Credit Management

Personal Financial Management Standardized Curriculum - 2010

MODULE DESCRIPTION

Credit Management: Using Credit Wisely is a 70- to 90-minute program to help learners establish and maintain good credit and avoid excessive debt. This instructor's guide contains more information than can be presented in the session. This additional content and information is included to deepen the presenter's knowledge of the topic and prepare them to answer questions from the learners.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to establish and maintain good credit and determine a safe debt load.

Enabling:

- During the *Stump the Class* activity, learners will develop and correctly answer questions to review content material about qualifying for credit, establishing a credit history and wise uses of credit.
- Participating in the *Take Five* activity, learners will list five ways to reduce the cost of credit.
- Learners will correctly calculate their debt-to-Income ratio given the *Debt-to-Income Ratio* worksheet.

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Bamford, J., et.al. *The Consumer Reports Money Book,* 3rd edition. Yonkers, NY: Consumer Reports, 1997.

"Consumer Handbook to Credit Protection Laws." Federal Reserve Board. Web. April 9, 2010. <http://www.federalreserve.gov/creditcard/>.

"Credit Repair: Self Help May Be Best." Federal Trade Commission. Web. 2005. <http://www.ftc.gov>.

Department of the Navy. (2005). *SECNAV Instruction 1754.1B: Family Support Programs*. Office of the Secretary of the Navy.

Department of the Navy. (2007, amended July 2008). *OPNAV Instruction 1740.5B United States Navy Personal Financial Management (PFM) Education, Training, and Counseling Program*. Chief of Naval Operations.

Department of the Navy. (2009). *Command Financial Specialist Training Manual.* Commander, Navy Installations Command, Washington D.C.

Print Module

Print Module Handouts

Detweiler, G. *The Ultimate Credit Handbook: How to Cut Your Debt and Have a Lifetime of Great Credit,* 3rd edition. Plume: New York, 2003.

Garman, E.T. and R.E. Forgue. *Personal Finance,* 10th edition. Boston: Houghton Mifflin, 2010.

Loonin, D. and J. Rao. *Guide to Surviving Debt.*, 6th edition. Boston: National Consumer Law Center, 2006.

"What You Need to Know: New Credit Card Rules." Federal Reserve Board. Web. March 11, 2010. <http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm>.

Websites:

<http://www.aafes.com> (Army & Air Force Exchange Service)

<http://www.abiworld.org> (American Bankruptcy Institute)

<http://www.aiccca.com> (Association of Independent Consumer Credit Counseling Agencies)

<http://www.annualcreditreport.com> (Free annual credit report from the three major agencies)

<http://www.bankrate.com> (Bankrate, for comparison shopping of rates)

<http://www.bea.gov> (Department of Commerce, Bureau of Economic Analysis)

<http://www.bls.gov> (Department of Labor, Bureau of Labor Statistics)

<http://www.consumerlaw.org> (National Consumer Law Center)

<http://www.creditcards.com> (credit card industry ratings)

<http://www.creditpage.com> (consumer credit guide)

<http://www.cuna.org> (Credit Union National Association)

<http://www.federalreserve.gov> (Federal Reserve System)

<http://www.ftc.gov> (Federal Trade Commission)

<http://www.legalconsumer.com> (bankruptcy information)

<http://www.lifelines.navy.mil> (Naval Services Family Line)

<http://www.myvesta.org> (non-profit debt management counseling)

<http://www.ffsp.navy.mil> (Navy Fleet and Family Support Program)

<http://www.nfcc.org> (National Foundation for Credit Counseling)

MODULE PREPARATION

Handouts:

- *Credit Reports*
- *Take Five*
- *Choosing Credit Cards*
- *Debt-to-Income Ratio*
- *Warning Signs of Credit Abuse*
- *Credit — You Got It!*

Materials:

- Pens and pencils
- Index cards and markers
- Calculators

SUMMARY OF LEARNER ACTIVITIES

- ***Stump the Class***: Group activity in which learners develop review questions for the class to answer.
- ***Take Five***: Learners list five ways that they can apply the material to save on the cost of credit.
- ***Calculating your Debt-to-Income Ratio***: A worksheet exercise in which learners calculate their debt-to-income ratio.
- ***Credit: You Got It!*** Fifteen questions providing a means to review the content after presentation.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
    a. National Statistics
    b. Agenda
2. Getting and Using Credit (20 minutes)
    a. Wise and Unwise Uses of Credit
    b. Qualifying for Credit
    c. Establishing Credit
    d. Credit Reports
    e. Your Credit Score
    f. Learner Activity: *Stump the Class*
3. Reducing the Cost of Credit (10 minutes)
    a. Learner Activity *Take Five: Part 1*
    b. Creditworthiness
    c. Comparison Shopping
        i. Where You Borrow
        ii. How Much You Borrow
        iii. How Long You Repay
        iv. Minimum Monthly Payment
        v. Minimizing Interest Charges
4. Choosing and Using Credit Cards (15 minutes)
    a. Credit Terminology
    b. Other Costs and Features
    c. Cutting Credt-card Costs
    d. Learner Activity: *Take Five Part 2*
    e. Military Cards
5. Debt: How Much Is Too Much? (15 minutes)
    a. Calculating a Debt-to-Income Ratio
    b. Learner Activity: *Calculating your Debt-to-Income Ratio*
    c. Warning Signs
    d. Recovering from Debt
    e. Sources of Help
    f. Not Sources of Help
6. Summary (5–25 minutes)
    a. Optional Learner Activity: *Credit — You Got it!*

SLIDE 1

SLIDE 2

CONTENT

WELCOME AND INTRODUCTION

National Statistics

America seems to be a nation in love with debt. Unfortunately, this sometimes can become a love/hate situation. Let's take a look at some recent statistics on credit and debt.

- 78 percent of American households have credit cards.
- Average consumer debt (as of 2009) was $3,000.
- Total U.S. consumer debt (as of 2009) was $2.5 trillion.
- Total number of personal bankruptcies filed in 2009 was 1,473,675 (up 32 percent from 2008).

Trainer's note: These statistics are included as a point of interest and motivation. The statistics are current as of April 2010. When presented after January 2011, the presenter should update relevant statistics. Check bankruptcy statistics at <http://www.abiworld.org>.

