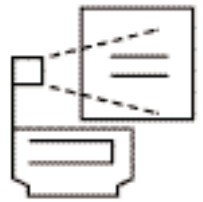


lesson eight

credit cards



overheads



shopping for a credit card

costs:

- Annual Percentage Rate (APR) or Finance (Interest) Charges
- Grace period
- Annual fees
- Transaction fees
- Balancing computation method for the finance charge

features:

- Credit limit
- How widely the card is accepted
- What services and features are available

calculating finance charges



cash advances:

You pay interest charges that accrue from the date of the cash advances.

average daily balance:

You pay interest on the average balance owed during the billing cycle. The creditor figures the balance in your account on each day of the billing cycle, then adds together these amounts and divides by the number of days in the billing cycle.

adjusted balance:

You pay interest on the opening balance after subtracting the payment or returns made during the month.

previous balance:

You pay interest on the opening balance, regardless of payments made during the month.

past-due balance:

No finance charge is added if the full payment is received within the grace period. If it is not received, a finance charge for the unpaid amount is added on to your next bill.

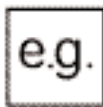


examples of finance charges

	<u>average daily balance</u>	<u>adjusted balance</u>	<u>previous balance</u>
monthly	1.5%	1.5%	1.5%
rate	18%	18%	18%
previous balance	\$400	\$400	\$400
payments	\$300	\$300	\$300

On 15th day (new balance =\$100)

average daily balance	\$250*	N/A	N/A
finance charge	\$3.75 (1.5% x \$250)	\$1.50 (1.5% x \$100)	\$6.00 (1.5% x \$400)



* To figure average daily balance:
 $(\$400 \times 15 \text{ days}) + (\$100 \times 15 \text{ days}) = \$250 \times 30 \text{ days}$

comparing credit cards



	Card 1 _____	Card 2 _____	Card 3 _____
Annual Fee			
Grace Period			
APR			
Credit Limit			
Finance Charge			
Method of Calculating Finance Charges			
Transaction Fees			
Fees for Late Payment			
Other Features			



what to do if you are denied credit

if you think the reasons for the denial are valid:

- Ask the creditor if you can provide additional information or arrange alternate credit terms.
- Apply to another creditor whose standards may be different.
- Do the things you need to do to improve your credit worthiness (pay bills on time, increase income, reduce spending, obtain a secured card, etc.) and then reapply.

if you are not sure whether the reason for the denial is valid:

- Ask the creditor to explain why you were denied.
- Review your credit history.
- If you find your credit history contains errors, take steps to correct the errors.

if you believe the reason for the denial is invalid and that the creditor has discriminated against you:

- Notify the Human Rights Commission or Consumer Affairs department in your province. They will investigate and report back to you.
- If you can afford it, hire a lawyer to file suit against the creditor. If the court determines the creditor did discriminate, the creditor will be required to pay you actual damages plus punitive damages.

reading a credit card statement



		Send Payments to: Box 1234 Anytown, CANADA		CREDIT CARD STATEMENT	
Date	Particulars	Debits/Credits			
Jan25	PaymentThankYou			-168.80	
Jan 15	Record Recycler	Anytown, CANADA		14.83	
Jan 15	Beeforama Restaurant	Anytown, CANADA		30.55	
Jan 18	Great Expectations	Big City, CANADA		27.50	
Jan 21	Dino-Gel Petroleum	Anytown, CANADA		12.26	
Feb 09	Shirts 'N Such	Tinyville, CANADA		40.10	
Account Number	Balance On Last Statement	Total Credits	Total Debits	My New Balance	
4125-239-412	168.80	-	168.80	+	125.24 = 125.24
John Doe 211 Elm Street Anytown, CANADA				Interest Rate/APR	Credit Limit
				17.5%	1,200.00
				Statement Date	Past Due
				2/13/__	00.00
				Due Date	Minimum Payment
				3/9/__	20.00
				Amount Paid	
Please make cheque or money order payable to Your First Bank. Include account number on front.				Please retain this portion	
General Customer Inquiries: 1-800-555-1234 Report Lost or Stolen Cards: 1-800-555-5678					



