9 Things Every College Student Should Know About Money
Presentation Transcript

"CHARGE"

Number Three is "CHARGE."

SHOPPING FRENZIE

Penny: They are having shoe sales at the mall! I've got a couple of hours before my next class. I'll text Madison and see if she wants to come with me.

Topics

1. HOW CREDIT CARDS REALLY WORK

MORE SHOES!

Madison: Penny, I've decided on this pair. What do you think?

Penny: They are totally you!

Penny thinking: I really WANT a pair of shoes! No, I really NEED a pair of shoes!

CREDIT CARDS

Remember credit cards are just another form of debt. Every credit card has its own specific terms and conditions. So you can't think because you understood the terms and conditions of one card that it's going to relate to another. You have to read the terms and conditions of every card. You must understand how credit cards work.

Credit cards charge compounding interest on any new purchase or outstanding balance that is not paid in full at the end of the billing period. The only way to avoid these charges is to pay the bill in full every single billing period, which is usually every single month.

You should only use credit card when you can pay the balance in full each month (that way it is just like using cash) or in case of emergency. Make sure you research before choosing a card. It is imperative that you understand the terms and conditions that you are signing up for if and when you get a credit card.

2. REVOLVING CREDIT

THERE IS NO END!

Revolving credit is a circle, it goes around and around, and by that I mean if you get a credit card with a credit limit of $3000 and then you charge $1000 on the card. You're going to work to pay off that $1000, but how that's going to go is you're going to send them $100. So you have a $3000 credit card limit, and you've charged a $1000 on it. So you now have $2000 left in an available balance. You send them $100 to pay off the $1000 that you owe, which is of course only 10% of it. And now you have $2100 in available credit. So every time you make a payment to the credit card it releases more credit available to you on the credit card, so you basically create this circle, this cycle that has no end!

POINT OF SALE POS

meanwhile, back at the mall…

Salesperson: How would you like to pay for your shoes?

Penny thinking: I've got five dollars in my wallet…

Salesperson: If you apply for our store credit card, you'll get an additional 10% off your total purchase today and a free scarf!

Penny thinking: What should I do?

Do you need new shoes?

- No -> Don't buy shoes
- Yes -> Buy new shoes
- No -> Sure you do -> Buy new shoes

TERMS, CONDITIONS, AND DISCLOSURES

I think it is important to take a second to talk about the terms and conditions and disclosures when it comes to revolving credit. I think it gets very confusing and sometimes they can kind of make something look good that eventually in the long run is not going to be good for you financially.

Incentives. One of the most common incentives is when they will give you a zero, they call it zero, APR (annual percentage rate). Typically it is associated with a length of time. A lot of the time it is six months and they will say, "Zero percent interest for six months" and so you can use that credit card for six months, you can charge for that and the only thing you will see on your statement for six months is the amounts that you charged. The only problem with that is that if you don't pay that balance in full at the end of the 6 months, typically what they do then is go back and charge you interest retroactively all the way back to the beginning of when you first received the card.

Basically you would pay six months of retroactive interest and it would all hit you at once at the end of the six-month zero percent promotional offer. So you want to be very careful if you make a purchase, thinking--oh well, I've got a credit card here that doesn't charge me interest. *Because if you don't have it paid in full and at a zero balance at the end of the promotional period* or whatever the incentive was, then you could really get hit with a large finance charge and a large interest charge all at once.
Annual Fee. The annual fee is important to consider; you should shop for a card that doesn't have an annual fee. There are times when an annual fee is okay depending on what you are trying to accomplish, like if your whole goal with your credit card is to get frequent flyer miles, a lot of the frequent flyer credit cards will carry an annual fee and you just have to decide if that annual fee is low enough to where it is still worth it to you. I have a business credit card for my small business that I have and that carries an annual fee, but I need that card in order to keep my business and personal records separate. So in that case I'm ok with the annual fee.

APR stands for annual percentage rate. It took me a year to figure out how all this worked. I mean if you are paying two percent in interest a month on a credit card, basically that means the APR is 24%. That's 2% times 12 months = 24 % per year. Or, you take the APR and divide it by 12 and that is the amount you are going to be paying against any new purchase and outstanding balance every month. If your APR is 18% that means you are paying one and a half percent per month on any new charge or outstanding balance that is not paid in full.

Credit limit is the upper limit of what you can charge. You need to be careful with this because some credit cards will let you go over the credit limit, but when you do they hit you with some hefty finance charges and penalties. Always make sure that what you've charged is well under your credit limit because going over your credit limit will negatively impact your credit history. Practically speaking, you shouldn't carry more than about a 30% balance of your credit limit.

