



SMART CREDIT MANAGEMENT STRATEGIES



Hard Core Boot Camp
Content Session #2



FORMS OF CREDIT



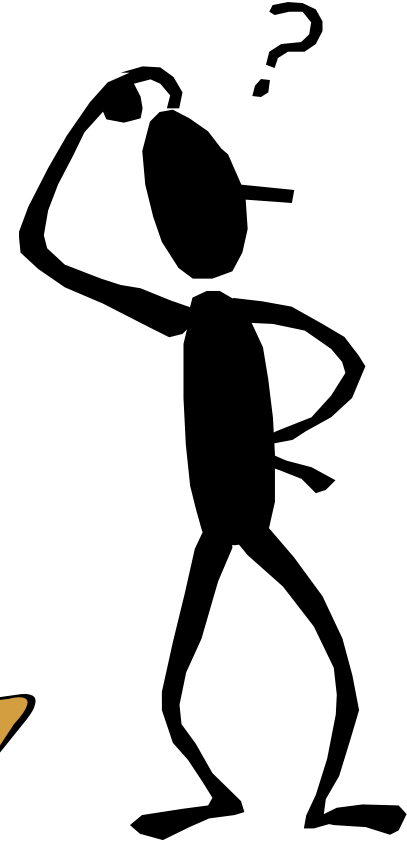
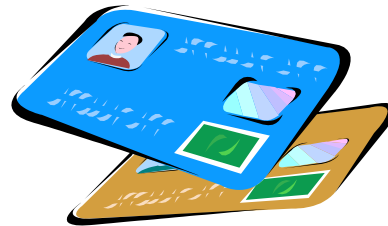
- ◉ **Service or Short Term Credit**
 - utility bills; doctor bills

- ◉ **Revolving** - amount due changes based on purchases
 - Visa, MasterCard

- ◉ **Installment** - set amount due each month to cover principal and interest
 - car loan, mortgage

WHAT IS THE WORST CREDIT CARD TRAP OF ALL?

- Teaser rates?
- Default rates (penalty APRs)?
- Late fees?
- Over-the-limit fees?
- Minimum payments?



CREDIT CARD MINIMUM PAYMENTS!



IMPACT OF MINIMUM PAYMENTS

You owe \$3,000 on credit cards and pay the minimum of 3% of the balance with an 18% APR. How long will it take to pay off this \$3,000?

- a. 8 years?
- b. 10 years?
- c. 14 years?

Resource:

<http://www.federalreserve.gov/creditcardcalculator/>

PAYMENT COMPARISONS

Current Debt (\$)	Percentage of Outstanding Balance Repaid (%)	Amount of Outstanding Balance Paid (\$)	Amount Paid in Interest (\$)	Years to get out of Debt
\$1,000	3%	\$30	\$684	8
	4%	\$40	\$465	6
	6%	\$60	\$285	4
\$5,000	3%	\$150	\$4,567	16
	4%	\$200	\$2,808	11
	6%	\$300	\$1,592	7
\$10,000	3%	\$300	\$9,421	20
	4%	\$400	\$5,738	13
	6%	\$600	\$3,226	8
\$15,000	3%	\$450	\$14,276	22
	4%	\$600	\$8,668	15
	6%	\$900	\$4,860	9
\$20,000	3%	\$600	\$19,130	24
	4%	\$800	\$11,597	15
	6%	\$1,200	\$6,494	9

Reading Your Statement

PART 1 OF 2

NEXT >

Roll over the numbers shown to get more info on the changes that will appear on your bill.

Summary of Account Activity		Payment Information										
Previous Balance	\$535.07	New Balance	\$1,784.53									
Payments	-\$450.00	Minimum Payment Due	\$53.00									
Other Credits	-\$13.45	Payment Due Date	4/20/12									
Purchases	+\$529.57	Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APRs may be increased up to the Penalty of 28.99%.										
Balance Transfers	+\$785.00	Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:										
Cash Advances	+\$318.00	<table border="1"> <thead> <tr> <th>If you make no additional charges using this card and each month you pay...</th> <th>You will pay off the balance shown on this statement in about...</th> <th>And you will end up paying an estimated total of...</th> </tr> </thead> <tbody> <tr> <td>Only the minimum payment</td> <td>10 years</td> <td>\$3,284</td> </tr> <tr> <td>\$62</td> <td>3 years</td> <td>\$2,232 (Savings=\$1,052)</td> </tr> </tbody> </table>		If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...	Only the minimum payment	10 years	\$3,284	\$62	3 years	\$2,232 (Savings=\$1,052)
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...			And you will end up paying an estimated total of...								
Only the minimum payment	10 years	\$3,284										
\$62	3 years	\$2,232 (Savings=\$1,052)										
Past Due Amount	+\$0.00											
Fees Charged	+\$69.45											
Interest Charged	+\$10.89											
New Balance	\$1,784.53											
Credit limit	\$2,000.00											
Available credit	\$215.47											
Statement closing date	3/22/2012											
Days in billing cycle	30											

