STAYING ON GOOD TERMS: CREDIT AND DEBT

Module Guide

TIME REQUIRED:
This module can be adapted or adjusted for presentations of 30 to 90 minutes.

RECOMMENDED AUDIENCE:
College students or students soon to be entering college.

MAJOR CONCEPTS:
- Costs and benefits
- Preparation for credit use
- Types
- Mistakes
- Myths
- Causes and signs of financial problems
- Do's and don'ts
- Suggestions if you can't pay your debts

RATIONALE FOR THE MODULE:
The moment students step on campus they become highly sought after credit card customers. As a result, college students now have large credit card debts. Some 16% have balances of $3,000 to $7,000, and 7% owe amounts exceeding $7,000.

MATERIALS AND EQUIPMENT:
Laptop computer with Microsoft PowerPoint installed or transparencies and overhead projector
Internet connection if available (optional for activities)

HANDOUTS:

HO #1 Credit Card Terms
HO #2 Control Your Credit Card Debt
HO #3 Understanding Credit Card Terms
HO #4 Overdraft Protection for Your Checking Account
HO #5 Sample Credit Card Statement
HO #6 How Much Does that Latté Really Cost? / How Much Do You Want to Pay for That Textbook?
HO #7 Stop and Think Labels
HO #8 Web Resources
HO #9 Credit Module Evaluation

PROCEDURE:
I. Decide which handouts you plan to use and make the appropriate number of copies
II. Introduce yourself and the Peer Financial Counseling Program
III. Ask the people in the back if they can hear you
IV. Start presentation
V. Provide handouts as needed
VI. Encourage discussion using suggested activities as time permits
VII. Thank sponsoring organizations
VIII. Have participants complete and return evaluations (HO #9)

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SUGGESTED ACTIVITIES

What Type of Card Is It? (Slide #5)

Ask individuals who have any type of "credit" card with them to take the card(s) out. What type of card is it? Can they tell? If they can't how would they find out? (Call the card issuer.) If it's a credit card how many know what the APR and fees for each of their cards is? How many cards do they have?

Credit Myths (Slide #8)

Ask small groups to discuss the credit myths and to identify for each one why it's a myth. Report back to the larger group.

The Cost of Paying the Minimum (Slide #15)

If you have access to the Internet, go to www.bankrate.com/brm/calc/minpayment.asp Use an example to show how paying even a little more than a minimum makes a difference. For example, a $3,000 balance at 18% interest with a 4.0% minimum payment is a $120 minimum payment. If you paid $130 instead you'd pay off the debt 8 years earlier and save over $1,005 in interest! Even paying $1 more than the minimum means you'll pay off the debt much earlier and save over $935 in interest.

When Will You Be Debt Free? (Slide #16)

If you have access to the Internet, go to http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp. Ask students to suggest information to enter in the online calculator (but prepare an example in advance just in case). You can use this site to find out how long it will take to become debt free and how much you'll pay in interest by making the minimum monthly payments. You can also crunch the numbers using any fixed payment of your choice. And, the calculator can tell you what payments must be made to pay off a debt by a certain date.

Understanding Credit Card Terms (Slides #7 or 14)

Use HO#3 to lead a discussion of the ways credit card terms may differ. The information in the disclosure in HO#3 is on PowerPoint slides in Creditanddebt_HO #3&5.ppt or you can collect materials for credit cards marketed to students on your campus. Discuss universal default. This is the term used to describe a credit card that increases your interest rate based on how you handle other credit accounts. For example, in the credit card offer in HO#3, if you don't make the minimum payment on time – even once – the interest rate goes from 0% to the "regular" rate in the introductory period – from 0% to as much as 13.9% in the first six months. After that, if you don't make the minimum payment on time – even once – the interest rate could go to the default rate – 23.9%. If the credit card has a universal default policy, it could mean that if you don't make the minimum payment on time – even once – on one of your other credit cards, the interest rate on this card could go to 23.9% - even if you're making payments on this card on time.

How Much Does That Latté Really Cost? / How Much Do You Want to Pay for That Textbook? (Slide #4 or #15)

Use one or both versions of HO#6 to illustrate the cost of using credit cards with no plan for repayment.

The Cost of Credit (Slide #15)

Use HO#6 and HO#7 to emphasize the cost of credit. The example assumes an 8.25% interest rate, so costs would be at least twice as much if the student uses a credit card. Think of other items that cost about $3 a day (cigarettes, sodas, beer, etc.) that may be more relevant to your audience. Print HO#7 on Avery labels # 8293 (1.5 x 1.5 round labels). Cut into strips and give each student 4 (if you cut horizontally) or 5 (if you cut vertically) stickers to put on their debit and credit cards to remind them to stop and think before using.

Understanding A Credit Card Statement (Slide #15)

Review the sample credit card statement in HO#5. The information on the statement in HO5 is on PowerPoint slides in Creditanddebt_HO#3&5.ppt.

ANSWERS TO CHECKING KNOWLEDGE QUESTIONS ON EVALUATION

1. A. The Fair Credit Billing Act limits liability to $50 if the card is used before you notify the company ($0 if it's after you notify them). (Slide 18).
2. B. A credit card is a form of revolving credit. (Slide 2).
3. C. Increasing the minimum payment means less total interest paid and a shorter time to pay off the debt. (Slides 14-15).
4. A. The first card you should pay off is the card with the highest APR. (Slide 11)
5. D. All of these are important costs of credit to consider. (Slide 4)