The grace period is very important. You want to make sure your credit card has the longest grace period possible. Typically they are 30-45 days. The billing period is typically about 28-30 days. This means if you pay of the balance in full before the grace period is up and you pay that amount in full, then there are no interest and no finance charges against you. You want to make sure you read the terms and conditions on whatever credit card you get, but for most credit cards, the good credit cards, they will not charge you any interest or any finance charges *if you pay the balance in full before the end of the grace period*. Finance charges are any additional charges above and beyond interest, typically it's because you didn't do something, you didn't pay on time, you didn't pay in full, you went over your credit limit, or you wanted cash up front. Be careful with that, if you want cash up front, because that comes with some hefty finance charges--typically a percentage of whatever it is that you're wanting cash up front out of your credit card.

And finally payments. It is very important that you make your payments on time. If you are going to have a credit card and you are going to use that credit card for purchases make sure you have enough money in the bank or are going to have enough money when your pay check comes in so that you can pay that credit card in full. People get in trouble with credit cards when they over extend--typically on consumables, and they have consumed it and it's not there anymore, but the charge is still out there. And by not paying that credit card in full every month, you basically are saying I'm going to pay them more than what something actually costs. If you pay the balance in full every month it's just like using cash. This how my wife and I do it, I don't want her carrying a bunch of cash--she uses the credit card, *but we pay that card in full every month* so that there's no additional finance charges. *Make your payments and make sure you pay them on time!*

INTEREST RATES

Interest rates and making payments. Introductory rates are temporary. That means that they are short lived and they will change. Don't get hung up on the introductory rate, unless you are strategically planning to pay it off before the introduction period, but you want to make sure you understand what the rate is after the introductory period if this is a card that you are going to hold going forward. The best kind of interest rate you can get is a fixed rate. Sometimes this is difficult to get with a credit card, but if it is you know exactly what your interest rate is going to be if you don't pay your bill in full every month. A variable rate is more difficult to manage because the rate can go up or down on you, typically up, they rarely go down. A variable rate can go up on you, but a lot of times if you are a good customer they will hold your rate steady and not go up unless you are late on a payment or you do something that sends up a red flag to them and then they will raise your rate. For example, I have a credit card on my farm, on my business, and that is a variable rate that is currently at 4.5%, but there is a term that says if I am ever late on a payment and I mean by even one day then the interest rate on that credit card reverts to 35%. Which is absolutely ridiculous and I would have to pay it off and get rid of the card. But that is how punitive it can be with a variable rate card, so make sure you understand by reading the terms and conditions what it is that you are getting in to.

To review, interest is calculated by going back in time, back to the beginning of the billing period and it calculates any new charges and any outstanding balance and it does what is called “compound”. *In other words, interest is being charged on top interest*. Compounding interest is one of the most wonderful things in the world when it comes to making money and is one of the most devastating things in the world when it comes to debt. You do not want credit card negative compounding interest, which is going to cause you to pay a lot more than what you actually purchased going forward. If you can’t pay the balance in full, then put a plan together, and use a calculator. There are some great credit card calculators on Dinkytown.com. Then figure out if you pay X amount more than the minimum payment due every month--how long it will take you to pay of that card? So if you are over extended already--then get a plan in place to get that card paid all the way down in full or to zero as quickly as possible.

PAYMENT STRATEGIES

Pay more than the minimum.

Pay in full by the due date.

SELF-ASSESSMENT M/C

What is the best strategy to pay your credit card bill?

3. THE DARK SIDE OF CREDIT

HERE COMES THE BILL

Penny: Your new Credit Card!

Black dress shoes	$38.00
+1 pair sandals and +1 pair trainers	$83.00
Shoes	$56.00
Shoes	$42.00

Check out this brief video about Impulse Buying!

Purpose: To understand why we impulse buy and to educate ways to help identify and reduce impulse buying.

KEY TERMS

You know what to do!

WHEN YOU DON'T PAY ON TIME OR AT ALL

Okay, the dark side of credit. If you don't pay on time or you don't pay at all, bad things are going to happen to you financially. Again, the credit bureaus track this ever so closely, and we'll talk more about them in the next Thing. They have very tight relationships with the credit card companies. Any late payments will become delinquent. That will be reflected in your credit history. Depending on the contract, they will begin collections if the bill is not paid by a certain time. Collections can include calls and letters to your house, etc. If they feel like they (the credit card company) can't collect the debt, they will refer that debt to a third party collection agency whose entire job it is, is to collect that money. They will actually get a cut over and above the action. So if you have a debt of let's say $1000 and it gets referred to a third party collection agency, then they will send you a bill for $1300 and you're going to look at that and go, whoa! I mean the original debt was only $1000. Once you are referred to a collection agency many times they will put a fee over and above the debt that you owe and that can be as high as 30%. So that $1000 that you owed now has become $1300 and you've got nothing new out of it. In order to retire that debt you now have to come up with $1300, instead of keeping up with your business ahead of time.

Many times if you just keep in touch with the company, even if you are making reduced payments, and just keep making payments to them, so they know you are engaged. They don't want you to go into default. Because when you go into default, then basically they aren't getting their money, and the next step is to have legal action where you may be sued or have a judgment lien taken out against you because they are trying to get their money back.

