Your financial future starts right here, right now.
What's behind the Credit Smart Series?

Credit Card Basics is part of the Credit Smart Series. These booklets are designed to help you, as a student, establish financial management skills that will serve you well this year, in five years and throughout your life. Being Credit Smart is a “strategy for a lifetime.”

The Credit Smart Series includes:

Credit Basics
Credit Reporting
Credit Scoring
Credit Safe
Repairing Credit Problems
Credit Card Basics
IT’S IMPORTANT TO REMEMBER CREDIT CARD FUNDAMENTALS.

Most people understand the basics of credit cards. We use them to pay for things we want or need and then we pay the bills when they come in the mail or online. Still, it’s a very good idea to backtrack for a minute and really understand what credit cards are all about. You may already know a lot of this information, but a refresher course is not a bad idea. It will serve to remind us that these are very powerful pieces of plastic.

Credit cards are revolving credit accounts.

A revolving account means the amount you owe at any point in time can fluctuate up or down, based on your use. It is essentially a line of credit that lets you make purchases and pay for them over time, with interest.

Interest rates on credit cards can be fixed or variable.

A fixed rate doesn’t change unless you’re notified in advance by the card issuer.

A variable rate is calculated as the sum of an index plus a spread. An example of this is the “Prime” rate plus a spread of 2%. The rate will change, without notification to you, whenever the index changes.

Also, creditors can change your rate due to bad behavior on your account. When this occurs, however, you must be notified in advance of the change with an explanation as to why the change is occurring and any options you may have regarding that change.
Credit cards v. charge cards v. debit cards.

There are important differences between cards.

**Credit** cards let you charge something now and pay for it over time. You can carry a balance from month to month.

**Charge** cards, (think American Express) allow you to purchase something now, but you have to pay for it in full when the monthly bill is due. You can’t carry a balance. And **debit** cards are NOT a form of credit at all and don’t serve to establish a credit history. When you buy something with a debit card, the funds are deducted electronically from your checking or savings account as soon as the transaction is posted.

A FEW INS AND OUTS OF CREDIT CARDS.

Secured or unsecured, that is the question.

Credit cards can be secured or unsecured. Secured cards require you to put funds into a “savings account” that acts as security against delinquency or if you default on your account. If you fail to make a required payment on the account by the due date the creditor can, and likely will, take money from the savings account to cover the payment. Actually, this is a good kind of card to have if you can’t get another kind of credit card. It will help you to establish credit.

Unsecured cards don’t have this requirement.
Do you know your limits?

The limit is the maximum amount that the card issuer lets you owe as an outstanding balance at any one time. If you manage your account responsibly, the issuer may increase your limit at some point. But did you know that you do not have to accept the credit increase? Saying no to a credit limit increase is a good way to “stay within yourself.”

Another feature of credit cards is the “grace period.” This is the time during which you can avoid finance charges if you pay the amount owed in full by the due date. If there is no grace period, it means that every use of your credit card will begin accruing finance charges as soon as the transaction is posted to your account.

Fees and rates. These usually get our attention.

Credit card issuers can charge various fees. These include:

- **Annual fee** – These fees typically occur when the card has reward benefits, such as airline miles. Of course, you can obtain cards that don’t have annual fees, so you have to weigh the benefits against the costs and decide.

- **Transaction fee** – This fee can be charged for certain usage of the account such as for a cash advance.

- **Late payment fee** – Like it sounds, this can be charged when you don’t make your minimum required payments by the due date.

- **Over-limit fee** – This can be charged when the creditor allows you to charge above your limit and you have opted for this privilege.

- **Returned check/payment fee** – If your payment is rejected by your bank, the credit card issuer can add on this fee.
When it comes to the interest rate, there are two aspects to the rate you need to be aware of:

- **Annual Percentage Rate (APR)** is the annual cost of your credit account based on the annual interest rate you are being charged for the account along with any other annual fees. This rate must show up on your monthly statements.
- **Periodic Rate** is the interest rate that the creditor applies to your outstanding balance to determine the finance charge for the billing period. This often is calculated as a daily rate on a percentage basis. It also must be reported on your monthly statements.