dealing with billing errors

collection agencies act

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

- You can challenge a billing statement for errors such as charges for unauthorized purchases, charges for items that were never delivered, failure to credit a payment, etc.
- You must notify the creditor of a disputed item within 60 days.
- Creditor must investigate and, within two billing periods, either correct the mistake or explain why the charge is not in error.
- You cannot be billed for or forced to pay the disputed amount until the creditor has finished the investigation.
- If it is determined that you are responsible for the bill, you must be given the usual amount of time to pay it.
- Your credit history is protected during the dispute process.
- Creditor must supply customers with a statement of their rights at the time the account is opened and at least twice a year thereafter.

other credit card protections



prompt credit for payment

- A card issuer must credit your account on the day the issuer receives your payment, unless the payment is not made according to the creditor's requirements.

refunds of credit balances

- When you return merchandise or pay more than you owe, you have the option of keeping the credit balance on your account or receiving a refund.

unauthorized charges

- If you report your card lost before it is used, you cannot be held responsible for any unauthorized charges.
- If your card is used before you report it lost, you are usually liable for no more than \$50.00 in charges.

disputes about merchandise or services

- In some circumstances, you have the right to withhold payment for unsatisfactory merchandise or services. Otherwise, disputes must be resolved directly with the merchant.



credit card do's and don'ts

shop around

- Look at various sources.

read and understand the contract

- Read the contract carefully.
- Don't rush into signing anything.
- Once a contract is signed, get a copy of it.
- Know the penalties for missed payments.

know your cost

- Figure out total price when paying with credit.
- Make the largest payments possible.
- Know the penalties for missed payments.
- Buy on instalment credit only after you have evaluated all other possibilities.
- Don't be misled into thinking small payments will be easy.

how much can you afford? (the 20-10 guideline)



never borrow more than 20% of your yearly net income

- If your net income (money after taxes) is \$400 a month, then your net income in one year is:

$$12 \times \$400 = \$4,800$$

- Calculate 20% of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

- So, you should never have more than \$960 of debt outstanding.
- Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%.

monthly payments shouldn't exceed 10% of your monthly net income:

- If your take-home pay is \$400 a month:

$$\$400 \times 10\% = \$40$$

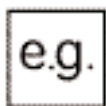
Your total monthly debt payments shouldn't total more than \$40 per month.



lost or stolen credit cards

protecting your credit cards

- When you first receive your credit card from the provider, take time to read the attached documentation. It will outline the procedure to follow if your card is lost or stolen.
- Some card providers may provide a credit card registry as a convenient and safe way to keep track of all of your card numbers for quick reference. A small annual fee may apply for this service.
- It's a good idea to make a list of everything you carry in your wallet, including credit card numbers. Don't forget to keep the list separate from your wallet or purse.
- If your card is lost or stolen, report it promptly to your credit card provider.
- Each card provider will have their own procedures to follow if your card is lost or stolen in Canada or while away out of the country.

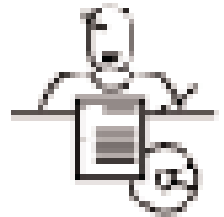


lost or stolen Visa card

First, call your issuing financial institution. If you can't remember which one issued your card, call the Visa International Global Customer Assistance Service toll free, 24 hours a day at (800) 847-2911. If you are out of the country, call (410) 581-9994 collect.

lesson eight

credit cards



student activities

name: _____

date: _____



shopping for credit

Credit card costs and features can vary greatly. This exercise will give you a chance to shop for and compare the costs and features of three credit cards.



directions

Using the attached form, research the costs and features of:

- Two major credit cards
- One credit card from a department store

When you're done, answer the following questions.

what did you find?

