



MODULE 9: Using Credit Cards

PARTICIPANT GUIDE



The Federal Deposit Insurance Corporation is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, non-biased financial education materials, including this Participant Guide. For more information about our family of Money Smart products, visit **www.fdic.gov/moneysmart**.

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Welcome

Welcome to the FDIC's Money Smart for Adults!

This is the Participant Guide for **Module 9: Using Credit Cards**. Use it during and after training. Mark it up, write in it, take notes—it is yours to keep.

Module Purpose

This module covers how credit cards work and how to manage a credit card.

This module also:

- Reviews important credit card terms
- Explains the importance of comparing credit cards
- Explains how to read a credit card statement

Section 1: How Credit Cards Work

We will discuss how credit cards work, important credit card terms, and choosing a credit card based on your needs.



Key Takeaway



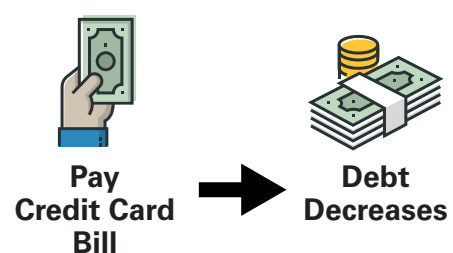
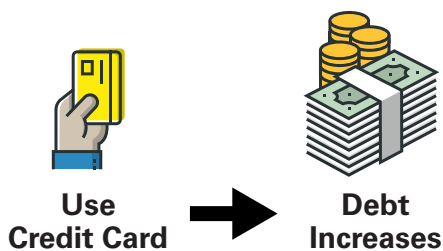
Know how credit cards work so you can more effectively shop around for one that meets your needs.

What Is a Credit Card?

A credit card is a revolving line of credit. The balance on your card goes up when you make purchases. The balance on your card goes down when you make payments.

There is a limit on how much you can borrow on the card at one time. That is called your **credit limit**. It can also be called a credit line.

You must pay at least a portion of the bill every month, called the **minimum payment**.



Important Financial Tool

A credit card can be an important financial tool because:

- Regularly paying your bill so the creditor receives your payment by the due date builds evidence that you are creditworthy.
 - The opposite is also true – if you do not pay the amount due so the creditor receives it by the due date, you can damage your credit history and decrease your credit scores.
- It can help you pay for emergency expenses when you cannot pay them in cash.
 - You do need to pay the credit card bill eventually though.
- It offers a convenient option for paying for purchases made online or by phone.
- You have the right to dispute erroneous credit card charges.
- You have the right to dispute certain charges for goods and services that weren't delivered as agreed.

Cards That Are Not Credit Cards

There are other kinds of cards that may seem like credit cards, but they are not. This includes:

- Charge cards
- Prepaid cards
- Debit cards

Truth in Lending Disclosure

Credit card rates and fees can vary greatly from card to card, so understanding these terms can help you compare credit card offers.

Creditors must give prospective credit card customers a written disclosure containing important rate and fee information. This is called a Federal Truth in Lending Act or TILA disclosure. This is a helpful tool for comparing credit cards.



Rates and Fees

The **annual percentage rate (APR)** is a percentage that tells you the **cost of borrowing money** on a yearly basis. Compare APRs when you shop for a credit card.

The APR charged for purchases may be different from the APR for **balance transfers**.

- Balance transfers are when you move some or all of the balance you owe on one credit card to another credit card.

The APR charged for purchases may also be different from the APR for **cash advances**.

- Using your credit card to get cash is a cash advance.
- Read your cardholder agreement to understand what else may be considered as a cash advance. For example, it likely includes using your credit card to:
 - Get cash from an automated teller machine (ATM) or in person from a provider of financial services
 - Borrow against your credit limit using a convenience or access check
 - Make a wire transfer
 - Purchase foreign currency

The creditor will likely also increase the rate on your credit card by a large amount if you do not pay your credit card bill on time. This is the **penalty APR**.