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 4/9/12: 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 4/9/12: Current rates will continue to apply to these transactions. However, if you become more than 60 days late on your account, the Penalty APR will apply to those transactions as well.

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.

These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APRs described below will apply to these transactions.

READING A CREDIT CARD STATEMENT

PAYMENT INFORMATION

New Balance	\$944.95
Payment Due Date	03/18/10
Minimum Payment Due	\$19.00

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay up to a \$39.00 late fee and your APRs will be subject to increase to a maximum Penalty APR of 29.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

SAMPLE CREDIT CARD STATEMENT

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	11 years	\$1,635
\$32	3 years	\$1,135 (Savings=\$500)

If you would like information about credit counseling services, call 1-866-797-2885.

“SCHUMER BOX” DISCLOSURES

DETAILS OF RATE, FEE, AND OTHER COST INFORMATION

As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement sent with the card. Account terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law.

Annual Percentage Rate for purchases

The **introductory rate** (see notes below) is **4.99%** until the first billing after the sixth-month anniversary of the opening of the account.
After that **9.99%** (variable rate).

Other APRs (all other APRs are variable)

Balance Transfers: The introductory rate is 0% until the first billing after the sixth-month anniversary of the opening of the account.
After that **9.99%**.
Cash Advances: **19.99%**.
Default Rate: **27.99%** (see notes below).

Variable rate information

Your APRs may vary during each billing period. The rate for purchases and balance transfers is determined by adding 5.99% to the prime rate (see notes below). The rate for cash advances is determined by adding 15.99% to the prime rate but such rate will never be below 19.99%. The default is determined by adding no more than 23.99% to the prime rate.

Grace period for repayment of purchases

Not less than 20 days if you pay your total new balance in full each billing period by the due date. Payment must be received by 9 a.m. on the due date. There is **no grace period for balance transfers and cash advances**.

Method of computing the balance

Average Daily Balance (including new purchases).

Annual fee

\$25

AVERAGE DAILY BALANCE METHOD

- ◉ Most common computation method used
- ◉ Outstanding balances added daily
- ◉ Total is divided by days in cycle
- ◉ New purchases may or may not be added
- ◉ Interest assessed each day at daily rate



AVERAGE DAILY BALANCE- EXAMPLE



Date	Charges	Payments	Balance
April 1	----	----	\$200
April 12	\$135	----	\$335
April 25	----	\$110	\$225
11 days @ \$200=	\$2,200		
13 days @ \$335=	\$4,355		
6 days @ \$225=	\$1,350		
			Total=
			\$7,905

Average daily balance= $\$7,905/30$ days= $\$263.50$

CASH ADVANCES AND FEES

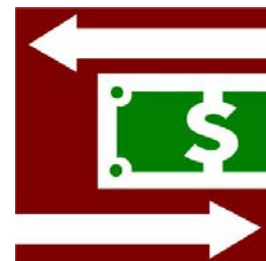


- Cash advances are cash loans from a credit card account
- Often done with “convenience checks”
- Fees are charged:
 - Cash advance fee from date of advance; 1% to 5%
 - Most cards have minimum cash advance fees
 - APR (often higher than regular credit use)
 - No grace period for cash advances

BALANCE TRANSFER FEES



- ◉ Transfer amount owed from one card to another
- ◉ Company B pays balance with Company A
- ◉ Balance owed is now on Company B credit card
- ◉ Transfers usually done to get a lower APR
- ◉ Balance transfers usually have transaction fees
 - Often 4% of transferred balance



Suggested Activity: Compare Credit Cards



	Card 1	Card 2	Card 3
APR			
Annual Fee			
Minimum Pmt.			
Penalties			
Late Fees			
Cash Advance			

Resource:

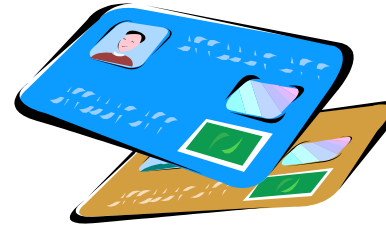
<http://rci.rutgers.edu/~boneill/assignments/creditcard.html>