SLIDE 3

Agenda

Credit has become a normal part of everyday personal financial management for most Americans. Used appropriately, it can be an excellent tool, but used the wrong way, it can bring the financial wheels of your life to a grinding halt for a long time.

To help with good credit management, topics in this module include:

- Getting and using credit.
- Reducing the cost of credit.
- Choosing and using credit cards.
- Debt: How much is too much?
- Sources of help.

SLIDE 4

GETTING AND USING CREDIT

Wise and Unwise Uses of Credit

Success or failure with money depends much more on appropriate behavior than it does on the amount of money one has. Using credit wisely is the result of good planning (a behavior). Conversely, inappropriate behavior, such as a lack of planning or emotional spending, usually is the cause of unwise uses of credit that can lead to serious financial problems. The best use of credit is for a planned purchase of assets — things that will grow or increase in value over time, such as a home or an education. Credit also is useful for convenience — avoiding having to carry large amounts of cash or as a management tool. However, it assumes you do not carry a balance month to month or, if you do, that you have planned for the monthly payments. Using credit to take advantage of sales or discounts when you do not have immediate access to your cash is a good use as well. The wise use of credit virtually always falls into one of these two categories — assets or convenience, and always includes planning (deliberate spending).

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Unwise uses of credit revolve around behavior — poor or no planning, or emotional spending. Unwise uses include:

Impulse buying: Easy access to credit often leads to a "buy now, pay later" mentality. Impulse buying can occur when we are bored, nervous, sad, angry or happy. During these times, consumers often will charge items they never would buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about one-third more than they would if they first compared prices at other locations where the same item might be on sale. By nature, impulse items are not planned expenses.

Spending for status: Many people believe they need to spend money to impress others. Advertising appeals to these emotions. Ads for credit cards often portray the person using the card as having power or status. The message the ads send is that if you use their card, you will be able to do great things, have more fun, attract others and be more successful.

Retaliatory spending: In a family where there is not a clear spending plan on which partners agree, each party has a common tendency to spend on themselves first. After all, they work hard, so why should not they treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves to "even the score" with the other.

Spending to feel good: Using spending as a temporary fix to feel better can become addictive. Like other addictive behaviors, the good feelings are temporary; the debt can last a long time. Individuals always should decide — before charging any purchase — whether they are buying an item because they really need it or because they are under stress and want to feel better. People who spend to feel good or to get a "fix" sometimes will not even open their parcels or use the items, because it is not about the item purchased but rather about the feeling they get from the transaction.

Purchasing consumables: Credit becomes more dangerous when it is used to purchase consumables such as food, clothing, entertainment and vacations — items that lose much or all of their value immediately after purchase.

Everyday living expenses: Meeting everyday living expenses is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, what makes you believe you will be able to pay for it next month?

Qualifying for Credit

SLIDE 6

When deciding to extend credit to a consumer, creditors look for both ability and a willingness to repay debts. The factors they use to evaluate a borrower are summarized by the three C's of credit: character, capacity and collateral.

Character: Will you repay the debt? Creditors will look at your credit history: how much you owe, how often you borrow, whether you pay bills on time and whether you live within your means. They also will look for signs of stability: how long you have lived at your present address, whether you own or rent your home and the length of your present employment.

Capacity: Can you repay the debt? Creditors ask for employment information: your occupation, how long you have worked and how much you earn. They also want to know about your expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.

Collateral: Is the creditor fully protected if you fail to repay? Creditors want to know what you may have that could be used to back up or secure your loan and other resources you have for repaying debt other than income, such as savings, investments or property. Creditors use different combinations of these factors to reach a lending decision. Different creditors may reach different conclusions based on the same set of facts. One may find a borrower an acceptable risk, whereas another may deny the same borrower. "Collateral" sometimes is called "capital." Whichever term is used, both refer to a borrower's assets that can be used to back up the loan, such as savings or a home (in the case of a mortgage).

Establishing Credit

Young consumers should start building their creditworthiness early, so they will be able to get credit when the time comes that they need it. Lenders look for evidence of financial responsibility and stability. This can be achieved by:

- Properly maintain a checking and savings account at a financial institution.
- Paying existing bills (such as rent and utilities) on time.
- Using a "savings-secured loan." Credit unions and banks will give a loan up to the amount of money in a related savings (or share savings) account. The money in savings is frozen until some or all of the entire loan is paid off. Since the financial institution knows it will get its money even if the borrower defaults, the interest rate on the loan normally is very low, usually only slightly more than the interest rate they are giving for savings. In a way, the borrower is paying to borrow their own money, but the idea is to help establish credit, and a savings-secured loan is an excellent tool with which to do that.
- Using a co-signed loan. This is a good option for borrowers with little credit history, but they will need someone willing to co-sign for the loan. For someone who already has a good credit history, caution should be used if considering co-signing a loan for a friend or a relative. Statistically, more than half of these types of loans end with the co-signer paying back part, most or all of the money owed.
- Getting a charge card from a local retailer or oil company. These often are the easiest types of credit card to get. Encourage members to start

small, using just one card, to make small purchases and pay the bill in full at the end of the month; and to guard against overspending, as interest rates for these cards normally are high.

- After establishing a good credit history with other loans, a consumer eventually will qualify for a Visa or MasterCard from a major bank. More than 6,000 banks issue these cards. Consumers must be aware that terms and rates will vary considerably, from "secured" cards that often require a cash deposit, have low credit limits and high rates, to the "premium" cards (often called gold or platinum) targeted at consumers with the best credit ratings.

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CREDIT REPORTS

A credit report is a detailed account of the credit, employment and residence history of an individual. The report is used by a prospective lender to help determine the person's creditworthiness. Credit reports also list any judgments, tax liens, bankruptcies or similar matters of public record entered against the individual.

The industry is dominated by three credit-reporting agencies (or credit-reporting companies): Equifax, Experian and Trans Union. These agencies maintain independent databases and compete with one another to sell information to lenders, insurance companies and employers. For the most part, they do not share information with one another and may not have identical information about an individual. If you have moved a lot, your information may be incomplete and you should request a copy from all three agencies.