Interest rates can be **fixed** or **variable**. If your payment is late and triggers the penalty APR, get current on your payments as soon as possible. Then try to pay on time every month. Creditors must reduce the penalty rate if they receive on-time payments for six months.

- Fixed rate means the interest rate will not change until the creditor tells you in writing that it will change.
- Variable rate means the interest rate varies, usually based on an index. A variable rate will likely change more frequently than a fixed rate.

Low Introductory APRs

A **teaser rate** is a low introductory APR that is offered for a limited time of at least six months. After the limited time, the rate will likely increase, perhaps significantly.

It's important to know when the teaser rate ends and what the new rate will be.

If you can't pay off the balance before the teaser rate ends, be prepared to pay what could be a much higher APR on your existing balance and future purchases.



Try It: Learning About Credit Card Fees

Next to each fee, write the number of the definition that best describes it from the Definition List.

Fee	Matching Definition from Definition List Below (list the number of the definition)
Late fees	
Annual fees	
Cash advance fees	
Foreign transaction fees	
Balance transfer fees	
Credit-limit increase fees	
Over-the-limit fees	

Definition List

Number	Definition
1	These fees are charged for transferring balances from one credit card to another credit card.
2	These fees are charged for using a credit card to get cash.
3	These fees are charged for not making payments on time.
4	This is a fee charged every year to use the credit card.
5	These fees are charged for making purchases using the credit card in a foreign currency.
6	These fees are charged for asking for and receiving an increase in your credit limit.
7	These fees are charged for borrowing more money than the creditor agreed in advance to lend to you (your credit limit).

Rewards

Some credit cards offer **rewards**, such as:

- Cash rebates
- Points that can be used to purchase other goods and services
- Airline miles that can be used to buy airplane tickets

Know what you need to do to qualify for rewards and maintain them. Think about whether the rewards will cause you to overspend.

Consider the credit card fees when you look at the credit card rewards.

Shop around since rewards and how you qualify for them vary from card to card.

Other Important Terms

If your application for credit is approved, the creditor will set a **credit limit**. This is the maximum credit you can use. It may be called a credit line.

The **grace period** is the time between when your statement is issued and when your payment is due.

The **balance computation method** is how interest on your account is calculated.

- There are different methods. The average daily balance is one method. The cardholder agreement will explain which method is used.

Cards may offer different **customer service features**, such as the ability to pay your bills online.

Some credit cards may also offer you **additional features for free**, such as extending the warranty period on certain products you purchase using the card.

There may also be **additional products and services** you can choose, for a fee. These can include:

- "Payment protection" or "credit protection" to help you make payments if a specific hardship occurs, such as unemployment or hospitalization
- Programs that will monitor your credit reports for signs that a thief may be attempting to use your name to commit fraud

Before agreeing to pay a fee for an additional product or service, ask for a written summary of features and costs.

- Consider checking whether you can receive the offered product or service somewhere else for less money.
- Find out if you may already have it from another company.



Try It: Choosing a Credit Card

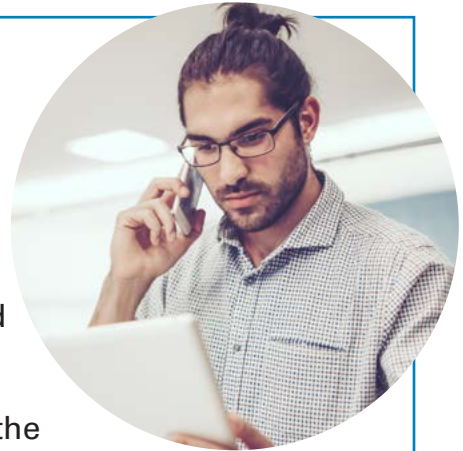
Read the scenario and answer the question.

Scenario: Siddharth Chooses a Credit Card

Siddharth is a self-employed web designer and is generally satisfied with how much he earns. He knows that his income is not steady. Some months he earns a lot, but then business slows down for a while and he earns much less.

Siddharth has a disability that affects his balance and mobility. He would find it convenient to shop online for things he needs. For example, a grocery delivery service now serves his neighborhood. He can select the groceries he wants on a website and pay online to have them delivered to his door.

