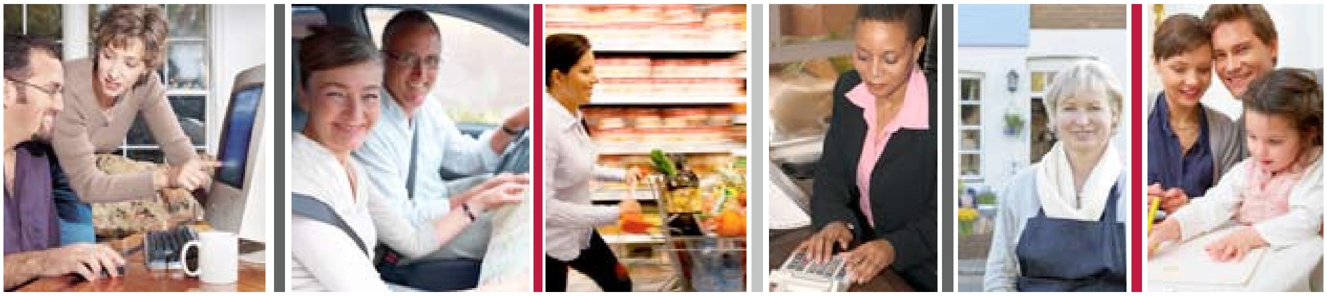
MANAGE YOUR MONEY



Lesson 4: How Much Credit Can You Afford?

Consumer credit is a way of using future income to buy the goods and services you want today. You can obtain credit from a variety of sources including banks, credit unions, finance companies, retailers, and service providers such as utility companies and physicians. In addition, some investors may be able to tap their investment accounts or retirement accounts. Policyholders who have a cash-value life insurance policy can obtain loans based on the cash value built up in the policy. Pawnshops, check cashers, and rapid-refund services are some of the "alternative lenders" that extend credit.

When used wisely, credit can be a valuable financial tool. It is often more convenient and easier to use than cash. Credit also offers some valuable consumer protections. However, when used carelessly, credit can cause serious financial problems. You could owe more than you can repay and damage your credit rating. Or, you could lose property you have worked to obtain.

Types of Credit

There are two basic types of non-mortgage consumer credit: closed-end and open-end. **Closed-end** credit is extended for a specified amount over a set time period. No further purchases or loans may be added to the original amount. The payment period, payment amount, and the number of payments remain fixed for the life of the credit agreement. For example, purchasing a car with an installment loan is a closed-end agreement. Other examples include loans for expensive items such as major appliances or home improvements and personal loans.

Open-end credit allows you to make repeated purchases or obtain cash up to a specified limit from an ongoing agreement with the creditor. Some agreements require payment of the full balance each month. Other agreements allow a monthly minimum payment with a finance charge on the balance. Examples of open-end credit include revolving charge accounts, credit cards, checking accounts with overdraft privileges, and home-equity lines of credit.

Do You Want to Use Credit?

Have you received offers from credit card issuers in the mail? Here are some ideas to help you decide if you are ready to use credit, how to choose a company and how to use credit responsibly.

Borrowing money is not good or bad in itself. When you use credit, you are paying to use someone else's money. It is up to you to pay back what you borrowed by an agreed upon date at a specified cost to you.

THE OHIO STATE UNIVERSITY EXTENSION

A Few Common Forms of Consumer Credit

Multi-purpose revolving credit cards— Offered by a multitude of banks, credit unions, and consumer-product companies (such as GTE, General Motors, etc.) and accepted by thousands of businesses. Because accounts are accessed by a credit card (such as Visa, MasterCard, and Discover), they are usually called **bank cards**. These are open-end accounts with a set credit limit and, usually, monthly billing.

Single-purpose credit cards—Offered by gasoline companies, department stores, and specialty stores where the card can be used only in the issuing business (including its multiple locations). These usually are revolving accounts with monthly billing (but may be "charge accounts" requiring full payment each month).

