

Marriage and Money

▼ Issue Six

Managing Credit Part 2

You Can Save . . . If You Shop Around

Credit Card Tips

Credit IQ Quick Quiz

In Part I of “Managing Credit,” you learned that using credit has advantages and disadvantages. This newsletter provides more facts and figures about credit which will help you decide if using credit is for you. The information also focuses on the cost of credit and how to shop for credit in order to receive the most value for your money.

You Can Save . . . If You Shop Around

Starting a new job? Need to spruce up your wardrobe?

Let’s say you spent \$1,000 on clothing using a credit card charging 18% interest and made the minimum payments* to pay off the balance. It would take you almost 6½ years to erase the debt and your \$1,000 wardrobe would actually cost you more than \$1,650.

Using a credit card charging 12% interest, the wardrobe would cost you \$1,335 – a savings of more than \$300 in interest charges.

Moving to a New Home? Need more furniture?

If you buy \$2,000 worth of furnishings with a credit card charging 18.5% interest and pay off the balance by making the minimum payments*, it will take you more than 11 years to repay the debt. By the time the loan is paid off, you will have spent an extra \$1,934 in interest alone – almost the actual cost of the furniture.



* Minimum payment based on 1/36 of the outstanding balance or \$20 – whichever is larger.

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Credit Card Tips

Credit card tip

When is the minimum the maximum?
If you pay the minimum monthly payment when you pay your credit card bill, you are paying the maximum interest. In fact, when interest is compounded, you could end up paying interest on your interest!

The minimum payment might be convenient if it's all you can afford. But, whenever possible, pay as much as you can. If you have an 18.5% interest rate card, it will take you more than 11 years to pay off a debt of \$2,000 if you only pay the minimum balance due each month. During this time, you will pay interest charges of \$1,934, almost doubling the cost of your purchase. This calculation is based on making a payment which is 1/36th of the outstanding balance or \$20, **whichever is greater.**

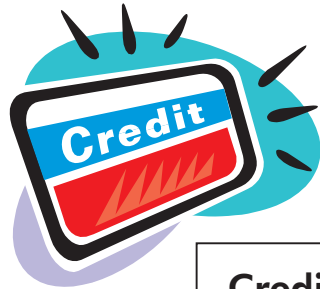
Credit card tip

Be prepared for credit card theft. Keep a list of your credit card numbers in a secure place. The list should include the name and phone number of each card issuer (form is provided on the back of this newsletter). Report lost or stolen cards immediately. If you report the loss before a thief uses the card, you cannot be held liable for any purchases made with the card. If a thief uses a card before you report it missing, the most you will owe on each card is \$50.

Make a copy of both the front and back of your card(s) and store in a safe place.

Credit card tip

Beware of skip-a-month payment offers. Remember, you still pay interest on your outstanding debt, and your total interest costs continue to rise.



Credit card tip

While cash advances can look attractive, keep in mind that interest usually accrues from the moment you accept the cash. If you add in transaction fees, the annualized interest on cash advances can be more expensive than you think.

Credit card tip

What is a Grace Period?

- A. The "free period" when you don't have to pay interest on your credit card debt.
- B. The time between when you receive your credit card bill and when you have to pay it.
- C. The amount of time, usually 20-25 days, during which you don't have to pay interest on purchases made with a credit card.
IF AND ONLY IF you have no outstanding balance on your card.

Correct Answer: For most cards, C.

Credit cards usually offer consumers a grace period. But many consumers don't realize that if you owe anything at all from a previous bill, you start paying interest from the moment you make a purchase. If you were wrong, don't be embarrassed.

Eight out of 10 consumers surveyed who knew they had a grace period didn't know how it worked.

Credit IQ Quick Quiz

1. The percent of your take-home pay used for credit payments should not exceed:

- a. 5%
- b. 10%
- c. 20%
- d. 25%

2. A bank may refuse to offer you credit based on:

- a. age
- b. income and credit history
- c. number of dependent children
- d. marital status

3. The best indicator of the cost of a loan is the:

- a. number of monthly payments
- b. monthly payment amount
- c. interest rate
- d. loan amount

4. When shopping for credit cards, evaluate:

- a. fees
- b. the way interest is compounded
- c. interest rates
- d. all of the above

5. A grace period is important because it:

- a. Allows you to skip one of your monthly payments.
- b. Gives you a period of time during which to pay off your bill without incurring interest charges.
- c. Allows you to charge over your approved line of credit for a month.
- d. Requires you to pay off your balance over a set period of time.

6. The Equal Credit Opportunity Act States that:

- a. Consumers are protected from illegal discrimination based on race, color, religion, national origin, sex, marital status or age.
- b. A creditor cannot ask you to reapply, close your account or change terms of a loan if you become widowed or divorced.
- c. A creditor cannot turn you down for credit if your income comes from pensions.
- d. All of the above.

7. To keep credit card interest payments as low as possible:

- a. Try to pay off your bills in full every month.
- b. Take out a bank loan at a lower interest rate and use the money to pay off your credit card bills.
- c. Switch to a different credit card that has a lower interest rate.
- d. All of the above.

8. If you carry a balance of \$2,000 with a card that charges 18% interest, by making the minimum monthly payment of 3%, you will pay off the loan in:

- a. three years
- b. six years
- c. nine years
- d. twelve years

9. If you charge \$50 every week on groceries for a year (\$2,600 total) with a card charging 18% interest, then repay the debt with minimum monthly payments, during the first year the interest on those groceries will cost you an additional:

- a. \$52.00
- b. \$104.50
- c. \$174.12
- d. \$223.63

10. A person with credit problems should:

- a. Commit themselves not to increase the debt they already have.
- b. Analyze their spending habits and adjust them.
- c. Contact a local consumer credit counseling service.
- d. All of the above.

1. (c) 2. (b) 3. (c) 4. (d) 5. (b) 6. (d) 7. (d) 8. (d) 9. (d) 10. (d)

Scoring:

9-10 correct: Congratulations! You are credit-wise.

5-8 correct: Careful! You might be spending more money than is necessary. Learn your credit card's interest rate and fee schedule. Examine your cardholder agreement to find out the terms and conditions of your card. With a little knowledge, you can shop around and use a card that's right for you.

0-4 correct: Caution! You might want to call a local consumer group, credit counseling service or government office of consumer affairs for more information about the use of credit cards.

