

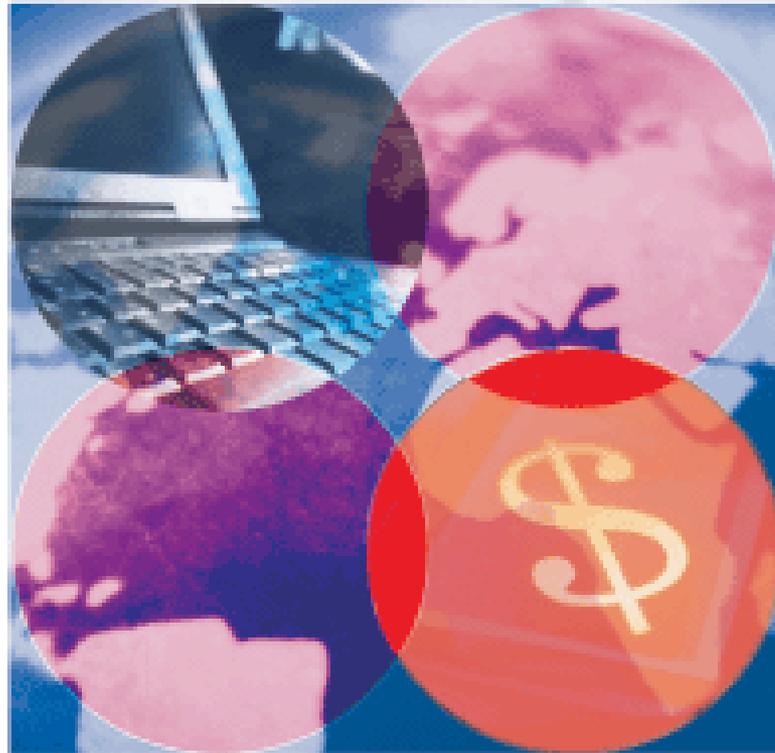
SMART CREDIT MANAGEMENT STRATEGIES



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WHAT QUESTIONS DO YOU HAVE ABOUT CREDIT?



FORMS OF CREDIT



◉ Service or Short Term Credit

- utility bills; doctor bills



◉ Revolving - amount due changes based on purchases

- Visa, MasterCard



◉ Installment - set amount due each month to cover principal and interest

- car loan, mortgage



BIGGEST TAKE-AWAY

When you invest,
compound
interest is your
friend :-)



When you pay
interest on credit
cards and loans,
compound
interest is your
enemy :-)



DEBT WEIGHS HEAVILY ON MANY FAMILY BUDGETS

- Start with rent, utilities, food, car payment, gasoline, cell phone/internet...and everything else
- Add child care?
- Add student loan payments
- Add credit card payments
- Say goodbye to budget flexibility including...
 - Build-up of emergency savings
 - Early build-up of retirement savings
 - Any “fun” money



THE OPPORTUNITY COST OF NOT SAVING EARLY IN LIFE

The Advantage of Starting Early (at 9% Interest)				
Age	Saving Early		Age	Saving Later
22	\$2,000		22	
23	\$2,000		23	
24	\$2,000		24	
25	\$2,000		25	
26	\$2,000		26	
27	\$2,000		27	
28	\$2,000		28	
29	\$2,000		29	
30	\$2,000		30	
31			31	\$2,000
32			32	\$2,000
33			33	\$2,000
34			34	\$2,000
35			35	\$2,000
36			36	\$2,000
37			37	\$2,000
38			38	\$2,000
39			39	\$2,000
40			40	\$2,000
41			41	\$2,000
42			42	\$2,000
43			43	\$2,000
44			44	\$2,000
45			45	\$2,000
46			46	\$2,000
47			47	\$2,000
48			48	\$2,000
49			49	\$2,000
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55			55	\$2,000
56			56	\$2,000
57			57	\$2,000
58			58	\$2,000
59			59	\$2,000
60			60	\$2,000
61			61	\$2,000
62			62	\$2,000
63			63	\$2,000
64			64	\$2,000
65			65	\$2,000

*Total of
\$18,000
Invested*

*Total of
\$70,000
Invested*

Amount Available at Age 65:
\$579,471

\$470,249

Difference Due to Starting Early: \$109,222

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DEFINITION OF “GOOD DEBT”

When your “future self” benefits from purchases made by your “present self”

⦿ **Example #1: Mortgage for Home Purchase**

- Builds equity over time



⦿ **Example #2: Student Loan for Education**

- Potential for higher future income



Need to view ALL debt (including homes and education) from a ROI perspective

CREDIT CARDS: “BAD DEBT” OR A VALUABLE FINANCIAL TOOL?



