Use the second table to answer the following question:

1. If you pay \$24.00 more than the minimum payment each month on a \$2,500.00 credit card balance, how much interest will you pay and how long will it take you to pay off the balance? _____

You can perform similar calculations at: www.federalreserve.gov/creditcardcalculator



Module Summary



Congratulations! You have completed the *Charge It Right* module. We have covered a lot of information today about how to select and use a credit card wisely. You learned:

- The purpose of credit cards
- Where you can go to apply for a credit card
- How to decide which credit card is best for you or if a credit card is a good idea for you at this point
- What credit card companies look for before they issue you a card
- How to use a card responsibly and how to safeguard against identity theft

You should now be able to take this information and use a credit card in a way that gives you options and helps you build credit, not in a way that keeps you in debt for many years to come.



Knowledge Check

1. How can you protect yourself from identity theft? Select all that apply.
 - a. Write down passwords and PINs near your computer or keep them in your wallet or purse
 - b. Use secure mailboxes for incoming and outgoing mail
 - c. Carry all of your credit cards and ID with you at all times
 - d. Review your financial account statements and credit report regularly

2. Which type of card may be best for you if you have no credit history or have had credit problems in the past?
 - a. Reward cards
 - b. Stored value cards
 - c. Secured credit card
 - d. Unsecured credit card

3. What are some important factors to look for and compare when shopping for a credit card?
 - a. APR
 - b. Grace period
 - c. Fees
 - d. Method for calculating interest
 - e. All of the above

4. What is the difference between a debit card and credit card?
 - a. When you use a credit card the money comes directly from your checking account, but with a debit card you can pay later
 - b. When you use a debit card the money comes directly from your checking account, but with a credit card you can pay later
 - c. Carrying a balance on a debit card usually means you pay some interest
 - d. Credit cards are linked to your checking or savings account

5. What type of credit card solicitation tactics should you watch out for?
Select all that apply.
- a. Low or zero percent introductory rates
 - b. Free products
 - c. Cash back bonuses
 - d. Fixed APR
6. Which of the following are benefits of having a credit card?
- a. It allows you to make a large purchase (e.g., car or house) and pay for it over time
 - b. It is can be useful in times of emergencies
 - c. It is more convenient and safer than carrying large amounts of cash
 - d. All of the above
7. Select all that apply. You are more likely to receive a credit card, a higher credit limit, and better terms if:
- a. You have a history of making late payments
 - b. You have a high credit score
 - c. You have a good income
 - d. You are unemployed
8. How can you avoid paying interest on your credit card or reduce the amount of interest you pay?
- a. Pay off your balance on or before the due date or within the grace period
 - b. Accept your creditors offer to skip a payment
 - c. Pay more than the minimum payment when you must carry a balance on the card
 - d. Pay the minimum balance each month

9. Which of the following are benefits of stored value cards?
- They may have high monthly and inactivity fees
 - They offer the ability to make purchases using credit card networks
 - You can use the card to give yourself a budget for a trip
 - They are one way to give a gift or pay an allowance to a child
 - b, c, and d
10. Select all that apply. What can you do to manage your credit responsibly?
- Pay your monthly bill on time or contact your creditor immediately if you cannot pay
 - Try to pay more than the minimum monthly payment
 - Use credit to purchase items you want but do not have the cash for at the time
 - Verify the charges listed on your monthly statement and correct any errors right away
11. Which of the credit card terms below is most important to consider if you plan to pay off your balance each month?
- Annual fee
 - APR
 - Late fee
 - Over-the-limit fee
12. Which of the following are examples of using your credit card responsibly?
- Protecting your credit card and account numbers to prevent unauthorized use
 - Charging items when you cannot afford the monthly payment
 - Paying interest on items when you could have waited and paid for them with cash
 - Knowing the terms of your credit card
 - a and d

13. What factors should you consider when choosing a credit card?
 - a. Customer service
 - b. Additional protections (e.g., extended warranty on purchases)
 - c. Credit limit offered
 - d. All of the above

14. If your credit card is lost or stolen you should call the credit card company or card issuer immediately.
 - a. True
 - b. False

15. What should you know about the APR on a credit card?
 - a. What the amount is
 - b. Whether the rate is an introductory rate and will change after a period of time
 - c. Whether the rate is fixed or variable
 - d. All of the above

Glossary

Annual Percentage Rate (APR): The rate of interest you are charged, expressed as a yearly rate.

Balance Computation Method: A method for calculating interest. The most common is the average daily balance.

Credit: The ability to borrow money.

Credit Report: A credit report is a full history of information within a consumer's credit file at the credit reporting agencies.

Credit Score: A numerical estimation of the likelihood that the consumer will meet his or her debt obligation(s).

Fees: Service charges from a financial institution, including:

- **Annual fees:** The cost of obtaining the card on an annual basis.
- **Late fees:** Fees for not making timely payments.
- **Over-the-limit fees:** A fee for borrowing more money than the bank agreed in advance to lend you (your credit limit).
- **Balance transfer fees:** Fees that are charged for transferring balances from one credit card to another.
- **Cash advance fees:** Fees that are charged for withdrawing cash with your credit card from an ATM.
- **Credit-limit increase fee:** A fee charged if you ask for and receive an increase in your credit limit.
- **Foreign transaction fee:** A fee charged for purchases made in a foreign country.

Finance Charge: The cost of credit. It includes interest, service charges, and transaction fees.

Grace Period: The number of days you have to pay your balance before a creditor begins charging interest.

Identity Theft: A fraud committed or attempted using the identifying information of another person without authority.

Interest: The amount of money a financial institution charges for letting you use its money.

Minimum Payment: The minimum payment is the minimum dollar amount that must be paid each month.

Opt Out: To opt out of receiving mailed credit card offers, call 1-888-5-OPTOUT (567-8688) or visit www.optoutprescreen.com.

Periodic Rate: An interest rate applied to your balance to calculate the finance charge.

Previous Balance: The amount you owe at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Principal: The total dollar amount of purchases made on a credit card, or the balance remaining on a loan, not including interest or other fees.

For Further Information

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov/consumer

1-877-ASK-FDIC (275-3342)

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balance your checkbook, or invest in your 401k the resources on MyMoney.gov can help you. Throughout the site you will find important information from federal agencies.

Federal Consumer Information Center

www.pueblo.gsa.gov

1-800-688-9889

The Federal Consumer Information Center (FCIC) provides free online consumer information to help the public. The FCIC produces the Consumer Action Handbook, which is designed to help citizens find the best sources for assistance with their consumer problems and questions.

Federal Trade Commission

www.ftc.gov/credit

1-877-FTC-HELP (382-4357)

The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.