CARD ACT (2009) OVERVIEW

- 45 days notice to increase your rate or other fees with right to cancel
- Disclosure of time and amount to pay off your balance with minimum payments
- No new interest rates for first year of account
- Apply any increased interest rate to new purchases only
- Apply payments to highest interest rate charges first
- Consumers can opt out of “over the limit” purchases
- if under 21, must prove ability to pay or get co-signer



YOUR CREDIT REPORT CAN BE ACCESSED BY



- ◉ Lenders and creditors

- ◉ Landlords



- ◉ Potential employers



- ◉ Insurance companies



SAMPLE CREDIT REPORT

Applicant Information		
Name: PAT DEBTCC Social Security Number: 673-37-4823 Present Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 11/2005	Former Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 10/2004 Prior Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 10/2003	Date of Birth: 04/20/1960 Employer(s): J.K.AUTOMATION Present Employment: Manager Former Employment: Junior Manager Other Source of Income: Rent

Identifying
Information



Accounts						
Types	Number	Available credit	Total balance	Credit limit	Monthly Payment	No Of accounts with balance
Installment	3	\$1,000	\$15,000	\$16,000	\$250	1
Revolving	4	\$20,000	\$0	\$20,000	0%	0
Home Loan	2	\$20,000	\$100,000	\$120,000	\$1,654	0
Total	9	\$41,000	\$115,000	\$156,000	\$1904	1

Credit
History



Credit Inquiries

The following section reflects the name of the creditors who have requested Equifax to check your credit report:

Date of Inquiry

02/02/2005

03/05/2006

04/08/2004

Name

ALLTEL-CHA Telephone Companies

GREATNORW Credit Unions

SNET Telephone Companies

Recent
Inquiries



Potentially Negative Information

A. Public Records

i) Type: Judgment
Case Number: 3333
Plaintiff: American Express
Status: Satisfied
Date Resolved: 03/2004
Responsibility: Individual

ii) Type: Foreclosure
Case Number: 6666
Plaintiff: ABC Mortgage Loans
Claimed Amount: \$75,000
Current Status: Deficiency Judgment
Date Resolved: 03/2005

Public
Records



B. Negative Accounts

i) Creditor: Bank of America
Date reported: 07/2004
Status: Charge-off
Outstanding balance: \$540
Account Number: 45454545...
Account Type: Installment
Responsibility: Individual
Date of Last Activity: 06/2003

C. Accounts in collections

i) Amex account assigned to the ABC
Collection agency
The Total Outstanding Balance: \$4587
Report Date: 06/2004
Status: Paid in Full
CA Reference Number: 5555
Last Activity Date: 05/2005
Date Reported Paid: 02/2006
Responsibility: Individual

ii) Chase account assigned to the XYZ
Collection agency
The Total Outstanding Balance: \$8,234
Report Date: 07/2005
Status: 60 days past due
CA Reference Number: 7777
Last Activity Date: 05/2005
Responsibility: Individual

Accounts
in
Collection

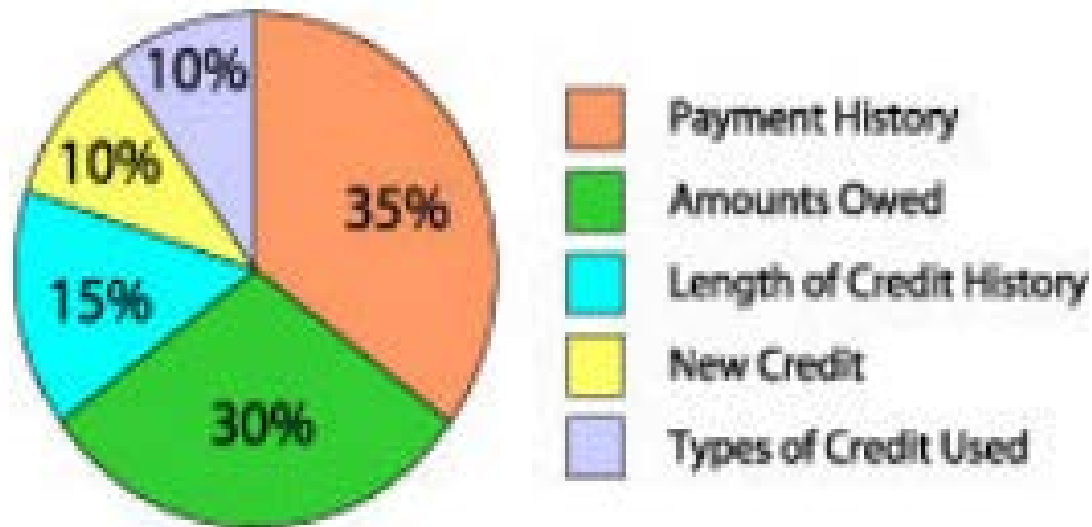


Consumer Statement

Equifax has received the following statement of the consumer in 11/2006.
Consumer filed bankruptcy due to overwhelming debts
Estimated Date on which the statement will be removed 11/2013

