FINANCIAL LITERACY

Distance Learning

- A. Why Financial Literacy Is So Important?
- B. Budgeting
- C. Budget Bean Game
- D. Money Matters: Lingo & Planning
- E. Saving and Investing
- F. Credit Scores & Spot the Credit Crisis
- G. Credit Cards 101
- H. Calculating loan payments
- I. Identity Theft Basics
- J. Preventing Fraud

A. Why Financial Literacy Is so Important [excerpted]

By Kristina Zucchi Updated Oct 11, 2019 Investopedia

Declining Financial Literacy

In past generations, cash was used for most daily purchases; today, it's rarely flashed—particularly not by younger shoppers. The way we shop has changed as well. Online shopping has become the top choice for many, creating ample opportunities to use and overextend credit—an all-too-easy way to accumulate debt, and fast.

Meanwhile, credit card companies, banks, and other financial institutions are inundating consumers with credit opportunities—the ability to apply for credit cards or pay off one card with another—and without the proper knowledge or checks and balances, it is easy to get into financial trouble.

Many consumers have had very little understanding of finances, how credit works and the potential impact on their financial well-being for many, many years. In fact, the lack of financial understanding has been signaled as one of the main reasons behind savings and investing problems faced by many Americans.

What Is Financial Literacy?

Financial literacy is the confluence of financial, credit and debt management and the knowledge that is necessary to make financially responsible decisions—decisions that are integral to our everyday lives. Financial literacy includes understanding how a checking account works, what using a credit card really means, and how to avoid debt. In sum, financial literacy impacts the daily issues an average family makes when trying to balance a budget, buy a home, fund the children's education and ensure an income at retirement.

…

The level of financial literacy varies according to education and income levels, but evidence shows that highly educated consumers with high incomes can be just as ignorant about financial issues as less-educated, lower-income consumers (though in general, the later do tend to be less financially literate). And it seems consumers are hesitant to learn. The Organization for Economic Co-operation and Development (OECD) cited a survey conducted in Canada that found that choosing the right investment for a retirement savings plan was more stressful than a visit to the dentist.

Trends Making Financial Literacy More Important

Compounding the problems associated with financial illiteracy, it appears financial decision-making is also getting more onerous (difficult) for consumers. Six trends are converging that demonstrate the importance of making thoughtful and informed decisions about finances:

1. **Consumers are shouldering more of the financial decisions:** Retirement planning is one example of this shift. Past generations depended on pension plans to fund the bulk of their retirement lives. Pension funds, managed by professionals, put the financial burden on the companies or governments that sponsored them. Consumers were not involved with the decision-making, typically did not even contribute their own funds, and they were rarely made aware of the funding status or investments held by the pension. Today, pensions are more a rarity than the norm, especially for new workers. Instead, employees are being offered the ability to participate in 401(k) plans, in which they need to make investment decisions and decide how much to contribute.
2. **Complex options:** Consumers are also being asked to choose among various investment and savings products. These products are more sophisticated than in the past, asking consumers to choose among different options offering varying interest rates and maturities, decisions they are not adequately

educated to make. Deciding on complex financial instruments with a large range of options can impact the consumer's ability to buy a home, finance an education or save for retirement, adding to the decision-making pressure.

3. **Lack of government aid:** A major source of retirement income for past generations was Social Security. But the amount paid by Social Security is not enough, and it may not be available at all in the future. The Social Security Board of Trustees reported that by 2034 the Social Security trust fund may be depleted, a scary prospect for many. So now, Social Security acts more like a safety net that barely provides enough for basic survival.3
4. **Longer life spans:** We are living longer. This means we need more money for retirement than prior generations did.
5. **Changing environment:** The financial landscape is very dynamic. Now a global marketplace, there are many more participants in the market and many more factors that can influence it. The quickly changing environment created by technological advances such as electronic trading makes the financial markets even swifter and more volatile. Taken together, these factors can cause conflicting views and difficulty in creating, implementing and following a financial roadmap.
6. **Too many choices:** Banks, credit unions, brokerage firms, insurance firms, credit card companies, mortgage companies, financial planners and other financial service companies are all vying for assets creating confusion for the consumer.

Why It Matters

Financial literacy is crucial to help consumers save enough to provide adequate income in retirement while avoiding high levels of debt that might result in bankruptcy, defaults, and foreclosures. A 2008 study from financial services company TIAA-CREF showed that those with high financial literacy plan for retirement and, in essence, have double the wealth of people who do not plan for retirement. Conversely, those with low financial literacy borrow more, have less wealth and end up paying unnecessary fees for financial products. In other words, those with lower financial literacy tend to buy on credit and are unable to pay their full balance each month and end up spending more in interest. This group also does not invest, has trouble with debt, and a poor understanding of the terms of their mortgages or loans. Even more worrisome, many consumers believe that they are far more financially literate than they really are.

And while this may seem like an individual problem, it is broader in nature and more influential on the entire population than previously believed. All one needs to do is look at the financial crisis of 2008 to see the financial impact on the entire economy that arose from a lack of understanding of mortgage products. Financial literacy is an issue with broad implications for economic health and an improvement can lead the way to a global economy that is competitive and strong.

