Lesson Seven
Understanding Credit
choose the correct answer.

1. ____ A common advantage of using credit is:
   a. less impulse buying.
   b. lower cost for items purchased.
   c. ability to obtain items now.
   d. lower chance of overspending.

2. ____ You may pay more for an item bought on credit because of:
   a. interest payments.
   b. sale prices.
   c. debts.
   d. financial problems.

3. ____ A common disadvantage of using credit is:
   a. having to carry extra cash.
   b. having a record of your purchases.
   c. spending more than you should.
   d. buying now, paying later.

4. ____ If you use credit, you should:
   a. run up as much debt as you can.
   b. notify the credit company immediately if your credit card is lost.
   c. give your credit card number to anyone who asks for it.
   d. borrow more than you can repay.

5. ____ If you use credit, you should not:
   a. give your card number over the phone.
   b. pay debts promptly.
   c. read and understand the credit contract.
   d. tell anyone if your credit card is lost.
choose the correct answer.

1. When you pay all your bills on time, you are showing good:
   a. character.
   b. capital.
   c. collateral.
   d. capacity.

2. A steady job and regular income are referred to as:
   a. character.
   b. capital.
   c. collateral.
   d. capacity.

3. Which one of these would not be used to repay a debt?
   a. income
   b. owned property
   c. collateral
   d. character references

Put a check beside the four best ways to build a credit history:

___ always pay in cash.
___ establish a steady work record.
___ pay all your bills on time.
___ bounce checks in your checking account.
___ use your savings to buy items instead of using credit.
___ make regular payments in a savings account.
___ apply for a local store credit card and pay regularly.
___ get a co-signer to pay back your loans.
directions
Read each of the following scenarios. How much debt can each person safely carry?

1.
Jessie has a monthly net income of $800.
He pays $150 a month for rent.
He pays $80 each month for a credit card bill.
Now, he wants to buy a car.
How much does Jessie have left in his budget for a car payment?
(Hint: His monthly payment should be less than 10% of his monthly net income.)
Answer: ___________________
Work:

2.
Carla has a monthly net income of $450.
She wants to buy a new bike with a credit card.
What is the largest monthly payment she can make?
(Hint: Her monthly payments should be less than 10% of her monthly net income.)
Answer: ___________________
Work:
3. David has a monthly net income of $1,360. He has a monthly rent payment of $450. He is paying $116 a month for a student loan. David would like to buy a new television set using a credit card. How much can David safely pay each month for his debts? 
*(Hint: His monthly payments should be less than 10% of his monthly net income.)*

**Answer:** ___________________________

**Work:**

4. Marsha and Michael have a combined monthly net income of $3,500. They pay $675 a month for rent. They have an outstanding student loan balance of $6,000. They owe a balance of $1,000 on a new stereo. How much more debt can they safely take on? 
*(Hint: They should not borrow more than 20% of their yearly net income.)*

**Answer:** ___________________________

**Work:**

5. Juanita has a monthly net income of $2,500. She pays $500 a month for rent. She pays a car insurance premium of $68. She also makes a car payment of $167. Are these payments within Juanita’s safe debt load? 
*(Hint: Her monthly payments should be less than 10% of her monthly net income.)*

**Answer:** ___________________________

**Work:**?
# shopping for credit

**directions**

Compare the costs and features of two different credit cards on the chart below.

CARD ONE: a major credit card

CARD TWO: a credit card from a department store

<table>
<thead>
<tr>
<th></th>
<th>CARD ONE</th>
<th>CARD TWO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Card name</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Locations accepted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Annual fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. APR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Grace period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Minimum payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Late payment fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Other features</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. **Card name**
   What is the charge or credit card name?

2. **Locations**
   Where are the cards accepted?

3. **Annual fee**
   Do the cards have an annual fee?

4. **APR**
   How much are the annual percentage rates?

5. **Grace period**
   What is the grace period for paying?

6. **Minimum monthly payment**
   What is the smallest payment you can make each month?
   How is it calculated?

7. **Late payment fee**
   Is there a charge for late payments?
   How much is it?

8. **Other features**
   Do the cards offer any other special features?


the credit card statement

1. What is the Annual Percentage Rate (APR)?

2. What is the new balance?

3. What was the previous balance?

4. How many charges were made during the billing cycle?

5. How many credits and payments were made during the billing cycle?

6. Were there any charges for late payments?

7. What is the total amount of the credit line?

8. What is the total amount of charges made during the current billing period?

9. Was there a finance charge for the current billing cycle?

10. What is the account number on the statement?
the credit card statement

SEND PAYMENT TO
Box 1234
Any Town, USA

CREDIT CARD STATEMENT

<table>
<thead>
<tr>
<th>ACCOUNT NUMBER</th>
<th>NAME</th>
<th>STATEMENT DUE</th>
<th>PAYMENT DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>4125-239-412</td>
<td>John Doe</td>
<td>2/13/09</td>
<td>3/09/09</td>
</tr>
</tbody>
</table>