Charge cards—Similar to bank cards allowing holders to make purchases at numerous businesses, but the entire balance charged must be repaid within 30 days. Also known as **travel and entertainment (T&E)** cards, the best known of which include the traditional cards from American Express and Diners' Club. (These companies also may have cards that are revolving accounts.)

Home equity loans—The difference between the appraised market value of your home and any mortgage debt owed is the "equity" that you have in your property. Some financial institutions offer a "home equity loan" based on your equity (usually a percentage of your equity and secured with a second mortgage). With a **home equity installment loan**, a specific amount is borrowed for a fixed time period with fixed monthly payments. With a **home equity line of credit**, a maximum loan amount is set and the loan operates as open-end credit and often is accessed with a credit card issued on the account. These line-of-credit loans may have a variable interest rate and a flexible repayment schedule.

Normally, home equity loans are used to make improvements on the property or to purchase major durable goods (appliances, autos, etc.). It is dangerous to use a home equity line of credit when purchasing general consumer items or services that will be used up long before the loan is repaid. The risk is loss of your home, because these loans are secured by your home.

Advantages of Credit

- During inflationary times when the dollar buys fewer goods, you can repay a debt with cheaper dollars.
- It may be possible to buy some goods at a lower price now than in the future. For example, if you plan to buy a refrigerator and it goes on sale, using credit might allow you to buy the refrigerator at a lower price than if you saved the cash and then had to pay full price. When deciding on the best option, be sure to take into account the interest you will pay.
- Credit cards are convenient to use and safer than carrying large amounts of cash.
- Credit cards make it possible and easier to order merchandise by phone and shop via the Internet.
- Credit allows you to buy expensive items you cannot afford to pay for immediately. Examples include buying a house or a car.
- Some services such as renting an automobile, purchasing airline tickets, or obtaining hotel accommodations are difficult without a credit card.
- Some interest costs for home equity loans may be deductible if you itemize deductions on your income tax return. (Check with your tax preparer.)
- Some credit card programs offer perks such as air miles, rebates, or bonus points for use of the card.

Disadvantages of Credit

- You may be tempted to buy more than you really need because it is easy to say, "charge it."
- Instead of comparison shopping for the best price, you may shop only at stores where you have credit.
- Buying on credit can be habit-forming and can add 20 percent or more to the cost of goods and services.
- Cards that offer air miles, rebates, or bonus points usually are more costly. They frequently charge a fee for the card, charge a fee for the transaction, charge a higher interest rate, or calculate the interest using a method that is more expensive to the consumer.
- You may be charged additional fees such as late payment fees, over the limit fees, or an annual usage fee for a credit card.

Credit History

If you are 18 years old and have a regular income, you are on your way to qualifying to obtain credit. However, you will still need proof that you are a good risk. This proof is your credit history or record. Your credit history shows your ability and willingness to repay a debt. It is measured by your record of paying bills. It is determined by how prompt and reliable you have been in making past credit payments.

A good credit history helps you qualify for future credit and may also help you get credit at a lower cost. If you have financed a car or made some other purchase using credit, you probably have a record with a credit bureau or credit reporting agency. This record shows how responsible you are in paying your bills.

Before applying for credit, it is a good idea to obtain copies of your credit reports from the major credit reporting agencies. Chances are, each of the agencies has information about you. This information may vary from one reporting agency to another, so it is a good idea to check all three. Be prepared for ordering your credit report by having the following information available:

- Full name and initials and maiden name
- Current address and previous addresses
- Social Security number
- Your date of birth
- Your spouse's name, date of birth, and Social Security number
- Employer
- A copy of your driver's license, your spouse's driver's license, utility bill, and/or military ID

If you were denied credit, insurance, or employment due to information in your credit file, be sure to include a copy of the letter telling you this.

The three major credit reporting agencies are:

Equifax, www.equifax.com

Experian (formerly TRW), www.experian.com

Trans Union, www.transunion.com

If you are denied credit or someone takes action against you based on information from a credit report, you must be given the name, address, and phone number of the credit bureau that supplied the report. Within 60 days of getting that notice, you are entitled to request a free credit report to check on the accuracy of the information.