The Bottom Line

Any improvement in financial literacy will have a profound impact on consumers and their ability to provide for their future. Recent trends are making it all the more imperative that consumers understand basic finances because they are being asked to shoulder more of the burden of investment decisions in their retirement accounts—all while having to decipher more complex financial products and options.

Learning how to read financially is not easy, but once mastered, it can ease life's burdens tremendously.

1. Using the first section of the article, **Declining Financial Literacy:**

    What is the author's claim?

List some of the author's evidence to support the claim.

What is the author's reasoning?

2. Using the second section of the article, **What Is Financial Literacy?:**

Define financial literacy in your own words.

According to the article, what factors may impact a person's financial literacy?

3. Using the third section of the article, **Trends Making Financial Literacy More Important**

The author outlines six trends that are making financial literacy for important but more difficult. Ask a clarify question about each.

1.	4.
2.	5.
3.	6.

4. Using all previous sections, plus **Why It Matters** and **The Bottom Line**

Write a claim with evidence and reasoning, supporting why students should learn about financial literacy

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B. Budgeting

What Is a Budget?: A budget can help you track your income and expenses over time to achieve your financial goals.By Kerry Sherin, Contributor U.S. News and World Report   Feb. 12, 2020, at 10:12 a.m.

What Is a Budget?

Simply speaking, a budget is a spending plan based on estimated income and expenses over a set period of time. The period of time is up to you and can be adjusted based on your budgeting goals. For example, one person may choose to have a yearly budget for their family, calculating costs like groceries, rent or mortgage payments, electricity and health care. Meanwhile, another may set up a short-term budget to save for a vacation. Whatever your goals are, there are simple steps to create a budget that works for you.

What Is the Purpose of a Budget?

The purpose of a budget is to determine if you will have enough money to do all the things you have to do and want to do. By creating a spending plan, you can prioritize the financial items in your life that are needs versus the ones that could be classified as wants. A proper financial spending plan can also help you pay off debt or keep you out of debt by helping you save when you want to spend. No matter your income, budgeting can help you avoid stress and stay on track.

How Do I Create a Budget?

There are many ways to create a budget, and the option you choose may depend on what your financial goals are for the budget. Are you creating an annual household budget? A vacation budget? Paying off debt? No matter the type of budget you seek to create, there are four main principles involved:

- **Outline your income.** Take an inventory of all income coming into your household. This includes earnings from full-time jobs, side hustles, government support or other financial support you may receive. If you're married or living with a partner, be sure to include their income as well if they are a part of your budget.
- **Determine your expenses.** Write down all of your expenses, from clothing to rent and everything in between. Having a full understanding of your financial responsibilities can help you see how much money you may have leftover for other items.
- **Set your priorities.** After reviewing your income and expenses, set your items in order according to priority. What is most important? What is least important? Paying items off in this way will help you maintain your quality of life over quantity of things you want to buy or do.
- **Establish your timeline.** Determine how much time you want to give yourself for your budget. If you're budgeting to save for a vacation, your budgeting timeline may be shorter than those who are budgeting for an entire household for one year. Your timeline will depend on the goal of your budget.

How Do I Stick to a Budget?

Now that you've set your budget, sticking to it is one of the hardest parts. There are many tricks to sticking to a budget that can help you along the way:

- **Lose the credit card.** Leave your credit card at home if you're planning on going out. This will help you avoid putting yourself in debt if you see something you want to splurge on.
- **Keep it honest.** Be real with yourself. If you break your budget, write it down and readjust for that week or the month. Things happen, but don't ignore them.
- **Meal plan.** Planning meals will help you and your family stay on budget by having set meals. This helps you avoid eating out and making last-minute expenditures on food if you aren't prepared.
- **Learn to say no.** There are going to be things you want to do, such as visiting an amusement park, going to brunch or buying a new car, but there are times when it's best to just say no.
- **Set up auto-draft.** Have your most important bills set to auto-draft from your bank account, so you can ensure they get paid and do not get deprioritized for something more exciting.
- **Track your spending.** Write down everything you spend money on. Just like counting calories, this method helps you see on paper just how much you are spending.
- **Avoid unnecessary splurges.** Try not to splurge on items you don't need, like a daily Starbucks coffee. Even saving that $5 a day adds up $1,825 in savings per year.

What Are Some Popular Budgeting Strategies?

There are many types of budgets, and finding the one works best for you may be a trial-and-error experience for some. Determining which budget plan will work for you depends on your flexibility, income and budget goals. Here are three popular methods for budgeting:

- **Zero-based budget.** The zero-based budgeting strategy is one where every income dollar is assigned to a specific budget category, like rent or transportation. If those dollars are not used in the assigned category, they can be rolled over into a new category.
- **50/30/20 budget.** This budgeting technique is one of the most popular. The general rule of thumb is that 50% of income goes to essentials (rent, food, bills), 30% goes toward personal expenses (travel, dining) and 20% is dedicated to savings.
- **Envelope budget.** Envelope budgeting is for those that have a really hard time sticking to a budget. It's more of an old-school way of budgeting: You set a budget for each category of spending, such as groceries and rent, and
- put the assigned amount of money into a separate envelope for each. Once that money is gone from that envelope, you are done spending.