He has decided to apply for a credit card and collected information on several cards. Now he wants to choose one.



What should Siddharth consider?



Apply It: My Credit Card Comparison Chart

As you are shopping for a credit card, you can use this chart to compare different credit cards.

Comparison Item	Credit Card 1	Credit Card 2	Credit Card 3
Name of creditor/card			
Introductory APR and for how long			
APR after introductory period			
APR: Purchases			
APR: Cash advances			
APR: Balance transfers			
Penalty APR			
Annual fee			
Late fee			
Over-the-limit fee			
Cash advance fee			
Other fees, if any			
Grace period? How long?			
Are there rewards?			
My credit limit, if known			
Is it a secured card? Requirements?			
Other:			

Unsecured and Secured Credit Cards

Banks and other financial institutions offer both **unsecured** and **secured credit cards** with varying credit limits and rates. Until now, we've been talking about unsecured cards.

A **secured credit card** requires collateral. You keep money (as collateral) in a dedicated deposit account at the financial institution issuing the card.

- The card is "secured" with that collateral.

If you pay at least the minimum payment regularly so the creditor receives it by the due date, you generally can improve your credit history and increase your credit scores.

A secured credit card is usually easier to qualify for than an unsecured card. Secured credit cards typically have lower credit limits than unsecured credit cards. Some people apply for secured credit cards if they are unable to get an unsecured card. A secured credit card can help them build or improve their credit history.



Applying for a Credit Card

You can apply for a credit card, whether secured or unsecured:

- At banks, including in person, on the phone, online, or through the mail
- At retail stores
- Other places online, such as credit card comparison websites

You may also receive credit card offers in the mail. You may opt out of receiving certain mailed credit card offers by:

- Calling 1-888-5-OPTOUT (567-8688)
- Visiting www.optoutprescreen.com

Key Terms in the Application Process

Credit Card Applicant:	Person applying for a credit card
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Creditor:	The company that issues the card
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Individual Credit:	When you apply for a credit card on your own, based on your own assets, income, ability to pay and credit history
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Joint Credit:	When you apply for a credit card with another person, based on the assets, income, ability to pay, and credit history of both people
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Authorized User:	Someone you allow to use your credit card account who has no responsibility to pay the bill.
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Remember the Key Takeaway

Know how credit cards work so you can more effectively shop around for one that meets your needs.

Section 2: Managing Your Credit Card

We will discuss how to read a credit card statement and manage a credit card.



Key Takeaway



Credit cards can be convenient, but manage them carefully to keep costs down and avoid damage to your credit.

Reading a Credit Card Statement

If you have a credit card, you will receive a billing statement each billing cycle that your account has activity. Information on the statement includes the:

- Account Billing Cycle
- Account Summary:
 - Previous Balance
 - New Balance
 - Credit Limit
 - Credit Available
- Payment Information:
 - New Balance
 - Minimum Payment Due
 - Payment Due Date
 - Late Payment Warning
 - Total Minimum Payment Warning
- Credit Counseling Statement
- Notice of Interest Rate Changes, if any
- Transactions or Account Activity:
 - Transactions
 - Finance Charges
 - Annual Fee and Interest Totals
- Interest Charge Calculation



Try It: Finding Items in a Credit Card Statement

Use the example credit card statement on the next two pages to answer these questions.

What is the credit limit, which is sometimes called a credit line?

What is the minimum payment due and when is it due?

How long will it take to pay off the credit card if the cardholder pays only the minimum payment each month?

How long will it take to pay off the credit card if the cardholder pays \$25 each month, which is more than the minimum payment?

What interest rate will be charged on purchases made after April 9?

What interest rate applies to cash advances?

What are some important things to review in your credit card statement?