You can obtain a free copy of your credit report once per year from each of the three major credit reporting agencies by mail or phone, or online. Go to **www.annualcreditreport.com** for either a combined report from all three credit bureaus or to get one annually from each. You may contact each agency at intervals or contact all three at one time.

Be aware that there are "look-alike" web sites designed to entice you into purchasing additional services or to gather your personal information. Make sure you use the correct web address for your free report.

Whether you have been turned down for credit or not, it is a good idea to check your credit report. This allows you to know what is in your file, gives you a chance to correct any inaccuracies, helps alert you to another person's information being reported under your name, and helps you protect yourself from identity theft.

Your credit report will show your name, current and past addresses, your employer, any judgments or court actions against you, a list of credit accounts you have now and past accounts you might have closed or a creditor has closed and whether these accounts were paid by you or written off by the creditor. If you have participated or are participating in a debt management program or have had a bankruptcy, this information will also be in your credit report.

The report will also show your payment history: whether accounts are paid on time or whether any are 30, 60, or 90 days or more in arrears. You may find that not all of your credit accounts appear on a specific credit report. Not all of your creditors report to all three credit reporting agencies. That is why it is important to check all three.

If there is any incorrect information on your report, you are entitled to ask that the information be corrected. Use the forms and process indicated for the credit reporting agency you are checking. Remember, only incorrect information can be removed from your file. If the information is negative and is correct, it will remain in your file. Negative information can remain in your file for seven years, bankruptcy information can remain there for ten years. You may include a statement in your credit file explaining circumstances surrounding any negative entries.

Your credit history not only has an influence on your future ability to obtain credit, it also can impact your ability to obtain a job, housing, or insurance. Prospective employers may check your credit history to gain information about your reliability and your trustworthiness; a landlord may check your credit history before renting you an apartment or house; and an insurance company may run a credit check on you before issuing a policy or before establishing rates you will pay for insurance.

How Do You Establish Credit?

Getting credit is a privilege and it can take time to build a positive financial history to qualify for the credit you want. Here are several ways you can begin to build a good credit history:

- Open a checking account or a savings account or both. These do not begin your credit file but may serve as evidence that you have money and know how to manage it.
- Apply for credit at a local store. Ask if they report to a credit bureau. If they do and you pay your bills on time, you are building a good credit history.
- Obtain a secured credit card. You can do this by opening an account at a bank, savings and loan, or a credit union, and depositing an amount of money that will secure your line of credit. Your credit line will be a percentage of the amount you keep on deposit.
- Ask someone with a good credit history to co-sign a loan for you. The co-signer promises to pay your debts if you do not. Paying the debt promptly will help you build a positive credit history and enable you to establish an account on your own later. Both you and the co-signer should understand the importance of making these payments on time. If you fail to do so, you not only jeopardize your new credit record, you also cause negative information to be added to the co-signer's credit file. The co-signer is, in the end, responsible for paying the debt you incurred. If you fail to live up to your obligation, you may also ruin the relationship you have with the co-signer.

Choosing a Credit Card

Shop around when you choose a credit card. Card issuers differ in the fees, charges, and benefits they offer. You may use Worksheet 4-C (page 4-13) to record the facts. Consider the following important features:

Annual Percentage Rate (APR). APR is the cost of credit expressed as the yearly interest rate (used to figure the finance charge on the outstanding balance for each billing period). The cost of credit depends on where you borrow, your credit history, how much you borrow, and how long you take to repay it. Credit costs will vary from lender to lender. Before you borrow, compare the costs at several places.

Some credit card agreements allow the issuer to change your APR based on changes in economic indicators. These indicators are called indexes. These plans are called "variable rate" programs. ***The card issuer must tell you that your credit card rate may change and how the rate is determined.*** They must tell you which "index" is used and what additional amount (margin) is added to your new rate. You should also receive information about any limitation on how much and how often your rate may change.