1) Highlight or underline the definition of budget.

2) Highlight or underline the purpose of a budget.

3) The text mentions 'wants' and 'needs', how would you describe the difference?

4) Quick sketch a graphic that highlights the steps in creating a budget.

5) In your opinion which three "tricks for sticking to a budget" would you want to remember for the future?

6) The article briefly outlines three budget strategies, from your perspective what are pros and cons of each?

	Pro	**Con**
Zero-Based Budget		
50/30/20 budget		
Envelope budget		

C. **Budgeting:** The Bean Game

Each day we make choices based on what we value as important by assessing whether our time, energy, and money is worth it. This game will help you discover what is most important to you to spend money on and how your personal experiences and values affect your money management decisions. You will need 20 beans, small items or bits of paper.

Directions: Choose how much to spend in each category using your 20 bean budget.

Category	Options	Beans
Housing	Living with relatives sharing cost of utilities	
	Share an apartment or house with roommates	
	Rent your own place	
Food	Cook at home; dinner out once a week	
	Frequent fast food lunches and weekly dinner out	
	All meals away from home	
Insurance		
Auto	Liability coverage only	
	Complete coverage	
Health & Disability	No coverage	No cost
	Basic health coverage	
	Individual health and disability coverage	
Property	Renters insurance	
	Homeowners insurance	
Transportation	Walk or bike	No cost
	Ride bus or join carpool	
	Buy fuel for family car	
	Buy a used car and gas	
	Buy new car and gas	
Furnishings	Borrow from relatives or friends	No cost
	Rent furniture or live in furnished apartment	
	Buy at a garage sale or thrift shop	
	Buy new furniture	
Personal Care	Basic products: soap, shampoo, toothpaste, make-up, etc.	
	Occasional professional haircuts, basic personal care products	
	Regular hairstyling, nails, name brand personal care products	

Category	Options	Beans
Clothing	Wear present wardrobe	No cost
	Use your sewing skills	
	Go to discount or thrift store, used clothes	
	Shop for designer clothes	
Laundry	Do laundry at parents' house	No cost
	Use laundromat; some dry cleaning	
	Rent or purchase washer and dryer	
Recreation	Hiking, hanging out with friends	No cost
	TV, snacks, driving around	
	Cable TV, sports, movies	
	Music streaming, movies and TV stream	
	Concerts, vacations, attending sports events	
Communication	No phone	No cost
	Phone with limited data	
	Phone with unlimited data	
	Wifi at your home	
Gifts	Make your own	
	Purchase cards or small gifts occasionally	
	Purchase frequent gifts for family and friends	
Savings		
	Keep cash in a piggy bank at home	No cost
	5% of income	
	10% of income	
	Invest for retirement	
	Contributions to charities and/or religious groups	

Part I: Round One Questions

1. Explain the reasoning behind how you spent your 20 bean income.

2. Take a moment to think about your values around money. Then, look at the top three to four categories where you are spending most of your beans. How do these choices reflect your values around money?

Part II: Round Two Discussion Questions

1. Think about how you chose to remove the 7 beans. What tradeoffs did you have to make? How did you decide which categories to cut down on?

2. What did you learn about yourself and your values around money through the process of cutting down your budget?

Part III: Reflection

1. Did the cost of any of the categories and options surprise you? Which ones and why?

2. What previous experiences in your life influenced how you would allocate your beans across your budget?

3. What 3 main takeaways did you learn from this activity to help you create strong, realistic budgets for yourself in the future?

D. Money Matters: Lingo & Planning

Do you ever feel like money terms go right over your head? The reality is that you probably already know and use a lot of financial vocabulary. Read through the terms below and think about how they connect to your life. *Adapted from Money Matters: Know the Lingo*

Terms to Know	***How Does This Relate to Me?***
Cost Comparison Comparing the cost of two or more goods or services in an effort to find the best value.	***When have you used cost comparison?*** *Provide an example:*
Cost-Benefit Analysis Analyzing whether the cost of an item is more than, equal to, or less than the benefit that comes from purchasing that item. • **Cost** – The price paid for a good or service. • **Benefit** – An outcome that promotes well-being.	***When have you used cost-benefit analysis?*** *Provide an example:* *Identify something you want to do or purchase:* *What is the cost?* *What is the benefit?*
Calculating Future Expenses Identifying the cost of meeting future needs and goals. • **Short-term, medium-term and long-term goals** – Goals to achieve over specific periods of time.	***Identify 3 personal goals. Think about what is needed to accomplish each goal.*** *Short-term goal:* *Medium-term goal:* *Long-term goal:*
Budget A plan for future spending and saving, weighing estimated income against estimated expenses. • **Income** – Payment received for goods or services, including employment. • **Expense** – Cost paid to secure a good or service.	***Choose one of your goals from above and estimate its expense. How much income do you estimate will be needed to support your goal?*** *Goal:* *Estimated (monetary) expense:* *Estimated income needed:*

If you were faced with a major financial decision…would you know what to do? Read each scenario (below) and decide the financial information and strategies you would use in that case. Use ***Money Matters Lingo*** to help you.