1. Which credit card has the highest annual percentage rate and how much is it?

2. What method is used to calculate the monthly finance charges for the first major credit card?

3. When does the finance charge begin to accrue on the credit card from the local department store?

4. Do any of the cards have annual fees?

If so, which one(s) and how much is the fee? _____

5. Is there a transaction fee on any card?

If so, how much is it? _____

6. Is there a minimum finance charge on either of the major credit cards?

If so, how much is it? _____

7. Does the first major credit card charge a fee for late payments?

If so, how much is it? _____

8. What is the grace period on the credit card from the local department store?

9. Jamel wants to buy a new CD player that costs \$450. According to his budget, he can afford payments up to \$62.00 per month. Which of the three credit cards you've found would you recommend Jamel use to purchase the CD player?

Why? _____

shopping for credit (continued)

use the following form to compare two or more credit cards:

	card one	card two
Type of account: Credit card Charge card		
Company name, address, phone		
Web site		
Locations where card is accepted		
Annual fee (if any)		
Grace period		
Annual Percentage Rate (APR)		
Finance charge calculation method		
Credit limit		
Minimum payment		
Other fees: Late payment		
Other features		

name: _____

date: _____



the statement

A credit card statement provides information such as how and when you've used your credit card, how much you owe, how much interest you're paying to use the card, how much your minimum payment is, and how much credit you have left.

Knowing how to read your credit card statement can also help you catch unauthorized charges and/or billing errors.

So, it can pay to know how to read the statement!




directions

Use the credit card statement on the following page to answer these questions:

1. What is the date of the statement? _____
2. What is the Annual Percentage Rate (APR)? _____
3. What is the new balance? _____
4. What was the previous balance? _____
5. How many charges were made during the billing cycle? _____
6. How many credits and payments were made during the billing cycle? _____
7. Were there any charges for late payments? _____
If so, how much were the charges? _____
8. What is the total amount of the credit line? _____
9. What is the total amount of available credit? _____
10. What is the total amount of charges made during the current billing period? _____
11. What is the account number on the statement? _____
12. Where should the payment be sent? _____

the statement (continued)

	CREDIT CARD STATEMENT	Send Payments to: Box 1234 Anytown, CANADA		
Date	Particulars	Debits/Credits		
Jan 25	Payment Thank You	-168.80		
Jan 15	Record Recycler Anytown, CANADA	14.83		
Jan 15	Beeforama Restaurant Anytown, CANADA	30.55		
Jan 18	Great Expectations Big City, CANADA	27.50		
Jan 21	Dino-Gel Petroleum Anytown, CANADA	12.26		
Feb 09	Shirts 'N Such Tinyville, CANADA	40.10		
Account Number	Balance On Last Statement	Total Credits	Total Debits	My New Balance
4125-239-412	168.80	- 168.80	+ 125.24	= 125.24
John Doe 211 Elm Street Anytown, CANADA		Interest Rate/APR	Credit Limit	
		17.5%	1,200.00	
		Statement Date	Past Due	
		2/13/___	00.00	
		Due Date	Minimum Payment	
		3/9/___	20.00	
		Amount Paid		
Please make cheque or money order payable to Your First Bank. Include account number on front.			Please retain this portion	
General Customer Inquiries: 1-800-555-1234 Report Lost or Stolen Cards: 1-800-555-5678				

name: _____

date: _____



how much does it really cost?



directions

Answer the following questions. You'll see for yourself how much items bought with credit can actually cost.

questions

Dimitri wants to buy a stereo for \$650 and pay for it using a credit card that has an Annual Percentage Rate of 19.8% and a periodic interest rate of 1.65%.

If Dimitri pays the minimum monthly payment of \$21.45:

1. How long will it take him to pay for the stereo?
2. What is the total amount Dimitri will pay for the stereo?
3. What is Dimitri's total cost of using credit?

If Dimitri makes monthly payments of \$60:

4. How many months will it take for Dimitri to pay off the stereo?
5. What is the total amount Dimitri will pay for the stereo?
6. What is Dimitri's total cost of using credit?

Karen took a cash advance on her credit card for \$1,500. The credit card she used charges an Annual Percentage Rate of 21% and a periodic interest rate of 1.75%.

If Karen pays the cash advance back at a rate of \$60 per month:

7. How long will it take Karen to pay for the cash advance?
8. What is the total amount Karen will end up paying for the cash advance?
9. How much interest will Karen pay?