**WHAT IF YOU WANT TO GET YOUR FIRST CREDIT CARD?**

How exactly do you go about getting your first card? It has actually become more difficult for young people to qualify for a credit card. The Credit Card Accountability Responsibility and Disclosure or (CARD) Act of 2009, also known as the Credit Card Bill of Rights, has made it harder for anyone under the age of 21 to get a credit card. If you’re under 21 you must have:

- A creditworthy cosigner who is at least 21, or
- Sufficient income or other financial resources to repay the debt
- And, the issuer may impose other eligibility criteria

If you’re 21 or older you still have to meet the issuer’s credit requirements that will likely include a review of your credit history.
What features should you look for when "shopping" for a card?

If you can get a card with no annual fee, why wouldn't you? That's what most financial advisors would ask. Then they'd tell you to seek out the lowest interest rates and preferably a fixed interest rate.

Of course, if earning frequent flyer miles or other rewards are important to you, you'll want to look into those benefits. You'll be glad to know that many credit card issuers now offer rewards without charging an annual fee. So you can get the best of both worlds.

Customer Service? It still exists. You should seek out a lender that has a good reputation for treating its customers well. Of course, most credit card companies now offer considerable online functionality, so you can manage your account online pretty nicely.

And finally, it's very important to read the fine print. You'll want to know about your rights, responsibilities, and the terms and conditions of your account.
HOW TO GET OFF THE LIST OF CREDIT CARD MAILINGS.

Credit card offers you get in the mail typically are pre-screened solicitations. It means they come to your door because of information the card issuer received from a consumer reporting agency. You can opt out of receiving at least some of these offers by:

- Calling 1-888-5-OPTOUT (1-888-567-8688), or
- Visiting OptOutPrescreen.com

A credit card can help you establish credit.

This is one of the upsides of having a credit card—assuming you manage your account wisely! Having a credit card can allow you to establish a positive payment history without going into debt. Remember, you don’t have to use your card a lot. Charge one thing a month (a bag of groceries) and then pay the bill in full when it’s due. Over time this will help you establish a good payment history, and therefore, good credit.

What’s more, doing the right thing with a credit card can help to offset the impact of having increasing student loan debt.

And sorry, but we have to say it again: use credit cards for convenience not for credit! (There, we feel better.) Building up credit card debt that you cannot afford to repay will negate any of the benefits of positive payment behavior.
PAYING THE MINIMUM ADDS UP... THE WRONG WAY.

What's the impact of paying only the minimum on your monthly credit card bill? Here's an example to illustrate the effect.

Let's assume:

- You have a credit card balance of $5,000
- The Annual Percentage Rate (APR) is 15%
- Your minimum payment = interest + 1% of your balance

Here's what would happen:

- Your total time to repay the balance would be 269 months (22.4 years!)
- The total interest you'll pay is $5,798 (that's just interest!)
- This assumes you STOP using the credit card

If you want to calculate how long it would take to pay off your current credit card debt, paying only the minimum required amount, go to Bankrate.com.

TRUE or FALSE? You need to carry a balance on your credit card from month-to-month in order to establish a good credit history.

FALSE! FALSE! FALSE! In fact, you'll have a better credit history if you pay your credit card bill in full each month.
ELEMENTARY, YES, BUT SO IMPORTANT.

It's the Credit Card ABC's:

A credit card is helpful for emergencies but emergencies rarely happen at the mall!

B - Buying on SALE is still SPENDING, not SAVING!

C - Credit card debt is not an investment, in fact it REDUCES your ability to invest!

D - Don't use your credit cards for cash advances, it will cost you much more!
For more information.

It's always healthy to know as much as you can. Here are some sites that offer guidance specifically on credit cards and information on current credit card offers.

FederalReserve.gov
CardRatings.com
Bankrate.com
CreditCards.com
CreditCardGuide.com
e-wisdom.com
CreditCardMenu.com
Our mission at Access Group

For more than 25 years, Access Group has made higher education available to students as a nonprofit loan provider, financial literacy educator, and loan servicer. We are proud to have successfully guided thousands of students, like you, through the financial aid process. Today, we are excited about and thoroughly committed to furthering our mission of providing financial support and solutions to help aspiring professionals achieve success.

This workbook and the full breadth of the WiseBorrower® Education Series are important tools designed to help students begin their careers on solid financial footing. It is all part of our ongoing commitment to provide resources, enhance financial literacy and support higher education administrators and students in and out of school.