Try It: Finding Items in a Credit Card Statement *continued*

Example Credit Card Statement

Account Number XXXXX6789
February 21, 2020 to March 22, 2020

Summary of Account Activity	
Previous Balance	\$100.00
Payments and Other Credits	-\$50.50
Purchases and Adjustments	+\$415.00
Balance Transfers	+\$0.00
Cash Advances	+\$0.00
Past Due Amount	+\$0.00
Fees Charged	+\$35.00
Interest Charged	+\$0.50
New Balance Total	\$500.00
Total Credit Line	\$2,000.00
Total Credit Line Available	\$1,500.00
Statement Closing Date	3/22/2020
Days in Billing Cycle	31

Payment Information		
New Balance		\$500.00
Current Payment Due		\$20.00
Minimum Payment Due		\$20.00
Payment Due Date		4/21/20
Late Payment Warning: If we do not receive your Minimum Payment by the date listed above, you may have to pay a late fee of up to \$35.00 and your APR may be increased up to the Penalty APR of 28.99%.		
Minimum Payment Warning: If you make only the Minimum Payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:		
If you make no additional charges using this card and each month you pay	You will pay off the balance shown on this statement in about	And you will end up paying an estimated total of
Only the Minimum Payment	40 months	\$634.15
\$25	36 months	\$613.99
If you would like information about credit counseling, call 800-xxx-xxxx.		

Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:

Transactions made on or after 4/9/20: As of 5/10/20, the Penalty APR will apply to these transactions.

Transactions made before 4/9/20: Current rates will continue to apply to these transactions. However, if you become more than 60 days late on your account, the Penalty APR will apply to those balances as well.

Try It: Finding Items in a Credit Card Statement *continued*

Example Credit Card Statement *continued*

Transactions				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
Payments and Other Credits				
2340980TUH08	2/25	2/25	Payment Thank You	\$50.50-
TOTAL PAYMENTS AND OTHER CREDITS FOR THIS PERIOD				\$50.50
Purchases				
304958VIM345	2/27	2/28	Store 1	\$200.00
0980PCJ34590	3/5	3/7	Store 2	\$150.00
0880PKJ39870	3/5	3/7	Store 3	\$65.00
TOTAL PURCHASES FOR THIS PERIOD				\$415.00
Fees				
897263698VVO	2/23	2/23	Late Fee	\$35.00
TOTAL FEES FOR THIS PERIOD				\$35.00
Interest Charged				
Interest Charge on Purchases				\$0.50
Interest Charge on Cash Advances				\$0.00
TOTAL INTEREST FOR THIS PERIOD				\$0.50

2020 Totals Year-to-Date	
Total fees charged in 2020	\$70.00
Total interest charged in 2020	\$1.57

Interest Charge Calculation			
Your Annual Percentage Rate (APR) is the annual interest rate on your account.			
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99%(V)	\$100.50	\$0.50
Balance Transfers	21.99%(V)	\$0.00	\$0.00
Direct Deposit and Check Cash Advances	21.99%(V)	\$0.00	\$0.00
Bank Cash Advances	21.99%(V)	\$0.00	\$0.00

APR Type Definitions Daily Interest Rate Type: V = Variable rate (rate may vary)

Steps for Managing Your Credit Card

Credit cards can provide a convenient way to purchase goods and services and can help improve your credit history and credit scores. But you must manage them carefully.

Here are some basic steps for managing your credit card effectively:

- Keep good records.
- Check your monthly statements for mistakes.
- Pay your credit card bill on time and pay at least the minimum amount due each month so that the creditor receives your payment by the due date.
- Try to limit how much you owe compared to your credit limit:
 - Credit scores are generally higher for consumers who do not “max out” or otherwise use a large share of their available credit.
 - The percentage of your credit limit that you use is called the **credit utilization rate**.
 - Using a large share of your available credit at any point in the month may have a negative impact on your credit scores, even if you consistently pay your full balance each month.
 - Some experts advise using no more than 30% of your available credit. Others advise using no more than 20%. While keeping the balance on your credit card at or below those percentages may not always be realistic, it helps to use as little of your credit limit as possible if you want higher credit scores.
- Understand the impact of different payment strategies:
 - Paying only the minimum payment by the due date
 - Paying more than the minimum payment by the due date
 - Paying the full balance by the due date



Compare the price of items with how much you really pay when you only pay the minimum payment. All figures are rounded to the nearest dollar.