It is important to review your credit report at least once a year, to verify that the information is correct and complete. Mistakes happen, and if undetected, they could prevent you from getting future credit. Also, many times instances of identity theft are uncovered by reviewing credit reports. The major credit bureaus all have websites and toll-free numbers at which consumers can request a copy of their credit report. Information on how to do this is included your *Credit Reports* handout. Under current law, every American with a credit history can get one free credit report a year from each of the big three credit-reporting agencies. The reports are available online at <http://www.annualcreditreport.com>.

Trainer's note: Refer learners to the *Credit Reports* handout. Much of the information covered on the slides is included on this handout. If you are able to contact learners ahead of time, have them bring in their own credit report from <http://www.annualcreditreport.com>. If a classroom Internet connection is available, you can show them the website.

Trainer's note: If time allows, you may want to provide information on identity theft and how it can affect credit history. Refer to the Consumer Awareness module for more information on identity theft and tips to protect against it.

When you get a copy of your credit report, you will see that they all include the following information in one form or another.

Identification and employment information: Your name, birth date, Social Security number, employer and spouse's name are routinely noted. The credit reporting agency also may provide information about your employment history, home ownership, income, and previous address, if a creditor requests this type of information.

Payment history: Your accounts with different creditors are listed, showing how much credit has been extended and whether you have paid on time. Related events, such as referral of an overdue account to a collection agency, also may be noted. This data is also referred to as "trade lines."

Inquiries: Credit-reporting agencies must maintain a record of all creditors who have asked for your credit history within the past year, as well as a record of people or businesses requesting your credit history for employment purposes for the past two years.

Public record information: Events that are a matter of public record, such as bankruptcies, foreclosures or tax liens, may appear in your report.

Accurate negative information: When negative information in your report is accurate, only the passage of time can assure its removal. An agency can report most accurate negative information for seven years and bankruptcy information for 10 years. (Inquiries and payments are reported for two years.) Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you've applied for more than $150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the event took place.

Correcting Wrong Information: Under the Fair Credit Reporting Act (FCRA), both the credit reporting agency and the information provider (the person, company or organization that provides information about you to an agency) are responsible for correcting inaccurate or incomplete

Trainer's note: If time is short, refer learners to the ***Credit Report*** handout and do not spend a lot of time on this information.

information in your report. To take advantage of your rights under the FCRA, contact the credit reporting agency and the information provider if you see inaccurate or incomplete information. Dispute forms are available on websites or you can request a hard copy from the agency.

1. Tell the agency, in writing, what information you think is inaccurate. Include copies (*not* originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the agency received. Keep copies of everything.
2. Credit-reporting agencies must investigate the items in question — usually within 30 days — unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the agency, it must investigate, review the relevant information and report the results back to the agency. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide agencies so they can correct the information in your file.
3. When the investigation is complete, the agency must give you the written results and a free copy of your report, if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the agency cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The agency also must send you written notice that includes the name, address and phone number of the information provider.
4. If you request it, the agency must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy during the past two years for employment purposes.
5. If an investigation does not resolve your dispute with the credit-reporting agency, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the agency to provide your statement to anyone who received a copy of your report in the recent past. Expect to pay a fee for this service.

Tell the creditor or other information provider, in writing, that you dispute an item. Be sure to include copies (*not* originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to an agency, it must include a notice of your dispute. And if you are correct — that is, if the information is found to be inaccurate — the information provider may not report it again.

SLIDE 10

Your Credit Score

Credit scoring is a system creditors use to help determine whether to give you credit and how much to charge you for it.

Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt and the age of your accounts, is collected from your credit application and your credit report. Using a statistical formula, creditors compare this information to the credit performance of consumers with similar profiles. A credit-scoring system awards points for each factor. A total number of points — a credit score — helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments on time. Generally, consumers with good credit risks have higher credit scores.

You can get your credit score from the three nationwide credit-reporting agencies, but you will have to pay a fee for it. Many other companies also offer credit scores for sale alone or as part of a package of products. Two well-known credit score companies are the Fair Isaac Company (FICO score) and Beacon.

The FICO score takes into account five areas of information and weights each category:

- 35 percent, payment history
- 30 percent, amounts owed
- 15 percent, length of credit history
- 10 percent, types of credit in use
- 10 percent, new accounts

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What Is a good credit score? Credit scores vary depending on the product offered and the range of scores the creditor is using. Generally, however, the following is true for FICO scores:

700 and higher: Considered excellent, about 60 percent of the U.S. population falls within this credit range.

600-699: Considered good credit. Individuals may not qualify for the very best interest rate and terms. About 27 percent of the U.S. population falls within this credit range.

500-599: Considered risky credit. Individuals may still qualify for a loan but may have to pay at least two percentage points or more higher than the group in the excellent category. About 12 percent of the U.S. population falls within this credit range.

400-499: Considered very risky credit, usually with foreclosures, liens and/or credit judgments in their reports. Individuals who fall in this category will probably have to pay the maximum interest rates allowed by law if given credit at all. About 1 percent of U.S. population is in this range.

SLIDE 12

Learner Activity: Stump the Class

Purpose: Learners use information from the class to develop their own review questions and answers to use in a class review activity.

Time: 10 minutes

Materials: Index cards, writing materials

Procedure: Divide the class into groups and pass out note cards to each group. Tell the class that their challenge is to create two review questions to "stump" the rest of the class. (They can create additional questions, if time allows). Instruct them to write down the review questions and the answers on the index card(s). When they are done, ask each group to read their question. If the rest of the class cannot answer, they have stumped the class. Give candy or small giveaway items to the group that creates the most questions that stump the class. Provide additional information, clarification and reinforcement of concepts as needed.

REDUCING THE COST OF CREDIT

Learner Activity: Take Five, Part 1

Purpose: To have learners apply the knowledge they have learned by providing examples of how the information can be applied to their own financial situation.

Time: Two minutes

Materials: *Take Five* handouts

Procedure: Distribute the *Take Five* handout. Explain to learners that as you review the information on reducing the cost of credit, they should list five ways they can apply it to their lives. Note: Give learners a few examples to get started, such as:

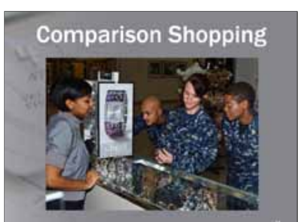
- I will save money by putting a down payment on my car purchase.
- I will look for a credit card that does not require an annual fee.

