

Your Money: Credit Cards



What is a credit?

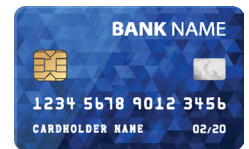
Credit is agreement between you and bank or store that allows you to buy something NOW that costs money if you promise to pay money back in the FUTURE. You pay back total amount you spent **plus** "interest" fee — **plus** "penalty" fee of \$25 to \$50 if you pay late. Your credit limit is based on age, income, and your FICO (score to tell lenders if you paid bills on time in the past). Person with high FICO score of 700 to 850 gets high credit limit such as \$10,000 because high FICO score proves that this person knows how to handle credit. Person with low FICO scores of 550 or lower gets low limit such as \$1,500 because low FICO score proves person does not pay bills on time.

What is interest rate?

Interest rate charged to you is also based on your FICO score. Credit interest rate may be 4% to 24% and more. Persons with high FICO scores get lower interest rates. If you borrow \$1,000 and pay it back in one year, 4% interest fee is \$40 ($.04 \times 1000$), and 24% interest fee is \$240 ($.24 \times 1000$). APR is Annual Interest Rate when other bank or store fees are added. It is important to check "advertised interest rate" and "APR interest rate" to see amount of extra fees the bank or store has added to your credit. APR is always higher than advertised interest rate. Some banks and stores may charge you "annual (yearly) fee" of \$15 to \$50 just so you can have their credit card. It is best to get credit cards from banks and stores with no annual fee.

What is a credit card?

Piece of plastic that fits in your wallet with your name, credit card number, and expiring date on front — white rectangle to sign your name and 3 number CVV (Card Verification Value) on back. American Express card puts 4 number CVV on the front.



How do I use a credit card?

You want to buy new \$2,000 TV for the Super Bowl. You do not have extra money, but you have a new bank credit card with limit of \$3,000 in your wallet. Interest rate on your credit card is 18%. You take out your credit card and give it to the sales clerk. Sales clerk uses small electronic machine to copy front and back of your credit card and prints out a paper receipt. You sign the paper receipt. Then you take the TV home to set up for the Super Bowl game. Your credit card bank will send the store \$2,000. In 30 days, your credit card bank will mail (or e-mail) you a bill that says you owe \$2,000 with "minimum payment" of \$80. Your bank is VERY HAPPY if you only pay minimum payment because then the bank will earn lots of free money from you. Here is what happens when you make monthly payments.

Mike's Credit Card Balance: \$2,000 — Interest Rate: 18% — Minimum Payment is \$80

Amount you decide to pay monthly:	\$80	\$400	\$2,000
Number of payments needed to pay back \$2,000:	97 months	21 months	1 month
Total you paid back to get zero credit card balance:	\$3,073.60	\$2,159.66	\$0

When you make low monthly payments, you take longer to pay, then the bank or store gets lots of extra money from you! If you pay your credit card balance off within 30 days, you do not owe any interest.

How do I keep my credit card information safe?

Once you get a credit card, sign the back so no one else can use it. Put papers you get with the credit card in a safe place. These papers tell you the phone number to call in case your card gets lost or stolen. Make a copy of the front and back of your credit card for this file. You may need to call a phone number to "activate" the card.



Give your credit card number, expiration date, and CVV number ONLY to real stores and online stores that you trust. Buy from online stores with "https" in their address — "s" stands for "secured" website. When buying something over the phone, make sure you are the one that called the store. Keep paper or e-mail receipt from the sale to compare with amount charged on your credit card bill. If you find a mistake, quickly call your credit card company. Keep your credit card in a safe place. Only carry your credit card when you plan to use it. Do not give your credit card to ANYONE! Even good friends can double-cross you to get something free leaving you with the bill.

Monthly bills are snail mailed to you — or you may go to your bank's website to view bill online. Create a good password of letters, numbers, caps, and symbols. To keep your credit card and bank information safe, do not use easy to guess passwords! Common passwords in 2017 include: 123456, Password, qwerty, letmein, football, iloveyou, welcome, monkey, abc123, starwars, dragon, and whatever. Do not use same password for all your online accounts. Change your passwords every 30 days to 60 days.

You may receive scam e-mails from criminals who want your credit card information and bank password.



Criminals can make e-mails look exactly like your bank's or PayPal e-mail. Sender's e-mail address needs to end in your BankName.com or PayPal.com. For example, PayPalCustomerService@PayPal.com is real. PayPalCustomerService@banksecure.com is criminal's e-mail to you. If you do not know if e-mail is real, call or e-mail your bank or PayPal with your question. Never click on a criminal's e-mail link because your computer will receive a virus that may steal all information on your computer.

QUICK CHECK:

- What is credit?
 - You pay back total amount plus what 2 things?
 - On what 3 things is your credit limit based?
 - What is FICO?
- What interest rate do high FICO scores get?
 - If you borrow \$1,000 at 18% interest, and pay back in one year - how much is interest fee?
- What is APR?
 - Is advertised interest rate or APR interest rate higher?
 - What annual fee may be charged?
 - What is best?
- For what words does CVV stand?
- When buying TV with credit card, what do you sign?
 - What does your bank send to the store?
 - What does your bank send to you?
 - When is your bank VERY HAPPY and why?
- If Mike pays \$80 per month, how many years will it take to pay off the \$2,000 TV? (12 months in one year).
 - How much extra money beyond \$2,000 will Mike pay back to his bank to get zero credit card balance when he pays \$80 per month?
 - What can Mike do to pay \$0 interest?
 - If Mike saves \$200 per month to pay for a TV, how many months does Mike need to save to get \$2,000 to pay cash?
- Once you get a credit card, list 3 things to do.
- What 3 things may you give to stores you trust?
- For what does "s" in https stand?
- Why do you keep paper or e-mail receipts?
 - What do you do if you find a mistake?
- Why may good friends double-cross you?
- Why do you NOT use easy passwords?
 - List 3 common passwords used in 2017.
- Give example of real e-mail address and criminal's e-mail address.
 - What do you do if you do not know if e-mail is real?
 - Why do you never click on criminal's e-mail link?