Paying Only the Minimum Payment

Item	Price	Credit Card APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	\$500	18%	\$132	\$632	3
Car Repair	\$1,000	18%	\$863	\$1,863	8
Furniture	\$2,500	18%	\$5,363	\$7,863	23

Compare what happens when you pay only the minimum payment and when you pay more than the minimum payment.

Paying More Than the Minimum Payment

Original Balance	Credit Card APR	Monthly Payments	Total Years to Pay Off	Interest Paid	Total Amount Paid
\$2,500	18%	Minimum Payment	23	\$5,363	\$7,863
\$2,500	18%	Minimum Payment + \$24	4	\$1,025	\$3,525
\$2,500	18%	Minimum Payment + \$41	3	\$754	\$3,254





Apply It: Tips for Using My Credit Card

You can use these tips to manage your credit card effectively. Check tips from the list you want to start or continue doing.

- ☐ **Review your monthly statement as soon as you receive it.** Contact the creditor right away if you notice errors. For example, there may be a charge for an item you did not purchase.
- ☐ **Pay off your balance in full each month to save money and avoid paying interest.** If you can't do that, pay as much as you can, as soon as you can.
- ☐ **Pay on time to avoid late fees and avoid having late payments on your credit report.** If you cannot pay on time, call the creditor right away. The creditor may waive the late fees or be willing to make other payment arrangements.
- ☐ **Try to minimize how much you owe in relation to your credit limit.** This is your credit utilization rate. Some experts advise using no more than 30% of your credit limit while others advise using no more than 20%. While keeping balances at or below those percentages may not always be realistic, it helps to use as little of your credit limit as possible.
- ☐ **Know that using a high percentage of your credit limit at any point in the billing cycle can negatively affect your credit scores.** This is true even if you regularly pay off your entire balance every month.
- ☐ **Keep a record of important information about your credit cards.** This includes keeping your account numbers, expiration dates, and the website address and telephone numbers of each creditor in a safe place, separate from your credit cards, so that you can report a loss quickly.
- ☐ **Carry only the credit cards you expect to use.** This can save you time if you lose your wallet or purse because you would have fewer cards to cancel.
- ☐ **Think about the cost difference if you purchase an item with cash compared to if you purchase an item with credit and do not pay the credit card bill in full.** For example, if you purchase a \$500 television using a credit card with a 20% APR, it could cost you \$1,084 and take 3 years to pay off your debt.
- ☐ **Read the rules that govern your account (the cardholder agreement).** You can access the information online or ask your creditor for a paper copy if you do not already have one.
- ☐ **Read all notices and information you receive from the creditor.** They may be telling you about an important change to your account.
- ☐ **Ask the creditor to lower the interest rate after you have established a good record of making payments on time.** Creditors are not required to do so, but they may be willing to do so to keep you as a customer.

Apply It: Tips for Using My Credit Card *continued*

- ☐ **Think carefully before accepting a balance transfer offer.** In many cases, a balance transfer can be a good way to get your debt under control and pay it off faster. However, before you move your balance, you need to know exactly what you're getting into. For example, while a balance transfer may offer a low APR, you may have a higher APR than what you were originally paying after the introductory period ends. This becomes particularly important if you were not able to pay off your balance during the introductory period.
- ☐ **Be careful with blank convenience checks that your creditor may send you as a quick way to write yourself a loan.** Expect to incur a transaction fee of several percent of the amount of each check. In addition, the interest rate can be much higher than the rate on your card purchases, perhaps twice as high. Even if you are offered a low interest rate initially, find out what interest rate you will pay when the introductory period is over. Most creditors also start charging interest as soon as the check posts to your account, even if they otherwise give you a grace period to repay your credit card for purchases.
- ☐ **Remember that incidental and impulse purchases can add up.** When the bill comes, you have to pay what you owe. If you are in the habit of regularly using your credit card, consider checking how much you currently owe on the card before you make a new purchase to make sure you are able to pay the balance in full when due. You may be able to check your current balance online or with a mobile app. You can also keep your own record of your purchases.
- ☐ **Think carefully before closing a credit card account.** Closing a credit card account can lower your credit scores, particularly if it is an account you have held for a long time. It can also lower your credit scores if closing an account means you use a larger percentage of your credit limits on other accounts.
- ☐ **If your card is lost or stolen, or if you suspect that your information may be used to make fraudulent purchases on your credit card account, immediately contact the creditor.**
- ☐ **Ask the creditor about activating free security features.** You may be able to sign up for alerts online. As an example, those alerts can notify you whenever your card is used without the credit card being physically present.
- ☐ **If you need help with a debt challenge, consider contacting a credit counselor for personalized guidance.** Look on your credit card statement for a toll-free number you can call to get help in finding one.