- It depends...
 - Convenience users pay no interest and fees and earn valuable rewards
 - “Revolvers” pay interest/fees on unpaid amounts
- For revolvers, credit card debt is like a “tax” on future income to pay for current consumption
- Interest adds to the cost of goods and services, especially when minimum payments are made

WHAT IS THE WORST CREDIT CARD TRAP OF ALL?

- Teaser rates?
- Default rates (penalty APRs)?
- Late fees?
- Over-the-limit fees?
- Minimum payments?



CREDIT CARD MINIMUM PAYMENTS!



PAYMENT COMPARISONS

Current Debt (\$)	Percentage of Outstanding Balance Repaid (%)	Amount of Outstanding Balance Paid (\$)	Amount Paid in Interest (\$)	Years to get out of Debt
\$1,000	3%	\$30	\$684	8
	4%	\$40	\$465	6
	6%	\$60	\$285	4
\$5,000	3%	\$150	\$4,567	16
	4%	\$200	\$2,808	11
	6%	\$300	\$1,592	7
\$10,000	3%	\$300	\$9,421	20
	4%	\$400	\$5,738	13
	6%	\$600	\$3,226	8
\$15,000	3%	\$450	\$14,276	22
	4%	\$600	\$8,668	15
	6%	\$900	\$4,860	9
\$20,000	3%	\$600	\$19,130	24
	4%	\$800	\$11,597	15
	6%	\$1,200	\$6,494	9

Reading Your Statement

PART 1 OF 2

NEXT >

Roll over the numbers shown to get more info on the changes that will appear on your bill.

Summary of Account Activity		Payment Information										
Previous Balance	\$535.07	New Balance	\$1,784.53									
Payments	-\$450.00	Minimum Payment Due	\$53.00									
Other Credits	-\$13.45	Payment Due Date	4/20/12									
Purchases	+\$529.57	Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APRs may be increased up to the Penalty APR of 28.99%.										
Balance Transfers	+\$785.00	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:										
Cash Advances	+\$318.00	<table border="1"> <tr> <td>If you make no additional charges using this card and each month you pay...</td> <td>You will pay off the balance shown on this statement in about...</td> <td>And you will end up paying an estimated total of...</td> </tr> <tr> <td>Only the minimum payment</td> <td>10 years</td> <td>\$3,284</td> </tr> <tr> <td>\$62</td> <td>3 years</td> <td>\$2,232 (Savings=\$1,052)</td> </tr> </table>		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	10 years	\$3,284	\$62	3 years	\$2,232 (Savings=\$1,052)
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	10 years	\$3,284										
\$62	3 years	\$2,232 (Savings=\$1,052)										
Past Due Amount	+\$0.00											
Fees Charged	+\$69.45											
Interest Charged	+\$10.89											
New Balance	\$1,784.53											
Credit limit	\$2,000.00											
Available credit	\$215.47											
Statement closing date	3/22/2012											
Days in billing cycle	30											

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 4/9/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.

Transactions made before 4/9/12: 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 transactions as well.

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.

These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APRs described below will apply to these transactions.

READING A CREDIT CARD STATEMENT

SAMPLE CREDIT CARD STATEMENT

PAYMENT INFORMATION

New Balance	\$944.95
Payment Due Date	03/18/10
Minimum Payment Due	\$19.00

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay up to a \$39.00 late fee and your APRs will be subject to increase to a maximum Penalty APR of 29.99%.

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	11 years	\$1,635
\$32	3 years	\$1,135 (Savings=\$500)

If you would like information about credit counseling services, call 1-866-797-2885.

“SCHUMER BOX” DISCLOSURES

DETAILS OF RATE, FEE, AND OTHER COST INFORMATION

As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement sent with the card. Account terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law.