The responses will be reviewed at the end of the section.

SLIDE 13

CREDITWORTHINESS

Using someone else's money is going to cost you money in the form of interest and fees. The better your credit history is, the better your chance of qualifying for lower interest rates and fees. If you have a history of slow or no payments in your credit report, you may be denied credit, or you may be charged more for the credit that lenders are willing to give you. Paying your existing bills on time and maintaining a spotless credit record can improve your creditworthiness and lower the overall cost of using other people's money.



SLIDE 14

COMPARISON SHOPPING

Credit is a product for which you should shop, as you would for a car or a home appliance. Since the amount of interest that can be charged on various types of credit differs from state to state, it is important to shop carefully. Try to get preapproved by arranging financing for large items before you go shopping. This will help you get a firm idea about what you can afford to pay. Compare options from different lenders to get the best deal. Besides your personal credit-worthiness, the cost of credit is determined by factors such as where you borrow, how much you borrow, how long you take to repay, how much you pay each month and how interest is calculated. We will look at each of these in more detail.

SLIDE 15

Where You Borrow

Where you borrow will affect your cost. Here are the most common places to borrow:

- **Credit union:** Owned by its members; lends to members only; normally offers the most attractive rates.
- **Commercial banks:** Offer a wide variety of products; average rates; for lower-risk people.
- **Savings banks and savings and loan associations:** Focus on mortgages and often offer other services; similar to banks.
- **Consumer finance companies:** Accept higher credit risks; rates often high.
- **Retail merchants:** In-store loans and credit cards; often have promotional introductory rates that rise rapidly after 90 to 180 days. Rates often are unattractive. Whether you are buying a car, a television or anything else, usually the most expensive place to finance any consumer purchase is the place you are buying it. You pay for the convenience.
- **Predatory lenders:** Advance-fee loans, payday loans, subprime mortgages, title pawn lenders, rent-to-own, refund-anticipation loans: Just say no! These types of lenders charge excessive interest rates and fees, wrap in unnecessary insurance and often have pre-payment penalties. This is the most expensive money to borrow. Although the Military Lending Act provides some protection, not all predatory lending practices are covered by it. If service members find themselves contemplating getting money from this type of lender, they should talk to an FFSC Financial Specialist or their CFS immediately.

Trainer's note: Warn learners to avoid predatory lending practices. Explain that one way to tell whether they should get the credit is by considering who is willing to lend to them. If their own bank or credit union will not lend to them, that is a danger sign. Extensive additional information on predatory lending can be found in the Consumer Awareness module.

SLIDE 16

How Much You Borrow

How much you borrow has a big impact on total cost. A down payment often can result in substantial savings. The bigger the down payment, the less the total cost.

Trainer's note: The corresponding slides illustrate the costs involved in finance charges based on how much, where and how a loan is financed.

SLIDE 17

SLIDE 18

How Long to Repay

Borrowing for a longer period lowers your monthly payment but results in a higher cost. The shorter your repay period, the less the total cost.

Minimum Monthly Payment

Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible. If you have a $1,000 balance on an 18 percent credit card and pay only the minimum — 2 percent of the balance, for example — it will take 19 years to pay off and cost you $1,931. However, increasing the payment to 5 percent of the balance results in a two-year payoff and $382 in interest paid. Under the Credit Card Accountability, Responsibility and Disclosure Act, your monthly credit card bill includes information on how long it will take you to pay off your balance if you only make minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years. This makes it more important than ever before that you read your bill each month.

Minimizing Interest Charges

Interest on loans can be calculated several ways:

SLIDE 19

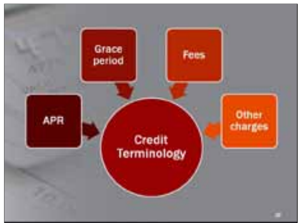
Simple interest: The finance charge is computed by applying a percentage rate to the balance outstanding during each payment period. This is the most attractive method. As you make payments, the interest charged decreases along with the loan balance due. Credit unions always charge simple interest; banks normally do as well. Ask for it!

Add-on interest: The finance charge is calculated on the amount financed and then added on to it. The sum total has to be repaid. No matter how many payments you have made, the interest charged always will stay the same. Read all financing contracts carefully before signing! Example: $1,000 at 12 percent for one year. Using simple interest, you will pay $66 in interest. Using add-on interest, you will pay $120 in interest.

Trainer's note: Reinforce that paying extra works for all types of debt (not just revolving credit) by providing the following example of a fixed-rate car loan. For a $12,000 fixed-rate car loan, financed at 9.9 percent for 60 months, the monthly loan payment would be $254.37 and the total loan price (including interest) would be $15,262.47. If you added $45.63 a month to your payment (rounded the payment up to $300), you would save $646.25 on the loan interest and pay the loan off in 48 months (that's an entire year early!).

CHOOSING AND USING CREDIT CARDS

Credit Terminology



SLIDE 20

There are many choices when shopping for a credit card. Credit card companies, like the credit cards they offer, vary in products, services, charges and fees. Here are some of the terms and facts about credit cards that you should know before you choose a company and a card.

Annual percentage rate: The annual percentage rate (APR) is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you become obligated on the account and shown on your account statements. The card issuer also must disclose the "periodic rate"—the rate applied to your outstanding balance to figure the finance charge for each billing period. Some credit card plans let the issuer change the APR when interest rates or other economic indicators—called indexes—change. Because the rate change is linked to the index's performance and can vary, these plans are called "variable-rate" programs. Rate changes also can raise or lower the finance charge on your account. If you are considering a variable-rate card, the issuer must tell you that the rate may change and how the rate is determined.

Before your account is activated, you also must be given information about any limits on how much your rate may change, and how often. By federal law, credit card companies cannot increase a fixed APR in the first 12 months after an account is opened unless you are more than 60 days past due on your minimum monthly payments. If your credit card company does raise your interest rate after the first year, the new rate will apply only to new charges you make. If you have a balance, your old interest rate will apply to that balance. Any rate-change information must be provided at least 45 days before the change takes place and must give you an opportunity to opt out of the rate change by closing the account. If there is a balance on the account, you will pay the balance at the current rate until it is paid off.