**Remember the Key Takeaway**

Credit cards can be convenient, but manage them carefully to keep costs down and avoid damage to your credit.

Module Closing

★ Remember the Key Takeaways

Section	Key Takeaway
1: How Credit Cards Work	Know how credit cards work so you can more effectively shop around for one that meets your needs.
2: Managing Your Credit Card	Credit cards can be convenient, but manage them carefully to keep costs down and avoid damage to your credit.

Take Action

You are more likely to take action if you commit to **taking action now**. One way to commit is to think about what you plan to do because of what you learned today. Then write it down.

What will I do?

How will I do it?

Will I share my plans with anyone? If so, who?

Where to Get More Information or Help

For information and tools to help manage credit cards, visit **consumerfinance.gov** and search for “credit cards.”

For information about a range of topics related to credit cards, including scams to watch out for and consumer protections, visit **www.consumer.ftc.gov/topics/credit-and-loans**.

For information about credit card laws and resources, visit **www.usa.gov** and search for “credit cards.”

If you have a question about a banking product, ask a customer service representative at the financial institution for help.

If you have a concern, explain to the customer service representative what happened and what you would like them to do to correct the situation. If that does not help, consider contacting the federal regulator for that financial institution.

To find out who regulates the financial institution, call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342) or visit **www.fdic.gov/consumers/assistance/filecomplaint.html**.

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Pre-Training Survey

Your instructor may ask you to complete this pre-training survey before the training begins.

Please answer these questions:

1. You may be charged a penalty annual percentage rate (APR) if:
 - a. You have less than the minimum balance in your account
 - b. You pay your credit card bill late
 - c. You request an increase in your credit limit
 - d. All of the above
 - e. None of the above
2. Paying only the minimum payment helps you to pay off your credit card balance with minimal interest. True False
3. The annual fee, if any, and the APR are key terms to look at when you shop for a credit card. True False
4. A good strategy for improving your credit history is to keep a balance on your credit card that is close to your credit limit. True False

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Post-Training Survey

Your instructor may ask you to complete this post-training survey after the training ends.

Please answer these questions:

1. You may be charged a penalty annual percentage rate (APR) if:
 - a. You have less than the minimum balance in your account
 - b. You pay your credit card bill late
 - c. You request an increase in your credit limit
 - d. All of the above
 - e. None of the above
2. Paying only the minimum payment helps you to pay off your credit card balance with minimal interest. True ☐ False ☐
3. The annual fee, if any, and the APR are key terms to look at when you shop for a credit card. True ☐ False ☐
4. A good strategy for improving your credit history is to keep a balance on your credit card that is close to your credit limit. True ☐ False ☐

About the Training

Check the box that best describes your agreement or disagreement with each of these statements.

	Completely agree	Somewhat agree	Somewhat disagree	Completely disagree
5. I would recommend this training to others.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I plan to apply what was discussed in this training to my life.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The instructor used engaging training activities that kept me interested.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The instructor was knowledgeable and well prepared.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The Participant Guide is clear and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Visit the FDIC's website at **www.fdic.gov/education** for more information and resources on banking-related issues. For example, FDIC Consumer News provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

**You can also call the FDIC for information and assistance at
877-ASK-FDIC (877-275-3342).**



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**September 2018
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