The APR may also be raised if you fail to pay your bill on time or violate some other provision of your credit agreement/contract. Be sure to read and understand all of the "fine print."

Annual Fees. Some card issuers charge an annual fee to use their credit card. These fees range from $15 to $55. However, some cards have no annual fee.

Transaction Fees and Other Charges. Some card companies charge a fee for cash advances, fees for being over the balance limit, fees for late payment, or may charge a fee for every month you use the card. Check out these fees before deciding on a card.

Grace Period. The time between the date of purchase and the date interest starts being charged on that purchase is the grace period. If you pay your current balance in full within the stated grace period, no interest is charged for the new purchase. Some card companies offer no grace period, and the finance charge is imposed from the date you used your card or from the date the transaction was posted on your account. If you carry a balance rather than paying off your card in full, you won't get a grace period on new purchases. Cash advances generally have no grace period.

Computing the Balance for the Finance Charge. If you carry a balance from month to month on your credit card, it is important to know what method is used to calculate the finance charge. There are four common methods of computing finance charges, defined below and compared in Table 4-A on the next page.

- **Adjusted Balance (least expensive)**. Usually this method is most advantageous for card holders. The balance is determined by subtracting payments or credits received during the billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included.
- **Previous Balance**. Finance charges are based on the amount you owed at the end of the previous billing period. Payments, credits, and new purchases made during the current billing period are not included.
- **Average Daily Balance (most commonly used)**. This method credits your account from the day payment is received by the credit issuer. The issuer starts with the beginning balance for each day in the billing period and subtracts any credits made to your account that day. Depending on the plan, new purchases may or may not be added to the balance. Typically cash advances are included. The resulting daily balances are added for the billing cycle. Then the total is divided by the number of days in the billing period to get the average daily balance.

Customer Service and Other Benefits. Nearly all credit card companies have 24-hour toll-free telephone numbers to assist card holders with problems. Other special services might include credit card protection, rebates, discounts, insurance, special merchandise, or possibly airline miles.

Table 4-A: Four Methods of Computing Finance Charges on Open-end Credit Accounts[1]

Method	Amount Owed at Start of Billing Cycle (Feb. 1)[2]	Payment (Feb. 14)	Amount Outstanding at End of Cycle (Feb. 28)	Basis for Finance Charge 1½%	Actual Finance Charge for Month
Adjusted Balance	$400	$200	$200	$200	$3.00
Previous Balance	$400	$200	$200	$400	$6.00
Average Daily Balance	$400	$200	$200	$300	$4.50

[1]Open-end credit includes credit cards, department store charge plates, and check overdraft accounts. Open-end credit can be used continuously, generally until the pre-arranged credit limit is reached. Truth-in-lending laws require that creditors tell you the method of calculating the finance charge and the date the finance charge begins.

[2] Assuming that January 31 was the closing date of the original cycle.

Source: Sharon B. Seiling, Ph.D., and Carolyn McKinney, Ph.D., Money Talks, Ohio State University Extension, 12/89. Updated by Diane Johnson, 7/09.

The Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 is designed to eliminate many problems for consumers. The new law addresses the following:

- Restricts interest rate hikes and requires 45 day notice.
- Eliminates universal default.
- Gives more time to pay monthly bills.
- Makes due dates and times clearer. Bills must be mailed to consumers 21 days before the due date.
- Allows highest interest balances to be paid first when one account has different interest rates for different types of purchases.
- Limits over-the-limit fees.
- Eliminates double-cycle billing.
- Requires clearer disclosure statements.
- Bans fee harvesting and other account opening fee practices used by card issuers for sub-prime consumers.
- Requires disclosure of factors that determine interest rates or credit limits when marketing credit cards to consumers.
- Establishes electronic gift card protections.
- Prevents deceptive marketing of credit reports.
- Increases protections for young consumers against aggressive credit card marketing.
- Strengthens oversight of credit card industry practices, enhances penalties for Truth in Lending violations and promotes financial literacy.

