



Credit 100

UNDERSTANDING CREDIT



An investment in knowledge always pays the best interest.

Franklin D. Roosevelt

Credit can open doors to buying a home or a car. But it can also lead to significant stress. Take time to understand how credit works and its impact on your life. Use the worksheets and calculators to determine your current credit situation and how to improve it in the future.

What is credit?

- It is borrowing money and paying interest and fees
- Revolving credit means
 - you can repeatedly borrow up to a set limit
 - you may be able to make minimum payments
 - possible fees
- A credit card is a loan that can be expensive to repay

Credit Card Benefits

- Helps in emergency situations
- Convenient to use
- Easy for Internet purchases
- Required for car rental
- Safer than carrying cash
- Possible travel & cash-back rewards

Credit Card Risks

- High fees
- High interest rates
- Short or no grace period
- Leads to impulse purchases
- Bad credit if not used wisely
- Confusing credit terms

Grace Period

- Number of days without interest
- Between 20 days & one month
- To receive grace period you must
 - Pay new balance in full
 - Pay before due date

Making minimum payments

- No grace period
- Interest charged from purchase date
- May take years to pay off debt

Convenient Credit Card and Loan Alternatives

- Cash
- Checks
- Debit & check cards
- ATM cards



Understanding Your Debt

Almost everyone has debt. Some debt is good and some debt is bad. Debt related to something that grows in value or increases your value is good debt—such as a home or an education. For a strong financial future consider limiting debt for items that lose value such as a car, clothing or other expenses. To help determine whether it is worth incurring debt, ask yourself these three questions:

When the bill is paid off, will:

1. I remember what I bought?
2. The item have value?
3. The total cost be worth it? (Item + Interest)

Yes to all is a good use of credit

If you answer YES to all three questions, the debt is most likely a good use of credit.

No to one—consider paying cash

If you answer NO to just one question, consider saving your money so you can pay cash.



Next Step: [Credit Card Repayment Calculator](#)

How to read a credit card statement

Most credit card bills have the following five areas that tell you about your credit and the cost of credit.

General Information

- Your name, address and account number (your entire account number may not appear for security reasons)
- Statement begin and end dates
- The name and contact information for your credit card company

Account information

- Your balance at the beginning of the statement period
- Payments made to your account
- Purchases made to your account
- Credit limit
- Credit available (which is your credit limit minus your balance owed)
- New balance owed
- Minimum payment due
- Payment due date

Account Summary

- Previous balance
- Total of all purchases
- Total of all cash advances
- Total of all payments
- Finance charge
- Late charges, transaction fees, annual fees and other fees
- Current amount due
- Amount past due
- Amount over credit limit
- New balance



Transaction Summary

- Reference number (this number helps the credit card company research the purchase if you have questions)
- Transaction date (the date a purchase or payment occurred)
- Posting date (the date the purchase or payment was applied to your account)
- Merchant name where transaction occurred
- City and/or state of merchant
- Amount of transaction

Interest Rate Summary

- Interest rate for purchases
- Interest rate for cash advances
- Other interest rates and fees



Credit Card Repayment Calculator



Estimated time

Organize and gather credit card and loan statements: 30 minutes

Some credit card balances can take decades to pay off. By paying more than the minimum payment you can pay a \$2,500 balance off in about 9 years versus almost 24 years at 15 percent interest. Use this calculator to determine how long it will take to pay off your credit card when paying the minimum balance due.