Grace period: The grace period, also called a "free period," lets you avoid finance charges by paying your balance in full before the due date. Knowing whether a card gives you a grace period is especially important if you plan to pay your account in full each month. Without a grace period, the card issuer may impose a finance charge from the date you use your card

Trainer's note: Give each learner a copy of the *Choosing Credit Cards* handout. Note that a lot of the information you are about to cover is on this handout, including many helpful websites. If time is short, you can skip or spend less time on any of the information included in the handout.

or from the date each transaction is posted to your account. By law, your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. In addition, your due date should be the same date each month (for example, your payment is always due on the 15th or always due on the last day of the month). The payment cut-off time cannot be earlier than 5 p.m. on the due date, and if your payment due date is on a weekend or holiday (when the company does not process payments), you will have until the following business day to pay.

Fees: Many credit cards charge membership and/or participation fees. Issuers have names for these fees, including "annual," "activation," "acceptance," "participation" and "monthly maintenance" fees. These fees may appear monthly, periodically or as one-time charges and can range from $6 to $150. Plus, they can have an immediate effect on your available credit. For example, a card with a $250 credit limit and $50 in fees leaves you with $200 in available credit. However, these fees cannot total more than 25 percent of the initial credit limit. For example, if your initial credit limit is $500, the fees for the first year cannot be more than $125. (This limit does not apply to penalty fees, such as penalties for late payments).

Transaction fees and other charges: Some issuers charge a fee if you use the card to get a cash advance, make a late payment or exceed your credit limit. Some charge a monthly fee whether or not you use the card. And most credit cards will charge foreign or international transaction fees when using the card outside the country; these fees are calculated as a percentage of your overall purchase price (typically 1 percent to 3 percent).

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Balance computation method for the finance charge: If you do not have a grace period or if you expect to pay for purchases over time, it is important to know what method the issuer uses to calculate your finance charge. This can make a big difference in the finance charge you will pay — even if the APR and your buying patterns remain relatively constant. Examples of balance computation methods include the following:

- **Average daily balance:** This is the most common calculation method. It credits your account from the day payment is received by the issuer. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, depending on your plan, cash advances typically are included. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the "average daily balance."

- **Adjusted balance:** This is usually the most advantageous method for cardholders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included. This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.
- **Previous balance:** This is the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

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How do these methods of calculating finance charges affect the cost of credit?

Suppose your monthly interest rate is 1.5 percent, your APR is 18 percent, and your previous balance is $400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of $300. On the 18th day, you make a $50 purchase. Listed below are the finance charges calculated by the various computation methods:

- **Average daily balance method:** Including new purchases, your finance charge would be $4.05.
- **Average daily balance method:** Excluding new purchases, your finance charge would be $3.75.
- **Adjusted balance method:** Your finance charge would be $1.50.

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If you do not understand how your balance is calculated, ask your card issuer. An explanation also must appear on your billing statements.

Balance transfer offers: Many credit-card companies offer incentives for balance transfers; moving your debt from one credit card (Card Issuer A) to another (Card Issuer B). All offers are not the same, and their terms can be complicated. For example, many credit-card issuers offer transfers with low introductory rates. Some issuers also charge balance-transfer fees. If Card Issuer B charges 4 percent to transfer $5,000 from Card Issuer A, your fee would be $200. In addition, if you make a late payment or fail to pay off your transferred balance before the introductory period ends, Card Issuer B may raise the introductory rate and/or charge you interest retroactively.

However, by law, if you make more than the minimum payment on your credit card bill, your credit card company must apply the excess amount to the balance with the highest interest rate. There is an exception: If you made a purchase under a deferred interest plan (for example, "no interest if paid in full by March 2012"), the credit card company may let you choose to apply extra amounts to the deferred interest balance before other balances. Otherwise, for two billing cycles prior to the end of the deferred interest period, the credit card company must apply your entire payment to the deferred interest-rate balance first.

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Other Costs and Features

Credit terms vary among issuers: When considering a credit card, think about how you plan to use it. If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, and whether there is a grace period for purchases. If you use the cash-advance feature, many cards do not permit a grace period for the amounts due, even if they have a grace period for purchases. That makes considering the APR and balance computation method a good idea. But if you plan to pay for purchases over time, the APR and the balance computation method definitely are major considerations.

You also will want to consider whether the credit limit is high enough, how widely the card is accepted, and the plan's services and features. For example, you may be interested in "affinity cards"—all-purpose credit cards sponsored by professional organizations, alumni associations and some members of the travel industry. An affinity-card issuer often donates a portion of the annual fees or charges to the sponsoring organization or qualifies you for free travel or other bonuses.

Over-the-limit transactions: You must tell your credit card company that you want it to allow transactions that will take you over your credit limit. Otherwise, if a transaction would take you over your limit, it may be turned down. If you do not opt in to over-the-limit transactions and your credit card company allows one to go through, it cannot charge you an over-the-limit fee. If you opt in to allowing transactions that take you over your credit limit, your credit card company can impose only one fee per billing cycle. You can revoke your opt-in at any time.

Default: Your credit-card agreement explains what may happen if you default on your account. For example, if you are one day late with your payment, your issuer may be able to take certain actions, including raising the interest rate on your card.

Special delinquency rates: Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. This can exceed 20 percent. Information about delinquency rates should be disclosed in credit-card applications and in solicitations that do not require an application.

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CUTTING CREDIT-CARD COSTS

To save on the cost of credit cards, inquire about issues such as those listed below so you can make comparisons.

- Is there an annual fee? If so, how much? Can it be waived?
- What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?
- What is the grace period on purchases? (Some cards have a zero grace period.)
- What are the terms for a cash advance? Most cards charge a higher interest rate for cash advances, and the interest starts to accrue immediately.
- What additional fees apply, such as late payment, over credit limit, cash advances and others? Are there other hidden charges, such as an increase in the interest rate in the event of a late payment? One easy way to save money is to call your existing credit-card company, tell them you plan to switch to a card with a lower interest rate, and ask what they can do for you. In many cases, they will lower your interest rate to keep you as a customer. This can be effective if you have been a client

with an account in good standing for a year or more, carry a balance and are being charged more than 14 percent.