The CARD Act was enacted May 19, 2009. Most of the new law's provisions go into effect 9 months after the enactment date. The 45 day notice requirement and requirement that bills are sent to 21 days before the due date go into effect 90 days from enactment. There are many more provisions in this law, and you can get more information at: http://banking.senate.gov/public/_files/051909_CreditCardSummaryFinalPassage.pdf.

Truth-In-Lending. The law requires that a lender provide you with the following information:

- The annual percentage rate (APR).
- How the APR will be determined (if it is a variable rate).
- The method of computing the balance at the end of each month.
- The annual fee to be charged, if any.
- The minimum finance charge.
- Any transaction fee for purchases or cash advances.

Can I Afford to Use More Credit?

(Note: Refer to "Know What You Owe" Worksheet 2-A on pages 2-5 and 2-6.)

Let's say you really want a new television, but you don't have the money for it. What do you do? Do you borrow the money, or do you wait until you can save some money and buy it later? Consider these basic guidelines when thinking about borrowing money.

Use the 20 percent rule. Your total debt load (except for your mortgage payment) should not exceed 20 percent of your after-tax income.

Caution! This maximum may still be too high for some families, particularly those with an uncertain job future, a low income, an irregular income, or a large family.

Use the "Credit Signal Light" (Worksheet 4-A, below) to help you. Write down how much money you bring home monthly. Multiply the amount by 0.20 for the maximum amount of credit you can afford. Compare this to your current monthly payments as listed on "Know What You Owe" (Worksheet 2-A, pages 2-5 and 2-6).

Now decide—can you really afford to purchase that new television?

How much credit you use is really a personal decision, but do look at your needs realistically. Credit is just one financial tool for your spending plan. Consider carefully before obligating any of your future income.

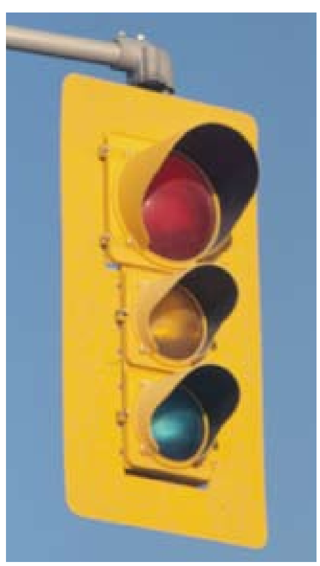
Worksheet 4-A: Credit Signal Light

Total monthly take-home pay = $ ______________

Total monthly debt payments = $ ______________ (excluding home mortgage)

20% of take-home pay = $ ______________

10% of take-home pay = $ ______________



RED—STOP!!

- Monthly credit payments take 20% or more of take-home pay. STOP! Avoid more credit.

YELLOW!—CAUTION!

- Control new credit use and repay current obligations.

GREEN—PROCEED CAREFULLY!

- Use credit wisely. Try to keep monthly payments under 10% of your take-home pay.

Recognizing and Dealing with Credit Problems

The best way to handle debts is to avoid them in the first place. But for most families that is very difficult to do. If you answer "Yes" to two or more of the statements in Worksheet 4-B, "Recognizing Trouble," then it is time for you to do something to better manage your debt load.

If you did not complete "Know What You Owe" (Worksheet 2-A, pages 2-5 and 2-6), do so now.