CREDIT LINE      CREDIT AVAILABLE          NEW BALANCE    MINIMUM PAYMENT DUE
$1200.00      $1074.76                       $125.24    $20.00

<table>
<thead>
<tr>
<th>REFERENCE</th>
<th>SOLD</th>
<th>POSTED</th>
<th>ACTIVITY SINCE LAST STATEMENT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>463GE7382</td>
<td>1/25</td>
<td></td>
<td>PAYMENT THANK YOU</td>
<td>-168.80</td>
</tr>
<tr>
<td>32F349ER3</td>
<td>1/12</td>
<td>1/15</td>
<td>RECORD RECYCLER ANYTOWN, USA</td>
<td>14.83</td>
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<tr>
<td>89102DIS2</td>
<td>1/13</td>
<td>1/15</td>
<td>BEEFORAMA REST ANYTOWN, USA</td>
<td>30.55</td>
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<tr>
<td>NX34FJD32</td>
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<td>1/18</td>
<td>GREAT ESCAPES BIG CITY, USA</td>
<td>27.50</td>
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<tr>
<td>84RT3292A</td>
<td>1/20</td>
<td>1/21</td>
<td>DINO-GEL GASOLINE ANYTOWN, USA</td>
<td>12.26</td>
</tr>
<tr>
<td>973DWS321</td>
<td>2/09</td>
<td>2/09</td>
<td>SHIRTS 'N SUCH TINYVILLE, USA</td>
<td>40.10</td>
</tr>
</tbody>
</table>

Previous balance   (+)   168.80    Current Amount Due 125.24
Purchases     (+)   125.24    Amount Past Due
Cash Advances    (+)     Amount Over Credit Line
Payments       (-)   168.80    Minimum Payment Due 20.00
Credits         (+)                     
FINANCE CHARGES (+)                     
Late Charges    (+)                     
NEW BALANCE     (=)   125.24                     

FINANCE CHARGE SUMMARY

<table>
<thead>
<tr>
<th>PURCHASES</th>
<th>ADVANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.65%</td>
<td>0.54%</td>
</tr>
<tr>
<td>19.80%</td>
<td>6.48%</td>
</tr>
</tbody>
</table>

For Customer Service Call: 1-800-xxx-xxxx
For Lost of Stolen Card, Call: 1-800-xxx-xxxx
24Hour Telephone Numbers

Please make check or money order payable to Your First Bank. Include account number on front.
credit card statement template

SEND PAYMENT TO
Box 1234
Any Town, USA

<table>
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<td></td>
</tr>
</tbody>
</table>

| Previous balance | (+) | Current Amount Due |
| Purchases        | (+) | Amount Past Due    |
| Cash Advances    | (+) | Amount Over Credit Line |
| Payments         | (-) | Minimum Payment Due|
| Credits          | (-) |                     |
| FINANCE CHARGES  | (+) |                     |
| Late Charges     | (+) |                     |
| NEW BALANCE      | (=) |                     |

FINANCE CHARGE SUMMARY

Periodic Rate
Annual Percentage Rate

PURCHASES | ADVANCES

For Customer Service Call:
1-800-xxx-xxxx

For Lost of Stolen Card, Call:
1-800-xxx-xxxx

24Hour Telephone Numbers

Please make check or money order payable to Your First Bank. Include account number on front.
choose the correct answer.

1. Comparing the APR of different credit cards allows you to get the:
   a. longest grace period.
   b. lowest annual fee.
   c. lowest interest rate.
   d. lowest minimum payment.

2. 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 the creditor of a billing error.
   d. used for calculating interest.

3. The smallest amount you can pay on a credit card account without paying interest is called the:
   a. late payment fee.
   b. credit limit.
   c. annual fee.
   d. minimum payment.

4. Which of the following is not important when shopping for a credit card?
   a. the costs of the card
   b. the features of the card
   c. what the card looks like
   d. how you plan to use the card

5. Which of the following is not included on a credit card statement?
   a. the balance in savings and checking accounts
   b. the previous credit account balance
   c. the names of stores where purchases were made
   d. the new credit account balance
lesson 7 quiz: avoiding financial trouble

Put a check in front of the five statements about financial trouble that are true.

_____ A warning sign of financial trouble is not knowing how much you owe.

_____ It is a good idea to get a new loan to pay old loans.

_____ If you have a high-paying job, you can afford to spend more than 20% of your net income on debt maintenance.

_____ It is a good idea to contact creditors immediately if you begin falling behind in your payments.

_____ A credit repair company can erase a poor credit history quickly.

_____ The National Foundation for Consumer Credit will help you set up a realistic budget, contact your creditors, and plan future expenses.

_____ Financial difficulties are commonly caused by overspending.

_____ The National Foundation for Consumer Credit offers customers a quick, easy fix for financial problems.

_____ You should never admit to a creditor that you cannot pay your bills.

_____ Setting up a realistic budget is a good way to avoid financial trouble.