Scenario 1: Saving for a car

You want to buy a car in the next year so you can drive to your job and school without relying on family members.

What financial information do you need?

What financial decision-making strategies can you use?
(Cost comparison, cost-benefit analysis, calculating future expenses or budgeting?)

Scenario 2: Saving for college

You are a freshman in high school and have your eye on a college degree. But college is expensive, especially since the costs include tuition, food, living expenses, travel and books.

What financial information do you need?

What financial decision-making strategies can you use?
(Cost comparison, cost-benefit analysis, calculating future expenses or budgeting?)

Scenario 3: Buying a cell phone plan

It's time to buy a new cell phone and plan, and you will be paying for this one yourself. The providers offer a lot of options, and your budget is limited.

What financial information do you need?

What financial decision-making strategies can you use?
(Cost comparison, cost-benefit analysis, calculating future expenses or budgeting?)

Adapted from Money Matters: Know the Lingo

E. Saving and Investing

Where to stash your cash?

There are lots of different choices when it comes to saving and investing your money.

Understanding your options will help you make more informed decisions. Study the table below to familiarize yourself with different savings and investing strategies.

Strategy	What is it?	What's the risk?	What are the pros?	What are the cons?
Certificate of Deposit (CD)	Savings certificate issued by a bank or credit union	Minimal risk because it is insured by the Federal Deposit Insurance Corporation (FDIC) through a bank and the National Credit Union Share Insurance Fund (NCUSIF) through a credit union	- Higher interest rates than a traditional savings account - Not risky - The longer the term, the higher the interest you usually earn	- Must be left in the bank for a fixed amount of time - Steep penalties for withdrawing money early - Minimum balances required
Savings Account	A deposit account that earns interest and is issued by a bank or credit union	Minimal risk because it is FDIC or NCUSIF insured	- Not risky - No restrictions on withdrawals - Low or no minimum balances required	- Lowest interest rates - Some banks charge fees for opening and maintaining accounts
Money Market Account	A type of checking and savings account issued by a bank or credit union	Minimal risk because it is FDIC or NCUSIF insured	- Higher interest rates than a savings account - Can withdraw money (with some restrictions)	- Higher minimum balance required - Some withdrawal restrictions (e.g., limits on number of withdrawals per month) - Subject to fees if balance below certain amount
Retirement Account	An account such as an IRA and 401(k) that helps you set aside money for retirement	Investment choices range from very secure government bonds to higher risk stocks	- Tax-deferred growth - Some employers will match contributions - Helps create long-term savings	- Steep penalties for withdrawing money before retirement - Contribution limits

STUDENT TIP

When you invest your money in CDs, savings accounts or money market accounts, a bank will insure your money through the Federal Deposit Insurance Corporation (FDIC) and a credit union insures your money through the National Credit Union Share Insurance Fund (NCUSIF). While the interest rates may be lower than other investment options, your money is always protected.

Strategy	What is it?	What's the risk?	What are the pros?	What are the cons?
529 Savings Account	A savings account designed specifically for educational expenses	Risk varies depending on investment choice. Some accounts offer FDIC or NCUSIF insurance while others can be invested in higher risk stocks	- Low minimum starting balance - Some states offer tax breaks - Tax deferred growth	- Have to use the money for college or face a 10% penalty
Mutual Funds	A collection of stocks, bonds or other investments that are professionally managed in a portfolio	Risk varies depending on the type of mutual fund	- Creates an opportunity to diversify investments	- Return is not guaranteed - If portfolio is professionally managed, it may be subject to high fees
Stocks	A stock is a share in the ownership of a company	Risk varies depending on investment choice	- If the market value increases, there is potential for great gain	- If the market value decreases, there is the potential for great loss - No guarantee for a return on investment and principal could be lost - Managing stock options may require professional help
Bonds	A bond is a loan in which you are the lender and the government is the borrower	Risk varies depending on investment choice	- Usually provides more security than stocks	- Historically lower return rates

1) Circle or highlight a low risk investment. Put a star in the in the investment with high potential for gain

2) Based on the chart how would you define "risk"?

3) Re-read "Mutual Fund" using context clues, what does it mean to "diversify"?

4) Re-read the “Pros” column, which type of investment would you choose if only considering the pros?

5) Re-read the “Cons” column, which type of investment would you NOT choose if only considering the cons?

Complete the Scenarios using the chart

Scenario 1

Aiden’s car is 12 years old and he’s worried it might break down, so he’s trying to save three months of expenses for unexpected repairs, while also saving for a new car. What are the best savings strategies for Aiden so he can keep his money accessible for repairs, but also save for a new car?

Scenario 2

Madeline’s friends invited her to go to Cancun next year for vacation. She really wants to go, but she’s not sure if she can afford the $1,000 trip. She has $500 saved in her dresser and has one year to save the rest, but she’s not sure where to keep her money so she can maximize her savings. What is the best savings strategy for Madeline and why?

Scenario 3

Scott is a freshman in high school and plans to attend college someday. His grandparents gave him $5,000 to start his college savings, but he’s not sure where he should keep this money until he’s ready to go to college. What would be the best savings strategy for him?