2% Minimum Payment						4% Minimum Payment					
Balance	\$1,000	\$2,500	\$5,000	\$7,500	\$10,000	Balance	\$1,000	\$2,500	\$5,000	\$7,500	\$10,000
Interest Rate	Years to Pay off					Interest Rate	Years to Pay off				
10%	10.3	16.7	21.5	24.3	26.3	10%	5.9	8.3	10.0	11.1	11.8
11%	10.8	17.7	22.9	25.9	28.1	11%	6.0	8.4	10.3	11.3	12.1
12%	11.4	18.8	24.5	27.8	30.1	12%	6.2	8.7	10.5	11.6	12.4
13%	12.1	20.2	26.3	29.9	32.4	13%	6.3	8.8	10.8	11.9	12.7
14%	12.9	21.8	28.5	32.4	35.2	14%	6.4	9.1	11.0	12.2	13.0
15%	13.9	23.8	31.2	35.5	38.6	15%	6.6	9.3	11.3	12.5	13.3
16%	15.1	26.1	34.3	39.2	42.7	16%	6.8	9.5	11.6	12.8	13.7
17%	16.6	29.0	38.4	43.9	47.8	17%	6.9	9.8	11.9	13.2	14.1
18%	18.4	32.8	43.7	50.0	---	18%	7.1	10.0	12.3	13.6	14.5
19%	20.9	37.9	---	---	---	19%	7.3	10.3	12.6	13.9	14.9
20%	24.4	45.2	---	---	---	20%	7.4	10.6	13.0	14.3	15.3
21%	29.8	---	---	---	---	21%	7.7	10.9	13.4	14.8	15.8
22%	39.0	---	---	---	---	22%	7.9	11.3	13.8	15.3	16.3
23%	---	---	---	---	---	23%	8.1	11.6	14.3	15.8	16.9
24%	---	---	---	---	---	24%	8.3	12.0	14.8	16.3	17.5

Use the space below to find out how long it could take to pay off your credit cards. If it will take too long, make extra payments as soon as possible. A few dollars more than the minimum payment will go a long way in reducing the time needed to pay off your card. Plus, you'll save money in interest charges. Most credit cards have a minimum payment of 2 percent of the outstanding balance. Use the 4 percent chart to determine how much sooner you can pay off a credit card by making extra payments. Paying double the minimum payment (4 percent instead of 2 percent of the outstanding balance) on a \$2,500 credit card balance will take 9.3 years to pay off instead of 23.8 years.

Credit Card Name	Interest Rate	Balance	Minimum Payment	# of Years to Pay Off
Visa	15%	\$2,500.00	\$50	23.8



Understanding a Credit Offer

Under federal law, all solicitations and applications for credit cards must include certain key information, in a disclosure box similar to the one shown.

Annual percentage rate (APR) for purchases	2.9% until 11/1/09; after that, 14.9%
Other APRs	Cash advance APR: 15.9% Balance transfer APR: 15.9% Penalty rate: 23.9%; explanation below.*
Variable rate information	Your APR for purchase transactions may vary. The rate is determined monthly by adding 5.9% to the Prime Rate as reported in the Wall Street Journal on the first Tuesday of each month.
Grace period	25 days
Method of computing the balance for purchases	Average daily balance (excluding new purchases)
Annual fees	None
Minimum finance charge	\$.50
Transaction fee for cash advances: 3% of the amount advanced Balance-transfer fee: 3% of the amount transferred Late-payment fee: \$25 Over-the-credit-limit fee: \$25	
*If your payment arrives more than 10 days late two times within a six-month period, the penalty rate will apply.	

Glossary

APR for purchases. The annual percentage rate you'll be charged if you carry over a balance from month to month. If the card has an introductory rate, you'll see both that rate and the rate that will apply after the introductory rate expires.

Other APRs. The APRs you'll be charged if you get a cash advance on your card, transfer a balance from another card, or are late in making a payment. More information about the penalty rate may be stated outside the disclosure box—for instance, in a footnote. In this example, if you make two payments that are more than 10 days late within six months, the APR will increase to 23.9%.

Variable rate information. Information about how the variable rate will be determined (if relevant). More information may be stated outside the disclosure box—for instance, in a footnote.

Grace period for repayment of balances for purchases. The number of days you'll have to pay your bill in full for purchases without triggering a finance charge.

Method of computing the balance for purchases. The method that will be used to calculate your outstanding balance if you carry over a balance and will pay a finance charge.

Annual fees. The amount you'll be charged each 12-month period for simply having the card.

Minimum finance charge. The minimum, or fixed, finance charge that will be imposed during a billing cycle. A minimum finance charge usually applies only when a finance charge is imposed; that is, when you carry over a balance.

Transaction fee for cash advances. The charge that will be imposed each time you use the card for a cash advance.

Balance-transfer fee. The fee that will be imposed each time you transfer a balance from another card.

Late-payment fee. The fee that will be imposed when your payment is late.

Over-the-credit-limit fee. The fee that will be imposed if your charges exceed the credit limit set for your card.

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