The credit bureaus--they don't want that to happen, really, any lender does not want that to happen, they just want to be repaid. So do everything you can to keep in touch with your creditor and make sure that you are not in default, that you are making monthly payments, even if they are less then what was originally agreed to.

If things are getting rough, make sure you have a formal deal with the company to where that's acceptable and avoid being sued or having a judgment lien put against you or your property. If it's bad and you just don't know your way out--there are credit counseling or debt consolidation firms that are available to you, to try to get some help. Be careful with those because some of them are not in your best financial interest, because they will basically recommend that you file bankruptcy. Just be careful if you use a credit counseling or debt consolidation firm, that it's not a scam.

Sometimes bankruptcy is the only way out, but you want to try to exhaust all of your options before you move to bankruptcy because it will have a long lasting impact on your financial situation--and it will stay on your record for a long time in the future and limit your ability to do certain things, like buy a house.

In the most extreme cases your wages may be garnished, which is where they go into your employer and actually take a percentage of your income. Your tax refunds can be intercepted, in other words, you have $600 coming back on taxes and you never see the money, because the party involved has the right to go in and intercept that tax refund and that money goes to them and you don't get any more tax refunds until that debt is paid in full.

Then finally, if you had possessions that were collateral up against the credit card, for example big purchases like furniture for your home, they can repossess your possessions in order to satisfy that debt. Very dark stuff, very bad stuff. If you can avoid something early in life, it is not a rite of passage that as a young person you have to get in trouble with credit cards. It is not something that you have to live through. If you are going to take a piece of advice, *manage your credit cards wisely,* and don't do what so many people do, which is run out and make bad decisions with credit cards, and take a decade in order to get out from under them!

Use this information wisely and stay away from the dark side of credit!

YOU'RE LATE!

Past Due! Your payment is late! Past Due!

Your credit card payment is due immediately!

Account Balance:	219.00
Late Charges:	$35.00

Total Due: $254.00

Minimum Payment Due: $45.00

If you only pay the minimum amount due each month you will pay significantly more for your purchases.

4. CONSUMER PROTECTION

CREDIT CARD ACTS

Let's take a couple of minutes to talk about consumer protection.

Consumer protection is very important and I think it will help you if you know something about the laws and protections available to you as a consumer. Let's do a quick mini history lesson to help explain why we have these specific laws today.

2008 was the worst financial crisis in the U.S. since the Great Depression--some like to call it the Great Recession. There were several major economic factors that caused the financial crisis but one of the primary causes was the deregulation in the financial industry. This deregulation allowed banks to take on much riskier investments, which ultimately led to the banks being "too big to fail." With this downward spiral of the economy, the impact resulted in many people losing a substantial amount of their retirement nest eggs, many owed more on their home than what it was worth, (called the housing bubble which started about 2006), and many were without jobs—about a 9% unemployment rate.

Over the next several years, new laws were created to close up some of these gaps and to help protect the general consumer from the overzealous practices of banks and other financial industries. So while there are many laws, I've picked out a few of the reforms and regulations that impact you directly. Let's start with the Credit Card Act of 2009 and talk about a few laws up through the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 2010. Then we'll finish up with a video explaining the creation of the Consumer Financial Protection Bureau or CFPB and how it is working to serve you today.

Credit card acts protect consumers.

Laws made to help consumers who use credit cards.

CREDIT CARD ACT OF 2009

Comprehensive reforms to provide consumer protection from interest rate hikes, late fee restrictions, and banning credit cards to anyone under 21 unless they have adult co-signers or proof of income.

Companies cannot offer gifts to college students on or near a campus.

FAIR CREDIT BILLING ACT

Applies to credit card and charge accounts and to overdraft checking (not checks or debit cards).

Covers how to dispute charges, unauthorized use of your account, or good or services promised but not provided.

EQUAL CREDIT OPPORTUNITY ACT (ECOA)

Prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, age, or receipt of public assistance.

DODD-FRANK WALL STREET REFORM ACT July 2010

Most comprehensive reform to regulate financial market.

This act covers eight areas of regulation.
The purpose of Dodd-Frank is to help make another economic crisis less likely.
One area of change is the:
Consumer Financial Protection Bureau (CFPB).
The CFPB consolidated the functions of many different agencies, including those that oversee credit reporting agencies, credit and debit cards, consumer and payday loans, mortgages, and bank fees.

DODD-FRANK WEB LINK

CFPB Video

Let’s watch this video on the Consumer Financial Protection Bureau.
Purpose: To understand the merger of federal agencies including the creation and purpose of the CFPB.

SELF-ASSESSMENT M/C

Which act prohibits credit discrimination on the basis of race, color, religion, sex, national origin, marital status, age or receipt of public assistance?

NO MORE SHOES

Penny thinking: I need a plan to pay off my credit cards ASAP and to stop buying shoes I don’t really need!

GLOSSARY REMINDER

Be sure to review ALL the terms in the glossary as they will be on the quiz and the final exam.