- Make sure you know who you owe and how much you owe them. List each creditor (loan company, bank, department store, family member), the total balance owed, and the date the monthly payment is due. On the chart, list the total owed/total balance, the amount of the monthly payment, the due date, and any amount that is past due. Total the amount owed. Then add together your monthly payments. Worksheet 2-A, "Know What You Owe," gives a complete picture of your debt situation.
- Look for ways you might increase income or decrease spending. Try to free up some income so you can make your payments. You might want to re-read Lesson 3 for tips on reducing spending leaks.
- Do not use any more credit until you are in better financial shape. Put your credit cards away in a safe place so you will not be tempted to use them. You may decide to cut them up and close the account. Some debt counselors use this technique with clients before working with creditors to adjust payments.
- If you see you will not be able to make your payments, contact your creditors. DO NOT IGNORE THEM! If you do not contact them about your financial difficulties, and do not make scheduled payments, your account may be turned over to an independent collection agency. However, many creditors, if they know the facts about your financial problems and are convinced of your intent to pay, may agree to defer payments or refinance the debt to reduce the size of your monthly payments. Many are willing to make other arrangements with you.

To be helpful, creditors must know of problems BEFORE payments are overdue. Working out a plan with a creditor is the best strategy. Be honest about how much and when a payment can be made. Then, above all, BE SURE TO KEEP YOUR WORD. If a creditor is willing to accept less than full payment at a time that is convenient for you, get it in writing and be sure to follow through on the promise.

Worksheet 4-B: Recognizing Trouble

Can you recognize the credit danger signals? Answer these statements as they apply to you. Check YES or NO.

Yes	No	
		1. Fail to save money.
		2. Always out of money before payday.
		3. New monthly charges are MORE than account payments.
		4. Longer time needed to pay account balances.
		5. "Juggling" payments to creditors.
		6. Borrow to pay "fixed" costs such as insurance.
		7. Credit card "cash advances" used to pay everyday expenses.
		8. Creditors call and send letters demanding payment of overdue bills.
		9. Unsure how much you owe.
		10. Frequently late in paying bills.

Now, total up the number of "yes" blanks you have checked.

1 "Yes" = Signals Caution

2 "Yes" = Trouble Brewing

3+ "Yes" = You should be very concerned and need to take some steps now to help correct the problem.

Ohio State University Extension, 2002.

- The Ohio State University Extension publication *In Over Your Head—Life-Saving Strategies for Financial Crisis* provides more information on handling credit problems and how to select a counseling service.
- Another helpful tool is a free POWERPAY computer analysis to look at different ways to pay off credit. Go to **www.powerpay.org**.
- Contact a non-profit credit counseling service for help.

Avoid Credit Card Blues

It is very easy to make purchases when all you do is pull out the "plastic." Easy, that is, until the monthly bills arrive. Many families use credit to make ends meet and then find it difficult, if not impossible, to make all the monthly payments. That is when the "credit card blues" set in. If you have trouble just meeting your monthly payments, let it be a warning to you to cut back on credit use. If you have a hard time avoiding impulse buying, leave the credit cards at home.

Finding ways to reduce spending is difficult for many families, but not impossible. Everyone in the family should be included in the discussion. The more involved the family is in planning ways to reduce spending, the more committed they will be to succeed. It is also a good lesson for your children to learn early in life.

Keep track of what you buy using credit. These purchases add up at the end of the month without you realizing it. Keep all of your credit card slips together and subtract them from your checking account, or keep a running list of all credit card purchases so you will be aware of how much you have spent. Write the amounts on your Dollar Tracker or the Spending Log notebook you started in Lesson 1.

All Plastic Is Not Credit

There are a variety of financial tools that may look like credit cards but are not. These tools allow you access to money without having to use a checkbook or a credit card. They allow you access to your checking account or allow paperless access to money. These tools include:

- **Automated Teller Machine (ATM) Card**—This plastic card is used by the automated teller machine to authorize payment directly from your bank or credit union account. You can use it to make a withdrawal or deposit, transfer funds from one account to another, or check your account balance. Your bank's ATM may be linked with other banks in a system so when you travel from one part of town to another, from one part of the country to another, or to another part of the world, you can use your ATM to do banking. For security purposes, you will be issued a personal password called a Personal Identification Number (PIN). This PIN is used to verify that the person using the card is authorized to do so. Commit your PIN to memory and do not write it down or store it with your ATM card. If lost or stolen, your card plus the PIN can be used by a thief to remove money from your account. (There is no liability limit as there is with a credit card.)