- If you pay off your balance each month, get an account with a low or no annual fee. If you carry a balance, look for low APR and low or no fees.
- Avoid high priced add-ons such as credit life, credit disability or credit unemployment insurance.

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Learner Activity: Take Five, Part 2

Purpose: To have learners apply the knowledge they have learned by providing examples of how the information can be applied to their own financial situation.

Time: 10 minutes

Materials: *Take Five* handouts

Procedure: Review the different ways that the learners can apply the content material by going around the room and asking learners to share some of their ideas. If time allows (and depending on the class size) you can have learners share their entire list. Encourage learners to take note of good ideas from their classmates, which they might also want to use to reduce their credit costs.

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Military Cards

Military Star Card: The Military Star Card is a credit card that can be used at all military exchanges. This is a regular credit card, and the government does not run the program. The card allows you to make purchases and defer payment over time just like any other credit card. The application and screening process is similar to other credit cards, and finance charges will be assessed if the bill is not paid in full each month. The interest rate is variable, which means it will change with changes in overall interest rates. There also is a uniform purchase plan available under the Military Star Card. Under this plan, you can purchase uniforms and uniform-related items, pay for them over time, and no interest will be charged. Military Star Card debts are considered debts owed to the government. This means it is easy for them to reach into your paycheck to get the money you owe if you are delinquent paying your bill.

Government Credit Cards

General: Unless otherwise exempted in accordance with the provisions of the relevant sections of the Financial Management Regulation (FMR), all DoD personnel are required to use the government-sponsored, contractor-issued travel charge cards for all expenses arising from official government travel. Failure to use the government travel charge card shall not be a basis for refusing to reimburse the traveler for otherwise appropriate charges. Such failure, however, may subject the traveler to appropriate administrative or disciplinary action.

Credit checks: Title 10 U.S.C. 2764a requires the evaluation of creditworthiness before issuing a government travel charge card to an individual. The card contractor will perform a credit check on each new card applicant. Depending on their credit score, applicants will receive a standard card, a restricted card or may not be eligible for a card. If the applicant agrees to a credit check, the fact that a check has been performed will appear on the credit bureau's record for the applicant. The issuance of a travel card and the credit limit on the card are not reported to credit bureaus. This process is similar to instances when the applicant personally applies for credit, except that the only information evident to subsequent credit grantors is that an inquiry was made and has little influence on a credit score. Applicants who refuse to permit a credit check may be asked to self-certify to their creditworthiness to obtain a restricted travel card.

Misuse of government travel cards: Government travel cards are issued only for official travel-related expenses. Examples of misuse include but are not limited to: (1) expenses related to personal family or household purposes; (2) cash withdrawals from ATMs or banks when not related to official travel requirements; and (3) intentional failure to pay undisputed charges in a timely manner. Cardholders who misuse their DoD travel cards shall be subject to administrative or disciplinary action, as appropriate. While these cards generally shall be used only for reimbursable expenses associated with official travel, certain expenses, while not reimbursable, are considered related to official travel. Guidelines should be consulted for specific details.

Split disbursement: To help travelers with card payments, DD Form 1351-2 (Travel Voucher or Subvoucher) has been modified to permit reimbursement to the card contractor with the remainder of any entitlement sent to the traveler. This process is known as split disbursement. All military personnel are required to split disburse the total outstanding charges against the travel charge card.

Monthly statements: Cardholders are responsible for making full payment of the balance on the monthly billing statement by the due date. Accounts are considered delinquent if they remain unpaid 60 days after the billing date.

Disputed charges: Should there be a dispute about charges, the traveler can obtain a dispute form or use the dispute form included with monthly account statements sent to each cardholder. The cardholder should complete and send the form to the travel card contractor.

Salary offset: Under regulations published in Volumes 7A and 8 of the FMR, and upon written request of the government travel charge card contractor, the department will use salary offset to deduct from a cardholder's pay any delinquent funds owed to the contractor as long as they are not disputed. Specifics on the procedures are contained in FMR Volume 7A.

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DEBT: HOW MUCH IS TOO MUCH?

Calculating a Debt-to-Income Ratio

Calculating your debt-to-income ratio is an important part of avoiding excessive debt. This ratio tells you what portion of your income is used to pay debt each month. The *Debt-to-Income Ratio* handout helps you calculate the amount. Once you calculate your ratio, you can look at the scale (at the bottom of the handout) to see whether you are taking on too much debt. Lenders will want to know this figure before they decide whether to give you a loan. Your Command Financial Specialist has a great budgeting program called the Electronic Financial Planning Worksheet that will automatically calculate your debt-to-income ratio, as well as other useful data that helps you build wealth, not debt. Let's look at an example of how to calculate a debt-to-income ratio.

Trainer's note: Refer learners to the *Debt-to-Income Ratio* handout.

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Petty Officer Smith is an E-4 with dependents and has a net income (after taxes) of $3,750. The total of his minimum monthly payments is $725 a month. The debt-to-income ratio calculation would be:

725/3750 = .1933
.1933 x 100 = 19.33
Petty Officer Smith's debt-to-income ratio is 19.33 percent.

The following guidelines are used to determine a "safe" level of debt.

- Less than 15 percent: Use caution when taking on more debt.
- 15 percent to 20 percent: Fully extended; refrain from taking on additional debt.
- 20 percent to 30 percent: Overextended; do not take on additional debt and establish a plan to pay down existing debt.
- More than 30 percent: Seek help to reduce debt from a reputable debt-management source.

In this example, the E-4 is in the "fully extended" category and should refrain from taking on further debt payments.

The use of credit has evolved from a luxury to almost a necessity. It all depends on how you use it. Credit cards are often used for wants rather than emergencies or planned needs. This, along with impulse spending, gets many people into the "overextended" debt range. If you find yourself with too much debt, there are resources available to you. These resources will be discussed at the end of the module.