Annual Percentage Rate for purchases

The **introductory rate** (see notes below) is **4.99%** until the first billing after the sixth-month anniversary of the opening of the account.
After that **9.99%** (variable rate).

Other APRs (all other APRs are variable)

Balance Transfers: The introductory rate is 0% until the first billing after the sixth-month anniversary of the opening of the account.
After that **9.99%**.
Cash Advances: **19.99%**.
Default Rate: **27.99%** (see notes below).

Variable rate information

Your APRs may vary during each billing period. The rate for purchases and balance transfers is determined by adding 5.99% to the prime rate (see notes below). The rate for cash advances is determined by adding 15.99% to the prime rate but such rate will never be below 19.99%. The default is determined by adding no more than 23.99% to the prime rate.

Grace period for repayment of purchases

Not less than 20 days if you pay your total new balance in full each billing period by the due date. Payment must be received by 9 a.m. on the due date. There is **no grace period for balance transfers and cash advances**.

Method of computing the balance

Average Daily Balance (including new purchases).

Annual fee

\$25

Suggested Activity: Compare Credit Cards



	Card 1	Card 2	Card 3
APR			
Annual Fee			
Minimum Pmt.			
Penalties			
Late Fees			
Cash Advance			

Resource:

<http://rci.rutgers.edu/~boneill/assignments/creditcard.html>

AVERAGE DAILY BALANCE METHOD

- ◉ Most common computation method used
- ◉ Outstanding balances added daily
- ◉ Total is divided by days in cycle
- ◉ New purchases may or may not be added
- ◉ Interest assessed each day at daily rate



<http://www.investopedia.com/terms/a/averagedailybalance.asp>

AVERAGE DAILY BALANCE- EXAMPLE

Date	Charges	Payments	Balance
April 1	----	----	\$200
April 12	\$135	----	\$335
April 25	----	\$110	\$225

11 days @ \$200= \$2,200

13 days @ \$335= \$4,355

6 days @ \$225= \$1,350



Total=
\$7,905

Average daily balance= $\$7,905/30$ days= $\$263.50$

CASH ADVANCES AND FEES

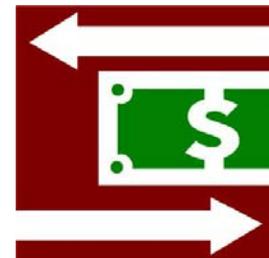
- Cash advances are cash loans from a credit card account
- Often done with “convenience checks”
- Fees are charged:
 - Cash advance fee from date of advance; 2% to 5%
 - Most cards have minimum cash advance fees
 - APR (often higher than regular credit use)
 - No grace period for cash advances



BALANCE TRANSFER FEES

- ◉ Transfer amount owed from one card to another
- ◉ Company B pays balance with Company A
- ◉ Balance owed is now on Company B credit card
- ◉ Transfers usually done to get a lower APR
- ◉ Balance transfers usually have transaction fees
 - Often 4% of transferred balance

<http://www.creditcards.com/glossary/term-balance-transfer-fee.php>



CARD ACT (2009) OVERVIEW

- 45 days notice to increase rate or fees with right to cancel
- Disclosure of time and amount to pay off your balance with minimum payments
- No new interest rates for first year of account
- Apply any increased interest rate to new purchases only
- Apply payments to highest interest rate charges first
- Consumers can opt out of “over the limit” purchases
- If under 21, must prove ability to pay or get co-signer



http://bucks.blogs.nytimes.com/2010/02/22/what-the-credit-card-act-means-for-you/?_php=true&_type=blogs&_r=0

YOUR CREDIT REPORT CAN BE ACCESSED BY

- Lenders and creditors



- Landlords



- Potential employers



- Insurance companies



<http://www.nolo.com/legal-encyclopedia/who-can-look-your-credit-report.html>

SAMPLE CREDIT REPORT

Applicant Information

Name: PAT DEBTCC Social Security Number: 673-37-4823 Present Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 11/2005	Former Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 10/2004 Prior Address: 309 Cedar Street #89, Santa Cruz, CA 95060 Report Date: 10/2003	Date of Birth: 04/20/1960 Employer(s): J.K.AUTOMATION Present Employment: Manager Former Employment: Junior Manager Other Source of Income: Rent
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Identifying
Information