  Transaction fees may be charged by your bank for using the ATM, or by other banks for using ATMs in other locations. These charges should be called to your attention before you complete a transaction on any given machine, so you can decide whether you wish to use the service for the fee you will be charged.
- **Debit Cards**—These cards are called point-of-sale systems. They frequently look like a credit card, may even have the MasterCard or Visa logo on the card, and can be used like a credit card to make purchases. These cards are used to authorize the payment directly from your checking account to a retailer or other business. While a credit card allows you to borrow money for purchases, a debit card

draws money electronically from your account right away. Transaction fees may also be charged for the use of these cards. Sometimes you authorize a debit card transaction with your personal identification number (PIN). Other times, you sign a receipt just as you would if you were charging the purchase to your credit card. You can also use the card to make ATM withdrawals. You have some of the same protections against loss with a debit card as you do with a credit card, but there is one important difference. While $50 is the most you can ever be responsible for if your credit card is lost or stolen, you could lose much more with a lost or stolen debit card if you don't report what has happened within two days of discovering it.

- **Smart Cards**—These cards (also called stored value cards) are issued not only by banks but also by other organizations. The microprocessing and memory chip within the card stores and manipulates data. The plastic card is "charged" with a specific amount of money which decreases each time a purchase is made. Many smart cards must be used with a PIN similar to the ATM to identify the user.

  Smart cards are issued by phone companies for long distance calls, by colleges for student meals and other purchases, by toll roads, by government programs such as Food Stamps, and by businesses for gift certificates.

  Regardless of whether the financial tool you use is cash, credit, or an electronic payment method, be certain you keep track of each transaction and any fees or charges included. Check your records against your account statements to make sure you maintain control of your money situation.

Purchasing Options

Decisions, decisions. Save first, buy later? Use a credit card or installment loan? Rent to own? John and Mary would like to get a color television with a remote control in time for the Super Bowl. What should they do? Should they buy the TV on credit or go to a "rent-to-own" store? Perhaps they should wait until next year, saving the money each week, and pay cash for a new TV.

Many people are attracted by "rent-to-own" stores because they can satisfy their wants immediately. If you are thinking about making a major purchase, weigh the pros and cons of each payment choice. Included here is a review of the options people would have in making such a purchase decision. Review carefully. Then, when you are faced with this type of buying decision, you will be better prepared for the purchase.

Ask questions before using rent-to-own. If you decide to rent-to-own (RTO), here are some questions you will want to ask about contracts BEFORE making a purchase.

- What is the total cost? Multiply the payment amount times the number of payments.
- Does the company guarantee the item being rented is new?
- Can you buy the item outright at a reduced price during the contract, or are you required to make all of the contracted payments to become the owner? Even though the company may provide repairs at no charge, does the store also provide a substitute product at no extra charge or stop payments during the repair period?
- Does the company require a large "balloon payment" (a final payment much larger than the previous payments)?
- If you miss one or more payments, can the RTO contract be reinstated without losing the investment up to that point? Are there large penalties charged?
- Does the RTO company require the renter to purchase insurance on the rented item, even though you may already have homeowners or renters coverage?

Table 4-B: Rent-to-own (RTO) Compared to Credit and Cash Purchase

Features to Check	RTO 78 weeks/18 months to ownership	Credit Purchase 18 month Installment Loan	Cash Purchase
Cost of item	—	$331.76	$319.00 Price + 12.76 Tax = $331.76
Initial Payment/ Down Payment	First and last week's payment $22.88	10% down payment $33.00	—
Installment Payment	$11/wk + 44 cents tax = $49.19/month*	$19.49/month	—
"Extra $" (above the purchase price)	$560.56	$52.11	
Loan Payments Down Payment	$11.44 x 78 = $892.32	$19.48 x 18 = $350.82 + 33.00	
TOTAL COST	$892.32	$383.82	$331.76
Effective APR**	163%	21%	—

* The weekly payment should be multiplied by 4.3 weeks in a month, since assuming only 4 weeks per month would equal to a 48-week year, thus concealing the cost of 4 weeks payments.