F. Credit Scores & Spot the Credit Crisis

By Julia Kagan Reviewed By Thomas Brock : Investopedia
Updated Apr 9, 2020

Annotation Bar: Fill this area with comments, questions, and connections about the reading

What Is a Credit Score?

A credit score is a number ranging from 300-850 that depicts a consumer's creditworthiness. The higher the credit score, the more attractive the borrower. A credit score is based on credit history: number of open accounts, total levels of debt, and repayment history. Lenders use credit scores to evaluate the probability that an individual will repay loans in a timely manner.

Key Takeaways

- A credit score plays a key role in a lender's decision to offer credit.
- The FICO scoring system is used by many financial institutions.
- Factors considered in credit scoring include repayment history, types of loans, length of credit history, and an individual's total debt.
- One metric used in calculating a credit score is credit utilization or the percentage of available credit currently being used.
- It is not always advisable to close a credit account that is not being used since doing so can lower a person's credit score.

How Credit Scores Work

A credit score can significantly affect your financial life. It plays a key role in a lender's decision to offer you credit. People with credit scores below 640, for example, are generally considered to be subprime borrowers. Lending institutions often charge interest on subprime mortgages at a rate higher than a conventional mortgage in order to compensate themselves for carrying more risk. They may also require a shorter repayment term or a co-signer for borrowers with a low credit score.

Conversely, a credit score of 700 or above is generally considered good and may result in a borrower receiving a lower interest rate, which results in their paying less money in interest over the life of the loan. Scores greater than 800 are considered excellent. While every creditor defines its own ranges for credit scores, the average FICO score range is often used:

- Excellent: 800 to 850
- Very Good: 740 to 799
- Good: 670 to 739
- Fair: 580 to 669
- Poor: 300 to 579

!!!Your credit score, a statistical analysis of your creditworthiness, directly affects how much or how little you might pay for any lines of credit you take out.

A person's credit score may also determine the size of an initial deposit required to obtain a smartphone, cable service or utilities, or to rent an apartment. And lenders frequently review borrowers' scores, especially when deciding whether to change an interest rate or credit limit on a credit card.

Credit Score Factors: How Your Score Is Calculated

There are three major credit reporting agencies in the United States (Experian, Equifax, and Transunion), which report, update, and store consumers' credit histories. While there can be differences in the information collected by the three credit bureaus, there are five main factors evaluated when calculating a credit score:

1. Payment history
2. Total amount owed
3. Length of credit history
4. Types of credit
5. New credit

Payment history counts for 35% of a credit score and shows whether a person pays their obligations on time. Total amount owed counts for 30% and takes into account the percentage of credit available to a person that is currently being used, which is known as credit utilization. Length of credit history counts for 15%, with longer credit histories being considered less risky, as there is more data to determine payment history.

The type of credit used counts for 10% of a credit score and shows if a person has a mix of installment credit, such as car loans or mortgage loans, and revolving credit, such as credit cards. New credit also counts for 10%, and it factors in how many new accounts a person has, how many new accounts they have applied for recently, which result in credit inquiries, and when the most recent account was opened.

The Bottom Line

Your credit score is one number that can cost or save you a lot of money in your lifetime. An excellent score can land you lower interest rates, meaning you will pay less for any line of credit you take out. But it's up to you, the borrower, to make sure your credit remains strong so you can have access to more opportunities to borrow if you need to.

(F. Continued) Credit Scores & Spot the Credit Crisis

You're holding the keys to a brand new car, longing for a cell phone upgrade and planning a

trip to Disney World. But wait … will doing these things affect your credit? Determine how the scenarios below might impact your credit score. (Remember—it can go up or down.) Justify your reasoning and offer a solution to any negative impacts.

Scenario 1: You want to purchase a new vehicle and you have your heart set on a brand new SUV. You take out a loan to pay for the car, but after six months you begin to fall behind on payments and incur late fees. Does your credit score go up or down? Why does it go up or down? If your score goes down, how can you fix it?	**Scenario 2:** You've been eager to buy a new cell phone for months, and now you're ready to make it happen. You use your credit card to purchase the phone and you set up automatic billing to pay the monthly expenses. At the end of each month, you pay the credit card bill in full. Does your credit score go up or down? Why does it go up or down? If your score goes down, how can you fix it?
Scenario 3: Your first semester of college, you take out a small loan to help pay for books. Despite being busy, you get a part-time job. Although you don't have to pay your loan back until you graduate, you've saved enough by the end of the semester and you will pay off the loan in full. Does your credit score go up or down? Why does it go up or down? If your score goes down, how can you fix it?	**Scenario 4:** You just got the keys to your first apartment. You also have a new credit card with a $4,000 limit and you use it to furnish your new place. Before you know it, you've bought a TV, a couch and a dining room table. When you get the credit card bill, you realize you've spent your full credit limit of $4,000. Does your credit score go up or down? Why does it go up or down? If your score goes down, how can you fix it?

G. Credit Cards 101

Getting the right kind of card for you and using it wisely will help you build credit, save money and enjoy an array of benefits.