FICO CREDIT SCORE = YOUR FINANCIAL GPA

- ◉ Uses rating scale for risk of default
- ◉ Higher the number, the better
- ◉ Must usually pay a fee to obtain

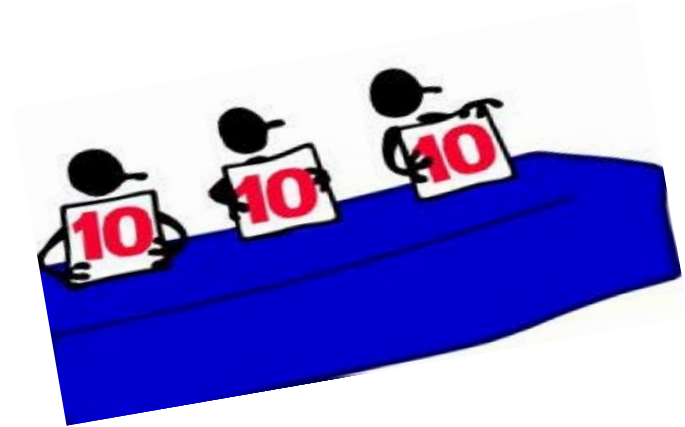


How Your Credit History is Scored

CREDIT SCORE PROVIDERS

- FICO

- Scores from 350 to 850
- www.myfico.com



- Vantage

- Joint rating system of credit reporting bureaus
- Scores 501 to 990
- <http://www.experian.com/consumer-products/vantage-score.html>

LOWER SCORE = HIGHER INTEREST RATES

Loan Savings Calculator

step ONE

Select the type of loan

30-Year Fixed

step TWO

Select the state you live in

National

A 30-year loan in which the interest rate does not change during the entire term of the loan.

FICO Score	APR	Monthly Payment	Total Interest Paid
760-850	3.601 %		
700-759	3.823 %		
680-699	4 %		
660-679	4.214 %		
640-659	4.644 %		
620-639	5.19 %		

step THREE

Enter the loan principal amount

\$

calculate

step FOUR

Select your current FICO Score range

Resource:

www.myfico.com/myfico/creditcentral/loanrates.aspx

CFA CREDIT SCORE QUIZ

The Credit Score Quiz

Your credit score can affect many parts of your financial life.
Test your credit scoring knowledge with this simple 20-question quiz.

*Click here to
test your
Credit Score IQ.*



Consumer Federation of America

By Consumer
Federation of
America

<http://www.creditscorequiz.org/>

RUTGERS WISE CREDIT MANAGEMENT QUIZ

Rutgers | Executive Dean of Agriculture and Natural Resources | School of Environmental and Biological Sciences

RUTGERS New Jersey Agricultural Experiment Station

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Youth, Community & Economic Development

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« Back to: Personal Finance

Wise Credit Management Quiz

Want to use credit wisely and pay less to borrow money? Start by taking this quiz to assess your current credit-related practices. Choose the score that best describes the frequency with which you practice each of the 20 credit management actions listed below.

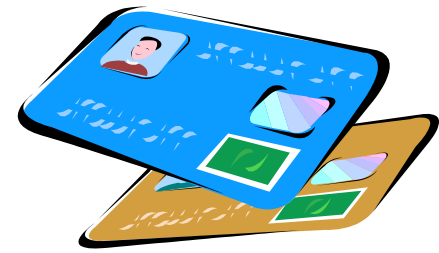
Wise Credit Management Quiz

- 1. My latest credit report lists all my credit accounts as "current" or "paid as agreed". (If you have never checked a copy of your credit report, select "No".)**
 Yes No
- 2. My current ratio of monthly consumer debt (e.g., car loan, student loan, credit card) payments to monthly net income (e.g., \$500 ÷ \$2,800 = 17.86%) is less than 20%.**
 Yes No
- 3. I have checked my credit score within the last two years.**
 Yes No
- 4. I have NEVER had any of the following: collection (charged-off) accounts, judgments, liens, repossession (e.g., loan for a car), wage garnishment, foreclosure (e.g., loan for a house), or bankruptcy.**