Accounts

Types	Number	Available credit	Total balance	Credit limit	Monthly Payment	No Of accounts with balance
Installment	3	\$1,000	\$15,000	\$16,000	\$250	1
Revolving	4	\$20,000	\$0	\$20,000	0%	0
Home Loan	2	\$20,000	\$100,000	\$120,000	\$1,654	0
Total	9	\$41,000	\$115,000	\$156,000	\$1904	1

Credit
History



Credit Inquiries

The following section reflects the name of the creditors who have requested Equifax to check your credit report:

Date of Inquiry	Name
02/02/2005	ALLTEL-CHA Telephone Companies
03/05/2006	GREATNORW Credit Unions
04/08/2004	SNET Telephone Companies

Recent
Inquiries

Potentially Negative Information

A. Public Records	i) Type: Judgment Case Number: 3333 Plaintiff: American Express Status: Satisfied Date Resolved: 03/2004 Responsibility: Individual	ii) Type: Foreclosure Case Number: 6666 Plaintiff: ABC Mortgage Loans Claimed Amount: \$75,000 Current Status: Deficiency Judgment Date Resolved: 03/2005
B. Negative Accounts	i) Creditor: Bank of America Date reported: 07/2004 Status: Charge-off Outstanding balance: \$540 Account Number: 45454545... Account Type: Installment Responsibility: Individual Date of Last Activity: 06/2003	
C. Accounts in collections	i) Amex account assigned to the ABC Collection agency The Total Outstanding Balance: \$4587 Report Date: 06/2004 Status: Paid in Full CA Reference Number: 5555 Last Activity Date: 05/2005 Date Reported Paid: 02/2006 Responsibility: Individual	ii) Chase account assigned to the XYZ Collection agency The Total Outstanding Balance: \$8,234 Report Date: 07/2005 Status: 60 days past due CA Reference Number: 7777 Last Activity Date: 05/2005 Responsibility: Individual

Public
Records

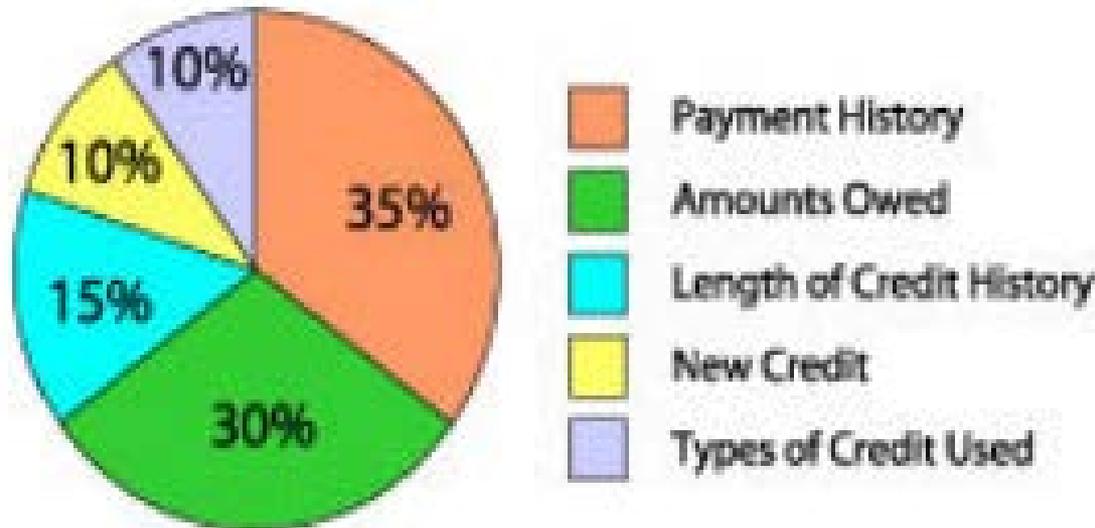
Accounts
in
Collection

Consumer Statement

Equifax has received the following statement of the consumer in 11/2006.
 Consumer filed bankruptcy due to overwhelming debts
 Estimated Date on which the statement will be removed 11/2013

CREDIT SCORE = FINANCIAL GPA

- ⦿ Uses rating scale for risk of default
- ⦿ Higher the number, the better
- ⦿ Must usually pay a fee to obtain