Melissa Lambarena April 13, 2018 NerdWallet [excerpted]

What is a credit card?

A credit card is a plastic or metal card that allows you to access a line of credit offered by the bank that issued the card. Every time you pay for something with a credit card, you're borrowing money from the card issuer to cover the purchase. You then have to pay that money back, either in full at the end of the month or over time.

How Do credit cards work?

When you're approved for a credit card, the bank authorizes a credit limit — the maximum amount you can borrow — to be used at your discretion. Your credit limit will depend on such factors as your income, your other debts and how much available credit you have on other cards.

Payment networks — Visa, Mastercard, Discover and American Express — process credit card transactions. They make sure that the money for the purchase gets to the merchant and that the correct cardholder gets billed.

When your bill comes, you have the option of paying a certain minimum amount, paying the whole balance in full, or paying some amount in between. Paying just the minimum every month is ultimately the most expensive option, since it will cost you the most in interest. Paying in full is the best option; when you pay in full each month, you get a grace period that allows you to avoid paying any interest on purchases at all.

Your credit card issuer reports your payments to the credit bureaus, the companies that prepare credit reports. Your payment history counts for 35% of your credit score — a three-digit number that indicates how risky it would be to lend you money. You must pay at least the minimum by the due date every month to avoid late fees and potential damage to your credit score.

How DO credit cards differ from other cards?

A debit card is linked to your checking account; debit card purchases automatically pull money out of your account. You're using your own money to pay for things rather than borrowing it. … Debit cards also have weaker fraud protections.

A prepaid debit card isn't linked to a checking account; instead, you "load" money onto the card, and you can only spend as much as you've loaded. These cards often charge many fees you wouldn't pay with a regular debit card. Prepaid debit cards offer some protections, and they come with limitations. For example, some prepaid debit cards don't offer ATM access or mobile banking. Also, not all merchants accept them.

Neither debit cards nor prepaid cards will affect your credit scores, because using them does not involve borrowing money.

Types of credit cards

REWARDS

Rewards credit cards give you something back for each purchase you make. Generally, these cards require good credit. They come in different types: cash back, airline miles, store discounts, etc..

Rewards cards are ideal for cardholders who pay their bill in full every month. When you carry a balance, interest charges nip away at the value of rewards.

LOW INTEREST

Low-interest cards don't give you rewards; instead, they provide value with a lower interest rate, making it less expensive to carry a balance. Many times, these cards will come with a 0% introductory APR period, giving you time to pay off a large purchase without interest. You usually need good credit to qualify.

BALANCE TRANSFER

A balance transfer credit card lets you move your debt from another issuer to take advantage of a lower interest rate. Generally, these cards require good or excellent credit.

CARDS FOR AVERAGE OR BAD CREDIT
Credit card options for those with less-than-good credit are more limited. Rewards are more scarce, and interest rates are higher. Use these cards to improve your credit so you can qualify for better offers down the road:

STUDENT CARDS
Being a college student doesn't automatically qualify someone for a student credit card. The Credit Card Act of 2009 prohibits issuers from giving cards to people under 21 unless they have proof of income or a co-signer, someone willing to put their credit on the line to help the applicant build theirs. When that's not an option, a secured credit card is a way to establish credit.

Reasons to get a credit card
Debit cards are appealing because they don't involve borrowing money and won't rack up debt — but they also don't help you establish a credit history. Building credit is one of the key benefits of using a credit card. Others include:

Sign-up bonuses. The bonus could help you start an emergency fund (in the case of a cash back card) or take a trip.

Ongoing rewards: Rewards give you back some of the money you spend.

Building credit: Establishing a good payment history can help you borrow money in the future at lower rates.

A 0% introductory APR period: This lets you avoid interest on purchases or balance transfers during a promotional period.

Flexibility: Though it's best to always pay your balance in full each month, a credit card allows you to pay for things over time, which helps when you have a major purchase to make or a financial emergency.

Costs of carrying a credit card
Credit cards can come with costs, but you can avoid most of them with responsible use. They include:

Interest payments: Credit cards can have different interest rates, or APRs, for purchases, cash advances and balance transfers. When you pay in full every month, your purchases don't accrue interest.

Annual fees: Some cards charge annual fees, from around $20 to hundreds of dollars. An annual fee can be worth paying if the card gives you rewards and perks that make up for the cost, but in most cases, you shouldn't pay a fee just for the privilege of having the card in your wallet.

Late payment fees: The cost varies by issuer, but federal regulations limit how much late fees can be. As of 2018, first-time late fees were capped at $27; and fees for a second late payment within six months were limited to $38. Late fees also can't cost more than the minimum payment due.

Balance transfer fees: Generally, balance transfer credit cards charge 3% to 5% of the amount of debt transferred. Some cards waive the fee when you transfer debt within a certain time frame.

Tips for effective credit card use
The benefits of using a credit card responsibly outweigh the costs. Here are some good practices to adopt:

- Pay your bill on time and in full every month
- Keep your balance below 30% of your available credit
- Wait at least six months between credit card applications
- Review your account online weekly to track spending and avoid fraud
- Keep no-annual-fee credit cards open and active to avoid hurting your credit score

Using a credit card responsibly is an easy and efficient way to establish healthy credit. You'll be thankful that you did so when you're able to borrow affordably in the future.

