

## WHAT YOU SHOULD FIND OUT ABOUT CREDIT CARDS

### **Annual fees**

Charging an annual fee used to happen all the time. Now, you can find plenty of cards out there that don't charge one.

### **Check out interest rates**

Remember: this is a loan. How much do you want to pay for borrowing? 21%, 18%, 12%? Are you EARNING that kind of interest on your savings? Heck, no! Be smart. Shop for the lowest interest rate you can find.

### **Beware introductory offers**

Many cards charge little or no interest for the first 6 months. Be sure to read the terms of the card carefully so that you know what the rate will be after the introductory period is over. Regular rates can be a real surprise.

### **Late payment penalties**

They can be high. You could pay a \$35 late fee on a \$27 debt. Know how much the late fee is. Then get yourself organized so that check gets in the mail on time!

## FACTS ABOUT STUDENTS & CREDIT CARDS

### **About college student debt**

- 78% of college students have credit cards
- 32% of college students have 4 or more credit cards
- Average credit card debt of these students: \$2,748
- Nearly 1 in 4 college students owes more than \$3,000

### **Use of credit is on the rise**

The average credit card debt among college students has increased nearly \$1,000 from 1999-2001. Student debt is getting worse, not better. According to the National Credit Research Association, college students owe almost half of the nation's \$285 billion credit card debt.

### **About high school students**

According to the National Credit Research Foundation, 55% of students age 16-22 have a major credit card.

Source: [www.themint.org](http://www.themint.org)

# LEAP Forward... With Financial Literacy!

## CREDIT CARDS



# CREDIT CARDS: THERE'S GOOD NEWS AND BAD NEWS!

*Credit cards are great! Credit cards are dangerous!*

Both statements are true. Plastic purchasing power has advantages and disadvantages. It all depends on how you use them.

## INTRODUCTION TO CREDIT CARDS

### Credit is borrowing

What is a credit card anyway? It's really a *loan*. Credit-card companies and banks that issue credit cards are letting you borrow their money when you use their cards. So when you hand the clerk your card and say, "charge it," you're going into debt. If you don't pay what you owe in full and on time that month, you'll have to pay interest on the balance you owe. And the interest you pay is probably much higher than any interest you earn on your investments. Loans and convenience come at a price.

### Are you under 18?

Before credit card companies give you a card, they want to know if they can trust you. If you're under 18, they'll ask your parents to guarantee to pay what you owe if you fail to pay your debts.

### Interest vs. Buying On Sale

It does you little good to shop around for sales (to save money) and then end up paying 12-20% in interest on the money you borrowed to make your purchase. Where's the savings in that?

### Credit Cards give you lots of advantages

#### A safe alternative to cash

When you have your card in your wallet, you don't have to carry cash that can be lost or stolen. If your credit card is lost or stolen, you can report the missing card to the card company. The company will then stop accepting any charges on your card. What's more, you won't be charged for purchases made by someone else.

#### Builds a good credit history

If you use your card responsibly, you can begin to build a good credit rating for yourself. Later in life, when you need a loan, a lender will want proof that you pay your debts. A good credit card history will help you get your loan. A poor credit history will work against you.

#### Bails you out of emergencies

Got engine trouble miles from home? Need to be towed? The tow truck and the auto repair shop will accept your credit card. Too far from home? Use your card to stay in a motel — any phone calls home to describe your bad luck will be charged to your card, too.

### Gives you time to pay

Depending on when you make your purchase and when your monthly bill comes due, you can get extra time to save up and pay for what you just charged. If you can pay off the bill ENTIRELY, you are really making the credit card work for you.

### The Big Disadvantage

After all those great advantages, how can credit cards be so dangerous? It has to do with you, not the card itself. You have to know how to control your impulses when it comes to spending.

### Way too tempting

Whipping out a piece of plastic is so easy. It doesn't even feel like you're spending money. Do that enough times in a month, and SURPRISE! Look at that *balance*! Where did it come from? It came from all those not-so-big purchases you made over the month

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|--|------|
| That pair of shoes you just couldn't pass up.                      | \$79 |
| The night you were dying for pizza after you'd gone rock climbing. | \$24 |
| The great sale on baseball stuff.                                  | \$65 |
| Those two new CDs that you just couldn't live without.             | \$29 |

Suddenly you're in debt. And you don't have the \$197. So you pay \$60, all you can afford. What happens next month? The \$60 you paid the credit card company has made you short on cash this month — so you charge more, and your debt grows larger. Look at the facts.

### Carrying a balance

*But*, you say, *I'll always pay my bill in full and on time*. That may be what you *intend* to do, but the plain fact is that about 60% of cardholders carry a balance (owe money) from month to month. Many of these people thought they would pay off their bills each month too. The convenience of credit can be very hard to resist.

### Getting out of debt

So what's it like to be in debt? Let's say that you find the perfect winter jacket. What luck! It's marked down from \$220 to \$180. That's a \$40 savings. You don't have the \$180 right now, but you hate to pass up the sale, so you charge the jacket. You decide to pay for it over time.

Because you work only one day a week, you can't afford large monthly payments. But you can pay \$15 every month and still have some money left over for other things. You faithfully pay the \$15 each month, but the months seem to drag on forever. Plus, you pay late once, and you're charged a \$30 penalty fee for missing the payment date.

Although you've bought the winter jacket in November, it takes you 16 months (that's two winters, a summer, and a spring) to pay off the purchase! At a 17.9% interest rate and with a \$30 penalty fee, guess how much you paid for that "sale" jacket? \$228.26. That's more than the original price! Those finance charges really add up. By the time you're done paying for the jacket, you'll be ready to buy a new one.