If Karen pays the cash advance back at a rate of \$120 per month:

10. How long will it take Karen to pay for the cash advance?
11. What is the total amount Karen will end up paying for the cash advance?
12. How much interest will Karen pay?

how much does it really cost? (continued)

Marie just used her new credit card to buy a bike for \$400. Her budget allows her to pay no more than \$25 each month on her credit card. Marie has decided not to use the credit card again until the bike is paid off. The credit card she used has an Annual Percentage Rate of 21% and a periodic interest rate of 1.74%.

If Marie pays \$25 each month on her credit card:

13. How long will it take Marie to pay for the bike?
14. What is the total amount Marie will end up paying for the bike?
15. How much interest will Marie pay for using her credit card to buy the bike?

If Marie pays the minimum payment of \$20 each month:

16. How long will it take Marie to pay for the bike?
17. What is the total amount Marie will end up paying for the bike?
18. How much interest will Marie pay for using her credit card to buy the bike?

Gary has just used his credit card to buy a new watch. He got the watch on sale for \$235. The regular price was \$290. He used a credit card that has an Annual Percentage Rate of 20% and a periodic interest rate of 1.67%.

If Gary makes the minimum monthly payment each month of \$20:

19. How much will Gary end up paying for his new watch?
20. How long will it take Gary to pay for his watch?
21. What is the total amount of interest Gary will end up paying?

If Gary pays \$25 each month, instead of the minimum monthly payment of \$10 each month:

22. How much will Gary end up paying for his new watch?
23. How long will it take Gary to pay for his watch?
24. What is the total amount of interest Gary will end up paying?

name: _____

date: _____



how deep can they go?



directions

Read each of the following scenarios and determine if the purchase can be made and how the decision will affect the credit load.

Write your answers in the blanks provided. Use the space below each problem to show how you arrived at your answer. (Use the other side of this paper if you need more room.)

1. After paying rent, Laura and Jamie have a combined monthly net income of \$1,200.
What is the most they can afford to pay for instalment and credit card debt?

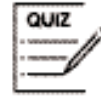
2. Isaac has a monthly net income of \$800. He shares an apartment with friends and pays \$150 each month for rent. Isaac wants to buy a car. Currently, he has only one credit card payment each month for \$80.
Given his current income and current fixed expenses, what does Isaac have left in his budget for a car payment?

3. After paying rent, Indra has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card.
What is the largest monthly payment she can commit to making?

4. Petr has a monthly net income of \$640. He pays \$120 per month for rent. He has a car payment of \$125 per month.
Petr wants to buy new tires for his car. The total cost of the new tires is \$420. If he uses credit to pay for the tires, his minimum monthly payment will be \$40.
If Petr buys the tires, what percentage of his net income, after rent, will he have committed to debt payments?

name: _____

date: _____



lesson eight quiz: credit cards

true-false

1. _____ A priority credit card is usually accepted by one type of store or company.
2. _____ The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
3. _____ The annual fee for a credit card is set by the government.
4. _____ APR measures the interest rate charged by a credit card.
5. _____ If someone uses your lost or stolen credit card and you report it immediately, you are usually liable for no more than \$50.

multiple choice

6. _____ A credit card issued through a credit union would be an example of a _____ card.
 - A. bank
 - B. travel and entertainment
 - C. store
 - D. priority
7. _____ The grace period refers to the time:
 - A. taken to process a credit card application.
 - B. for paying an account without an interest charge.
 - C. allowed to notify a creditor of a billing error.
 - D. used for calculating interest.
8. _____ Comparing the APR among several credit cards allows you to obtain the:
 - A. longest grace period.
 - B. lowest annual fee.
 - C. lowest interest rate.
 - D. least expensive method of calculating interest.
9. _____ If a billing error occurs on a credit statement, a consumer has _____ days to notify the creditor.
 - A. 30
 - B. 60
 - C. 90
 - D. 120

case application

Jack uses his credit card for almost all purchases. He charges gas purchases, clothing, food, and other living expenses. What is your opinion of this money management habit?