** The customer could not figure out the APRs without a special calculator, but comparing the relative total dollar costs is dramatic enough.

Adapted from Senior Consumer ALERT, American Association of Retired Persons, distributed by Sharon B. Seiling, Ph.D., Extension Specialist, Family Resource Management, The Ohio State University.

Be Credit Wise

At a given interest rate, borrowing a smaller amount of money will result in a lower overall credit cost to you. So, a larger down payment lowers the total amount you will have to pay in finance charges.

The longer you take to repay your debt, the more you will pay. The cost will vary with how long you take to pay. Try to take the shortest repayment period possible, and make the highest monthly payments you can safely afford.

Credit can be a friend or a foe for the family money management plan. Unwise use of credit can ruin future plans. If you find your debts have piled up and you feel as if you are out of control, develop a plan to help solve the problem. Getting out of debt takes work and self-discipline. It cannot be done overnight, but it can be done!

Action Steps for Lesson 4

Action Steps	✔ Take Action Now

Check each step after you have completed it.

- ❑ If you don't have credit and would like to start your credit history, apply for a credit card in your name.
- ❑ If you already have credit, send for your credit report from one or all three of the major credit bureaus.
- ❑ If you have credit cards or loans, complete the "Know What You Owe" form and then . . .
- ❑ Plan a strategy for paying off your debt. Consider paying off accounts that charge the highest APR.

More Information and Sources

From Ohio State University Extension (contact your local OSU Extension office):

In Over Your Head: Lifesaving Strategies for Financial Crisis (2009) Bulletin 891

From The Board of Governors of the Federal Reserve System (Washington, DC 20551; www.federalreserve.gov; search by title):

Consumer Handbook to Credit Protection Laws (2007—look for updates)

Choosing a Credit Card (2008)

From The Federal Trade Commission (600 Pennsylvania Ave., Washington, DC 20580; www.ftc.gov. Also see http://mymoney.gov; search by title):

Building a Better Credit Report (2008)

Choosing a Credit Card (2008)

Co-signing a Loan (1997)

Credit Repair: How to Help Yourself (2008)

Equal Credit Opportunity (2009)

Your Rights: Credit Reporting (2009)

Debt Collection: FAQs: A Guide for Consumers (2009)

How To Dispute Credit Report Errors (2008)

Payday Loans Equals Costly Cash (2008)

Visit OSU Extension at **http://extension.osu.edu** and eXtension at **http://extension.org**

Manage Your Money is a six-part self-study course. The lessons include:

1. Getting Started
2. Where Does Your Money Go?
3. Stop Spending Leaks
4. How Much Credit Can You Afford?
5. Develop Your Budget
6. Your Net Worth and Financial Records

Updated 2009 by Nancy Hudson, Extension FCS Specialist and Diane Johnson, Extension Educator based on previous versions by Eleanor Ames (1994); and Ella Mae Bard, Nancy Hudson, Diane Johnson, and Carolyn McKinney (1996).

Worksheet 4-C: Credit Card Shopping Comparison

	Card # 1	Card # 2	Card # 3
Fixed Annual Percentage Rate (APR)			
Introductory Variable Annual Percentage Rate (APR) Time Frame—for example, 6 months, 9 months			
Method of Computing Balance of Finance Charge*			
Grace Period			
Annual Fee			
Balance Limit			
Transaction Fees/ Cash Advance			
Over the Limit Fees			
Late Payment Fees			
Other Benefits Offered: rebates, airline miles, credit card protection, discounts, etc.			
Other Advantages or Disadvantages			

* 1) Adjusted Balance—least expensive method of calculation.
2) Average Daily Balance—most common method of calculation.
3) Previous Balance

Remember, if you pay your balance in full each month you won't incur finance charges.

Ohio State University Extension, 2009.