After reading this article, I learned…

After reading this article, I still have questions about…

Annual Percentage Rate (APR) for Purchases	0% until the last day of the billing period ending during February 2009*; then the standard APR, a rate between 10.99% and 18.99%
Other APRs	**Balance Transfers:** 0% until the last day of the billing period ending during August 2009*; then the standard APR for purchases **Cash Advances:** 23.99% **Default Rate:** Up to 30.99%*
Variable Rate Information	The standard purchase APR may vary monthly and equals the Prime Rate plus an amount between 5.99% and 13.99%.[1]
Grace Period for Repayment of the Balance of Purchases	At least 25 days when you pay your balance in full each month
Method of Computing the Balance for Purchases	Average Daily Balance (including new purchases)
Annual Fee: NONE	**Minimum Finance Charge:** $.50

Above is an offer from a credit card company, use it to answer the questions

1. If you had this credit card how much would the APR have been in December 2008?
a. 10.99%
b. 18.99%
c. 0%
d. 23.99%
e. between 5.99% and 13.99%

2. If you used this card for a cash advance (to take out cash at an ATM using a credit card), how much would the interest be?
a. 30.99%
b. 18.99%
c. 0%
d. 23.99%
e. $.50

3. If you did not pay your bill on time, what would your new APR be?
a. 30.99%
b. 18.99%
c. 0%
d. 23.99%
e. 5.99%

H. Calculating loan payments

If you ever need to borrow money, you'll likely find credit and loan offers that may seem hard to resist. However, understanding the real costs of borrowing money can help you make informed credit and loan decisions.

Instructions Use the case study to help Camryn choose a credit option to fund her business idea.

1. Read about Camryn's dilemma and identify key details that distinguish each offer.

2. Calculate the interest charged, total amount of the loan, and monthly payments for each offer.

3. Compare offers.

4. Describe which credit offer you would choose for Camryn and discuss the factors you evaluated as you considered the options.

Camryn's car detailing venture

Camryn: "Dad, I've been thinking about starting a car detailing business this summer instead of working at the hot dog shop again. I'm considering getting a small loan to buy the equipment I need. I know I'd need to start with things like a new hose, a wet/dry shop vacuum, cleaning supplies, and a power washer. I figure I'll need to borrow about $1,500 to get this off the ground. But, if my calculations are right, I can make that back in the first three weeks of running my business."

Dad: "What loan options have you identified?"

Camryn: "Well, after doing a bunch of research, I've found three options. First, I can put the cost of these purchases on the credit card that I share with you. A credit card is revolving credit where I can use my card to make additional purchases as needed, up to my credit limit amount. However, if I add any additional purchases on this credit card, it could lengthen the time required to pay off my original debt, and my payments could change from month to month depending on the amount of money I have charged to this account.

Dad: "This is true. I'm glad you are recognizing that the open lines of credit on a credit card may tempt an individual to use their card too often and definitely could cause you to have different monthly payment amounts, which is hard to budget for. What other options did you research?

Camryn: "A second option is to open up an account with the supply store down the street. They said that I can get a one-time discount of 10 percent off my purchases if I open a new account with them. I like the idea of saving money when I buy some supplies from this store. "

Dad: "Always good to look for a discount and ways to save money! But compare the cost of the credit — the annual percentage interest rate, too. A discount on the supplies might be outweighed by an interest rate higher than you could get elsewhere."

Camryn: "Third, I got a new credit card offer in the mail last week, so I could apply for this new card and use this option. I'd love your help figuring out which is the best way to go."

Dad: "Well, you need to analyze the details that go with each offer to make the wisest decision. To do this, you'll need to gather information about each offer so we can compare them and weigh the pros and cons of each offer. Also, you should know that in order to take advantage of that credit card offer you've told me about, because of your age and lack of ability to support yourself, you probably need me to cosign your application. That puts my credit record at risk if you don't make the payments. Also, sometimes new credit card offers have some unexpected twists, so once you analyze that offer, let's take all of these things into consideration."

Here are the details Camryn gathered about the offers:

Features to consider	Option #1: Current credit card with dad	Option #2: Open a credit account with supply store	Option #3: Use new credit card offer
Principal	$1,500	10% off items purchased ($1,500 in purchases)	$1,500
Interest rate (APR)	9.5%	12%	12%
Loan term	2 years	2 years	2 years
Special financing	None	None	1 year no interest

For purposes of explaining how interest can add to the cost of an original purchase amount, Camryn's father introduced her to a strategy to help her apply the simple interest formula: Interest = principal x rate x term of loan (I = P x R x T) to help her make informed comparisons.

I = Interest: the amount of simple interest

P = Principal: the original amount borrowed

R = Rate: the interest rate of the loan

T = Term: the length of the loan, expressed in years (from the start of the loan to full repayment, with periods less than 1 year computed on the basis of 365 days/year)

Camryn's father made sure to explain that this is an oversimplified formula meant to give her a basic idea of what she'd owe, but she needs to be prepared that the actual loan payments may vary from her calculations.