Learner Activity: Calculating your Debt-to-Income Ratio

Purpose: A worksheet activity where learners have the opportunity to calculate their debt-to-income ratio in class.

Time: 10 minutes

Materials: *Debt-to-Income Ratio* handouts, pencils and calculators

Procedure: Distribute handouts and tell learners that you will now give them an opportunity to calculate their own debt-to-income ratio. Explain that they will estimate their income and payments. If they do not know

Trainer's note: Read the scenario to the class and go through the calculations with them by reviewing the information on the slide.

specific figures, instruct them to use estimated figures; when they get home, they can fill in the correct amounts. Reinforce that lenders use the debt-to-income ratio to help them decide whether they will extend credit.

Step 1: Ask learners to estimate their net monthly income (all of their pays and allowances minus just their taxes).

Step 2: Next, ask learners to list each of their creditors and the monthly payment that goes out to each creditor. Be sure they include any money owed to the government and any payments that are taken from their paycheck. Tell them not to include rent or mortgage amounts. Learners should put the total of all monthly payments in the space provided.

(Note: A different debt-to-income ratio scale is used when including mortgage debt, usually with 36 percent being the "safe" level. Assure learners that this non-mortgage debt scale is a valid financial planning ratio.)

Step 3: Using the formula in Step 3, ask learners to divide their total payments by net income ("big number into the little number"). The result is their debt-to-income ratio.

WARNING SIGNS

Credit cards make spending easy and may encourage you to spend more than you can repay. Warning signs, as well as problems with credit and debt, can range from the moderate to severe. Indicators of these different categories can include:

Moderate

Experiencing trouble with:

- Seasonal bills.
- Routine gifts for birthdays, holidays, etc.
- Car, appliance, home repair.
- Lack of money for unexpected events or special needs.
- Little or no savings.
- Worry, anxiety, family arguments about money.

Trainer's note: Refer learners to the handout *Warning Signs of Credit Abuse* and explain that the information you are covering is also on that handout.

- Increasing balances on credit cards and charge accounts.
- Using credit to pay credit; seeking consolidation loans for the wrong reason.
- Debt-to-income ratio approaching 20 percent.

Serious (financial counseling recommended)

- Spending 4 percent or more of take-home pay on alcohol or non-prescribed drugs.
- Cannot afford basic essentials such as food and clothing.
- No auto insurance.
- Some reduction in family income — money often runs out before payday.
- Frequent worry, family arguments regarding money.
- Interference in job, family duties or relationships.
- Paying only the minimum on credit cards.
- Receiving late notices.
- Using cash advances to pay regular living expenses.
- Debt-to-income ratio of 20 percent to 30 percent.
- Being denied additional credit.

Severe (financial counseling essential)

- Spending 6 percent or more of take-home pay on alcohol or non-prescribed drugs.
- Rotating bills or the inability to pay bills and other financial obligations when due.
- Threat (possibility) of loss of food, housing (eviction), utilities, foreclosure.
- Legal action threatened by creditors, collection agencies.
- Litigation fees from divorce, civil suits, etc.
- Negative cash flow.

- Some reduction in family income.
- Debt–to-income ratio of 30 percent to 40 percent.
- Hiding bills, dishonesty with family.

Extreme (financial counseling essential)

- Spending 6 percent or more of take-home pay on alcohol or non-prescribed drugs.
- Physical survival endangered.
- Loss of food, housing or utilities.
- Legal action by creditors in process: wage assignment (garnishment), repossession, foreclosure, seizure of assets or property, etc.
- Filing or decision to file bankruptcy.
- Defendant in a criminal case.
- Large medical expenses.
- Loss of or severe reduction in family income.
- Debt-to-income ratio of 40 percent or higher.

Let's take a look at some options for recovering from debt issues.

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Recovering from Debt

If you find yourself on the brink of financial destruction, all is not lost. There are options for you.

Take charge: Develop a workable budget and a spending plan. Do what is necessary to establish a positive monthly cash flow. Prioritize debts. Major items, such as your mortgage and car payment, should be a top priority.

Use a power payment plan: After budgeting to get a positive cash flow, ensure minimum payments are made on all monthly bills, then apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the next bill on your list and keep the others the same. Again, when that bill is paid off, apply all the money used for the payment to the next bill on your list. In this manner, you will "power pay" down your debt. Your Command Financial Specialist has both a computerized budgeting program and power payment plan that make setting up a personal debt payment plan easy and flexible.

Talk to your creditors: Stay in contact with your creditors; let them know if there is a problem. If a friend owed you money and was avoiding you or not returning phone calls, you would think they were trying to "stiff" you.

Businesses are the same way.

- Talk with them.
- Be honest about what you can or cannot pay.
- Once you have determined how much you can pay to a creditor, approach them with a plan.
- Be careful about promising more than you can deliver.

Change your behavior: Spend time thinking about how you got into debt to begin with … are you living beyond your means? Are you satisfying all your wants and sacrificing all your needs? Are you an emotional spender or an impulse shopper? Should you not use credit at all? Again, your CFS or FFSC financial educator can help you figure out what to change so that your behavior moves you in the direction of building wealth, not drowning in debt.

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SOURCES OF HELP

For help with your credit-related questions or concerns, you have a variety of resources at your disposal.

- Your Command Financial Specialist.
- Your Fleet and Family Support Center.
- Naval Legal Service Office can provide assistance in a dispute over a bill or contract. They strongly encourage servicemembers who are considering any major purchase to come in with a copy of the contract before signing it. They can also help you with any defenses you may have under federal or state laws, such as the Truth in Lending Act, the Servicemembers Civil Relief Act, the Equal Credit Opportunity Act, the Fair and Accurate

Credit Transactions Act, the Fair Debt Collections Practices Act, the Fair Credit Billing Act, the Military Lending Act of 2007, and the Credit Card Accountability, Responsibility and Disclosure Act of 2009.

- Your local defense credit unions often have financial counselors available who provide a range of services to members, up to and including full-scale debt management programs.
- Non-profit consumer credit counseling agencies also provide low- or no-cost financial counseling and debt management.

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Not Sources of Help

Credit clinics/credit-repair services: Many of these services charge up-front fees promising to "clean up your credit report" fast and get you out of debt. These services cannot do anything you cannot do for yourself. It is illegal for a company to charge a fee (up front) for this service. Violations should be reported to <http://www.ftc.gov>.