<http://njaes.rutgers.edu/> **help?**

<http://njaes.rutgers.edu/money/wise-credit/>

DEBT DANGER SIGNS

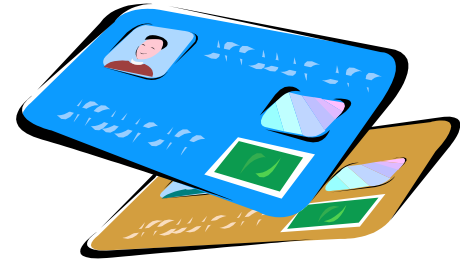


- ◉ Getting a loan to repay existing debt
- ◉ Charging more each month than payments
- ◉ “Juggling” (rotating) payment of bills
- ◉ Using credit card cash advances for bills
- ◉ Consumer debt-to-income ratio > 20%
- ◉ Being at or near maximum credit limits
- ◉ Calls and letters about overdue bills

3 STAGES OF CREDIT DIFFICULTY

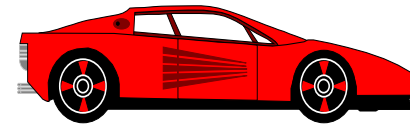
◉ Early - Begin paying late penalties

- pay minimum due
- a month or 2 behind



◉ Later - Bills are months overdue

- difficult to pay minimum
- creditors are making contact



◉ Final - Court proceedings threatened/pending

- wages subject to garnishment
- secured items (car, etc.) repossessed

INTRODUCING POWERPAY



- Three repayment options:
 - Highest interest rate first (in sequence)
 - Lowest balance first
 - Shortest payoff term first
- Can add one-time or periodic additional payments (e.g., bonus, tax refund, change W-4, etc.)
- Savings will vary according to length of debt, number of creditors, APRs, etc.

www.powerpay.org

POWERPAY EXAMPLE

REPAYMENT SCHEDULE

NAME:

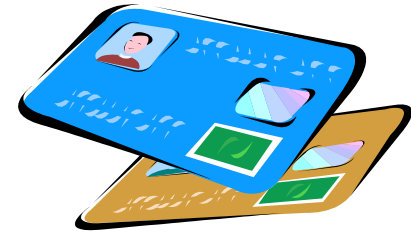
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WITHOUT POWER PAYMENTS				POWER PAYMENTS-HIGH INT FIRS		
No Extra Monthly Amt				Extra Monthly Amt: 0.00		
No Lump Sum Payment				LmpSum Pmnt: 0.00		
Creditor Name	#Pmts	Tot Paid	Int Paid	#Pmts	Tot Paid	Int Paic
# 1 Lord & Taylor	6	844.75	44.75	6	844.75	44.75
# 2 AAA	92	6856.40	3347.40	22	4322.27	813.27
# 3 Private Issue	85	8910.85	3743.85	36	7113.15	1946.15
# 4 Bank of NY 2	75	3355.50	1259.50	40	2996.72	900.72
# 5 Citibank	75	3727.57	1353.57	43	3407.69	1033.69
# 6 Bank of NY	48	3114.26	751.26	43	3105.75	742.75
# 7 Wachovia	64	2539.80	643.80	45	2469.24	573.24
# 8 Discover	41	1227.28	189.28	41	1227.28	189.28
Tot Mnthly Pmnt			varies	Tot Mnthly Pmnt		576.00
Time to Repay			7 yr 8 mo	Time to Repay		3 yr 9 mc
Loan Amt Repaid			19243.00	Load Amt Repaid		19243.00
Interest Paid			11333.41	Interest Paid		6243.85
Total Amt Paid			30576.41	Total Amt Paid		25486.85

SUMMARY OF BENEFITS FROM MAKING POWER PAYMENTS

Time required to pay off all debt reduced by 3 years 11 Months
 Amount of Money Saved \$ 5089.56

CREDIT COUNSELING



- **Budget Counseling** - should be a nominal cost

- **Debt Management Program (DMP)**
 - Must incur no further debt and surrender credit cards
 - Administrative fee charged for cost of repaying bills
 - Will only take on clients with ability to repay debt

National Foundation for Consumer Credit

800-388-2227 or www.nfcc.org

In NJ, look for state-licensed counseling agencies

CONTENT SESSION 2

ACTIVITIES