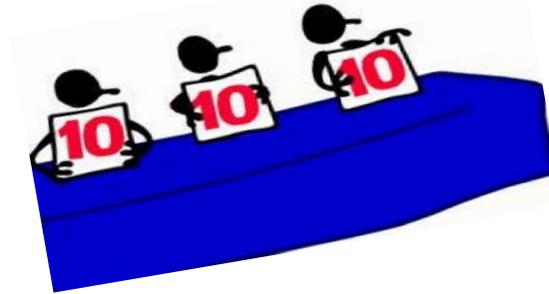
How Your Credit History is Scored

<http://www.myfico.com/crediteducation/whatsinyourscore.aspx>

CREDIT SCORE PROVIDERS

- **FICO**

- Scores from 300 to 850
- Higher number is better
- Cost: \$19.95 (April 2014)
- <http://www.myfico.com/crediteducation/articles/>



- **Vantage**

- Joint rating system of credit reporting bureaus
- Scores 501 to 990; higher number is better
- Cost: \$7.95 (April 2014)
- <http://www.experian.com/consumer-products/vantage-score.html>

LOWER SCORE = HIGHER INTEREST RATES

Loan Savings Calculator

step ONE

Select the type of loan

30-Year Fixed

step TWO

Select the state you live in

National

A 30-year loan in which the interest rate does not change during the entire term of the loan.

FICO Score	APR	Monthly Payment	Total Interest Paid
760-850	3.601 %		
700-759	3.823 %		
680-699	4 %		
660-679	4.214 %		
640-659	4.644 %		
620-639	5.19 %		

step THREE

Enter the loan principal amount

\$

calculate

step FOUR

Select your current FICO Score range

Resource:

www.myfico.com/myfico/creditcentral/loanrates.aspx

DEBT DANGER SIGNS

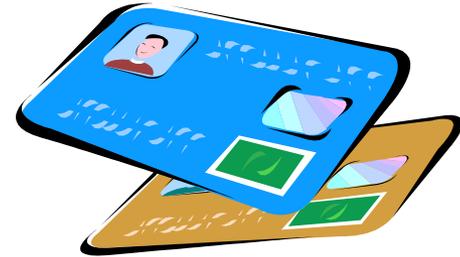


- ◉ Getting a loan to repay existing debt
- ◉ Charging more each month than payments
- ◉ “Juggling” (rotating) payment of bills
- ◉ Using credit card cash advances for bills
- ◉ Consumer debt-to-income ratio $> 20\%$
- ◉ Being at or near maximum credit limits
- ◉ Calls and letters about overdue bills

3 STAGES OF CREDIT DIFFICULTY

- ◉ **Early** - Begin paying late penalties

- pay minimum due
- a month or 2 behind

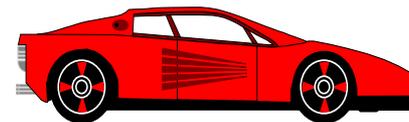


- ◉ **Later** - Bills are months overdue

- difficult to pay minimum
- creditors are making contact

- ◉ **Final** - Court proceedings threatened/pending

- wages subject to garnishment
- secured items (car, etc.) repossessed



CREDIT COUNSELING



- **Budget Counseling** - should be a nominal cost

- **Debt Management Program (DMP)**
 - Must incur no further debt and surrender credit cards
 - Administrative fee charged for cost of repaying bills
 - Will only take on clients with ability to repay debt

National Foundation for Consumer Credit

800-388-2227 or www.nfcc.org

In NJ, look for state-licensed counseling agencies:

http://www.state.nj.us/dobi/division_consumers/finance/counselors.html

INTRODUCING POWERPAY



- Three repayment options:
 - Highest interest rate first (in sequence)
 - Lowest balance first
 - Shortest payoff term first
- Can add one-time or periodic additional payments (e.g., bonus, tax refund, change W-4, etc.)
- Savings will vary according to length of debt, number of creditors, APRs, etc.

www.powerpay.org

POWERPAY EXAMPLE

REPAYMENT SCHEDULE

NAME:

19Jul0

WITHOUT POWER PAYMENTS				POWER PAYMENTS-HIGH INT FIRS		
No Extra Monthly Amt				Extra Monthly Amt: 0.00		
No Lump Sum Payment				LmpSum Pmnt: 0.00		
Creditor Name	#Pmts	Tot Paid	Int Paid	#Pmts	Tot Paid	Int Paic
# 1 Lord & Taylor	6	844.75	44.75	6	844.75	44.75
# 2 AAA	92	6856.40	3347.40	22	4322.27	813.27
# 3 PrivateIssue	85	8910.85	3743.85	36	7113.15	1946.15
# 4 Bank of NY 2	75	3355.50	1259.50	40	2996.72	900.72
# 5 Citibank	75	3727.57	1353.57	43	3407.69	1033.69
# 6 Bank of NY	48	3114.26	751.26	43	3105.75	742.75
# 7 Wachovia	64	2539.80	643.80	45	2469.24	573.24
# 8 Discover	41	1227.28	189.28	41	1227.28	189.28
Tot Mnthly Pmnt			varies	Tot Mnthly Pmnt		576.00
Time to Repay			7 yr 8 mo	Time to Repay		3 yr 9 mc
Loan Amt Repaid			19243.00	Load Amt Repaid		19243.00
Interest Paid			11333.41	Interest Paid		6243.85
Total Amt Paid			30576.41	Total Amt Paid		25486.85

SUMMARY OF BENEFITS FROM MAKING POWER PAYMENTS

Time required to pay off all debt reduced by 3 years 11 Months
 Amount of Money Saved \$ 5089.56

ONLINE CREDIT CARD RESOURCES

- www.truthaboutcredit.org
 - Information and balance payment calculator
- www.creditalk.com
 - User-friendly credit card information
- www.bog.frb.fed.us/pubs/shop
 - Semi-annual credit card survey results
- www.consumer-action.org
 - Annual credit card survey results



RUTGERS WISE CREDIT MANAGEMENT QUIZ

Rutgers | Executive Dean of Agriculture and Natural Resources | School of Environmental and Biological Sciences

RUTGERS New Jersey Agricultural Experiment Station

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Commercial Agriculture

Environment & Natural Resources

Fisheries & Aquaculture

Food, Nutrition & Health

Home, Lawn & Garden

Youth, Community & Economic Development

Serving New Jersey

Find your [Cooperative Extension county office](#), your first stop for information and assistance in NJ.



<http://niaes.rutgers.edu/> **help?**

[« Back to: Personal Finance](#)

Wise Credit Management Quiz

Want to use credit wisely and pay less to borrow money? Start by taking this quiz to assess your current credit-related practices. Choose the score that best describes the frequency with which you practice each of the 20 credit management actions listed below.

Wise Credit Management Quiz

- 1. My latest credit report lists all my credit accounts as "current" or "paid as agreed". (If you have never checked a copy of your credit report, select "No".)**
 Yes No
- 2. My current ratio of monthly consumer debt (e.g., car loan, student loan, credit card) payments to monthly net income (e.g., \$500 ÷ \$2,800 = 17.86%) is less than 20%.**
 Yes No
- 3. I have checked my credit score within the last two years.**
 Yes No
- 4. I have NEVER had any of the following: collection (charged-off) accounts, judgments, liens, repossession (e.g., loan for a car), wage garnishment, foreclosure (e.g., loan for a house), or bankruptcy.**

<http://njaes.rutgers.edu/money/wise-credit/>

2013 Rutgers Research Study on Credit Practices:

<http://www.iarfc.org/documents/issues/Vol13%20Issue%201.pdf>

CFA CREDIT SCORE QUIZ

The Credit Score Quiz

Your credit score can affect many parts of your financial life.
Test your credit scoring knowledge with this simple 20-question quiz.

*Click here to
test your
Credit Score IQ.*



Consumer Federation of America

By Consumer
Federation of
America

<http://www.creditscorequiz.org/>

THREE LESSONS ABOUT CREDIT AND DEBT THAT EVERY STUDENT ABSOLUTELY MUST UNDERSTAND

- ◉ Borrowing obligates future income to support today's spending



- ◉ Lower monthly payments usually mean that you pay more interest over the life of a loan

- ◉ Your past debt payment history is your "financial reputation" and affects future credit opportunities