Debt-consolidation loans: In a consolidation loan, you take out one loan large enough to pay off several or all smaller loans. Consolidation loans may reduce the total amount of dollars expended each month on indebtedness, but the cost of credit (the interest paid) will increase because the repayment time has been extended — possibly at a higher interest rate. If indebtedness can be managed without a consolidation loan, it usually will save money in the long term. Note especially that behavior modification is critical for consolidation loans to work. Studies have shown that more than 70 percent of people who take out a consolidation loan have a higher debt-to-income ratio 18 months later than before they took out the loan.

Debt settlement companies: Debt settlement companies promise they will negotiate with your creditors, on your behalf, and get your debt reduced. Debt settlement occurs when the company or lender holding a delinquent account offers to "settle" the amount — i.e., they take less than the actual amount owed and "charge off" or settle the rest. Debt settlement companies advise you to stop making payments on current debt and have you send them payments, which they hold until they have enough that they can negotiate with your creditors, hoping to get them to settle. This is rarely a viable option to resolving debt issues. Your better option is to talk to a professional credit counselor. To locate a reputable company, the U.S.

Justice Department has a website which lists approved credit counseling services <http://www.justice.gov/ust/eo/bapcpa/ccde/index.htm>, as does the National Foundation for Credit Counseling <http://www.nfcc.org/>.

Bankruptcy: This often has been the last-resort option for protection from bill collectors, lawsuits and foreclosures, but legislative reforms are making it much harder to use this option to get a fresh start. Bankruptcy does not allow you to walk away from problems. It may severely affect your ability to get credit in the future. It also could have a potential negative impact on your career.

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SUMMARY

With all the money companies stand to make by extending credit, it is no wonder it has become a regular part of our financial life. Managed correctly, credit, whether loans or credit cards, can be a great tool. When abused, they can lead to higher costs, credit denials and even bankruptcy. Keep in mind these healthy tips for using credit wisely:

- Have a working budget or financial plan, keep it up-to-date and live within your means.
- Calculate your current debt-to-income ratio and keep monthly payments at 15 percent to 20 percent of your net income or less.
- Plan all credit purchases; make sure they fit into your budget.
- Shop around for credit; it is just like any other product you would buy. Look for the best deal.
- Check your credit report annually and keep it spotless.
- Use all of your available resources to help you plan and to help you get out of debt.
- Remember, financial success is more about behavior than it is about money. If you're in financial distress, figure out why and change your behavior so you can build wealth, not debt.

Trainer's note: If you are using the *Credit: You Got It!* quiz, omit this review and use the quiz responses to review the course material.

Optional Learner Activity: Credit – You Got It!

Purpose: To review the material covered in class.

Time: 20 minutes

Materials: *Credit — You Got It!* quiz

Procedure: Distribute the quiz and explain that learners are to answer the 15 questions. Allow them a few minutes to answer the questions and then go over the answers to review the material.

1. Which one of the following is *not* one of the three C's of qualifying for credit?
   a. Character
   b. Collateral
   c. Capability
   d. Capacity
2. Cardholders who misuse their government travel cards shall be subject to administrative or disciplinary action.
   a. True
   b. False
3. Which one of the following is considered a wise use of credit?
   a. Purchasing everyday living expenses
   b. Purchasing to relieve stress
   c. Purchasing consumables
   d. Purchasing assets
4. Which of the following is likely to have the best credit rates?
   a. Retail merchants
   b. Credit unions
   c. Consumer finance companies
   d. Rent-to-own companies
5. Which finance charge computation method totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day?
   a. Previous balance method
   b. Adjusted balance method
   c. Two-cycle balance method
   d. Average daily balance method
6. If you have multiple credit cards with one company the company must apply above-the-minimum payments to which of your cards?
   a. The card with the highest rate
   b. The card with the lowest rate
   c. The card with the highest balance
   d. The card with the lowest balance
7. Debts accrued using a Military Star Card are owed to the government and can result in garnishment of the service member's pay.
   a. True
   b. False
8. What is the period that allows you to make credit-card purchases and avoid finance charges by paying your balance in full before the due date?
   a. Double-cycle balance period
   b. Grace period
   c. Average daily balance period
   d. Adjusted method period
9. What is interest calculated on the full amount of the original principal and then immediately added to the original principal for a sum total?
   a. Simple interest
   b. Compound interest
   c. Add-on interest

d. Adjusted interest

10. Which one of the following is *not* a way to establish a credit history?

    a. Open a bank account

    b. Obtain credit from a local retailer

    c. Use a co-signed loan

    d. Pay existing bills on time

11. As a rule, you always should pay only the minimum payment on a loan or credit card, since that frees up your cash to spend on other important things.

    a. True

    b. False

12. The various fees often associated with credit cards are billed separately and do not affect your available balance.

    a. True

    b. False

13. Which type of finance calculation is prohibited by law?

    a. Average daily balance

    b. Adjusted balance

    c. Previous balance

    d. Two-cycle balance

14. Which of the following statements about reducing the cost of credit is true?

    a. To reduce the cost of credit, extend the repayment period and/or decrease the monthly payment.

    b. To reduce the cost of credit, shorten the repayment period and/or increase the interest rate.

    c. To reduce the cost of credit, increase the monthly payment and/or increase the interest rate.

    d. To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.

15. Which of the following statements is *not* true?

    a. You usually can tell if you should borrow money by who is willing to lend it to you; a credit union usually is a good deal, while predatory lenders are not.

    b. The military consumer has no safeguards against predatory lenders.

    c. Contacting your current credit card issuer and asking for a lower rate is a great way to save on the cost of credit.

    d. A CFS can be a great source of information on financial education matters.

Answer Key

1. c) Capability
2. a) True
3. d) Purchasing assets
4. b) Credit unions
5. d) Average daily balance
6. a) The card with the highest rate
7. a) True
8. b) Grace period
9. c) Add-on interest
10. a) Open a bank account
11. b) False
12. b) False
13. d) Two-cycle balance
14. d) To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.
15. b) The military consumer has no safeguards against predatory lenders.