Compare Options 1, 2, and 3

Help Camryn figure out her monthly payment for all three options.

To calculate the "Interest charged" column:	To calculate the "Total amount paid" column:	To calculate the "Monthly payment" column:
I = P x R x T: The # in the "principal" column x the # in "rate" column (expressed as a decimal) x the # in "term" column	Add the # in principal column with the # in the interest charged column	Divide the # in the "Total amount paid" column by the # in the term column (expressed in years)

	Principal	Rate	Term	Interest charged	Total amount paid	Monthly payment
Option 1	$1,500	9.5%	2 years	$285	$1,785	$74.38
Option 2						
Option 3						

How do the different principal amounts and the different interest rates change the loan?

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Camryn remembered that the new credit card offer included a special incentive of one year no interest. Recalculate Camryn's costs for Option 3 factoring in this incentive.

Option 3	Principal	Rate	Term	Interest charged	Total amount paid	Monthly payment
Incentive 1			2 years with 1 year no interest			

What is the benefit of the "zero interest" offer that goes with the new credit card? What are some potential challenges with this new credit card solution? What happens at the end of the "zero interest" time period?

Reflection questions

Based on your calculations and comparisons, which loan option would you recommend to Camryn to cover the cost of starting her business? Why?

What details did you evaluate when making your decision?

Adapted from BUILDING BLOCKS STUDENT WORKSHEETS

I. Identity Theft Basics

What steps are you taking to protect your identity? Credit and debit cards give you flexibility and purchasing power, but as with any sensitive information, they require extra security precautions. You wouldn't leave cash lying around, so it's important to secure your financial information as well. In order to lower your chances of becoming a victim of identity theft, review these basics.

Know your rights in the event of fraud.

- You aren't liable for unauthorized purchases. All major credit and debit card issuers provide zero-liability guarantees against unauthorized charges. So if fraud is committed, you're likely to be covered.
- Credit or debit? Credit cards make security breaches easier to address. With a credit card, you have plenty of time to notice unauthorized charges, notify their issuer, and have them removed.
- What about cash or prepaid cards? Unfortunately, if your cash is stolen, there's little that can be done except filing a report with the police. Prepaid cards are similar to debit cards, but instead of being linked to a bank account, they are linked to reloadable prepaid accounts. Treat your prepaid card like cash, and keep it in a secure place.

Take steps to safeguard your personal finances.

- Check your credit report for inaccuracies. You are entitled to a free copy of your credit report every 12 months. Request your report regularly to make sure you're aware of any changes. This way, you're more likely to catch any errors.
- Keep your Social Security Number (SSN) private. Give your SSN only to reputable companies after you have contacted them, not after they have contacted you. Remember that sharing your SSN through email or text can put it at risk.
- Protect financial documents and mail. Do you shred old bills or credit card statements? Shredding your documents helps protect any personal information from getting into the wrong hands. Similarly, if you are on vacation, place a postal hold on your mail until you return.
- Practice smart online security. Are you using the same password or a variation of the same one for several accounts? If so, that can make multiple accounts vulnerable. Use secure passwords, do not share them with others and change them regularly. If you need to enter financial information online, disclose it only on secure websites. Consider applications to generate passwords and store your sensitive online information.

On a separate sheet of paper, write an action plan detailing how you will begin to better protect your identity. Your plan must include: what can be done today, what you can do this month, and what are on-going steps for the future.

From: practicalmoneyskills.com

J. How to Prevent Fraud

Take a minute to think about your habits – do you delete spam emails? Do you keep your Social Security Number in a secure place? What about your statements and receipts – do you shred them before throwing them away? There are some simple steps you can take to reduce or minimize the risk of becoming a victim of identity theft.

Practice safe internet use.

Privacy is an important issue, especially in the information age. To keep your data safe, delete spam emails asking for personal information and keep your antivirus and anti-spyware software up to date. Shop online only with secure web pages (check your browser for an image of a lock or look for "https" in the address bar). Never send credit card numbers, Social Security Numbers and other personal information via email.

Destroy private records.

Tear up or shred credit card statements, ATM, credit or debit card receipts, bank deposit receipts, loan solicitations and other documents that contain private financial information.

Secure your mail.

Empty your mailbox regularly and consider investing in a mailbox lock. When mailing bill payments and checks, consider dropping them off at the post office or in a secure mailbox. These are simple changes that can have a big impact on your personal security.

Be careful with your Social Security Number.

Your Social Security Number is a major target because it can give identity thieves access to your credit report and bank accounts. Never carry your card with you. Instead, memorize your number and keep the card in a secure place at home or in a safety deposit box. Never write or print your Social Security Number on checks.

Check your credit report.

At least once a year, obtain and review your credit report for suspicious activity. Learn how to request a free copy of your report.

Be aware of scams.

Always be on the defensive with your private information. Never give out personal information to telemarketers or respond to emails from someone claiming to represent your bank, credit card issuer, a government agency, a charity, or other organization. If you think the request is legitimate, contact the company directly to confirm.

From: practicalmoneyskills.com

On a separate sheet of paper, create an infographic that incorporates the key information from the previous reading.