Financial Literacy: Credit Basics

Directions:
Fill in the blanks.

The Basics of Credit

1. It is doubtful today's consumer would give up the **convenience** of carrying a credit card they can use at virtually any location.

2. Some people do it for the convenience of not carrying **cash**, while others use credit to make purchases they can't actually afford.

3. The two basic forms of credit most commonly used are the credit card and the **installment loan**.

4. It is the consumer's ability to **buy** now and **pay** later.

5. Banks and credit card companies do not look at your ability to pay for something, like a car, in **one full payment**. They look at your ability to make **set payments** over a certain period of time.

6. The **principal** is the amount of your purchase which is either loaned to you in one lump sum or the amount of your purchase you charge to your credit card.

7. The **finance charge** is the amount of monthly interest added to your credit card bill based on the amount you charge to the credit card during the month.

8. The annual percentage rate, also called **APR**, is the percentage of interest you pay on an annual basis based on how much you have borrowed.

9. This APR is based on **current prime rate** and your credit rating.

10. Only charge on a credit card what you can **afford** to pay off each month.

11. You must pay at least the **minimum payment** each month to avoid late charges and lowering your credit rating.

12. When you **default** on a loan or a credit card, this means you have stopped making payments, usually because you are unable to afford the payments.

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13. We buy homes and **cars** and other big ticket items which would take forever to save for if we tried to pay for them in full.

14. It is so readily available it is easy to get into **debt** where you simply cannot pay your way out.

Understanding Credit Cards

15. Most cards are **similar** in nature, although there might be some differences.

16. For instance, while most credit cards and debit cards have 16-digit account numbers, **American Express** only has 15-digit account numbers.

17. Whatever name is printed on the card beside the main logo tells you who issued the card to you on behalf of **Visa**, MasterCard, etc.

18. A merchant can scan the card under an **ultraviolet** lamp. If the ink appears correctly, the merchant knows the card is not a **fake**.

19. The first **six** digits show which company has **issued** the card.

20. The next **four** digits identify the region and branch information of the issuing company.

21. The next **five** digits are your actual **account number** on file with this creditor.

22. The final digit in the **16-digit** account number actually serves as a **security checkpoint**.

23. This strip has all the same information which is provided in print on your card, so when it is swiped by a merchant, your name, **account number**, expiration date and more is inputted into the merchant's system without having to type in or write down all of your card information.

24. This is either a three-digit code on the back of your credit or debit card, or in the case of **American Express**, a four-digit code on the front of the card.

25. This is an additional layer of **security** the merchant can use to verify the one using the card is actually the **cardholder**.

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26. This feature allows you to sign the card so your **signature** can be compared to the one on the receipt you are signing. This, again, is another **level** of **security** for the merchant to use when the card is being used in person.

How a Credit Card Works

27. It is helpful to understand the **process** which occurs once you decide to use your credit card as a form of **payment**.

28. Normally, at the time you make a purchase the merchant gets the **amount** of your purchase approved, either by swiping your card in their card machine which reads the **magnetic** **strip** on the back of the card, or they may call the credit card company directly if they do not have a card swipe machine.

29. It is at this point the merchant will give you a **receipt** to sign which shows you are agreeing to pay the charge.

30. If you have a credit limit of 500 dollars on your card, and you try to charge **more** than this amount before you have paid your bill, one of two things will happen. Either the merchant will be told that the purchase cannot be approved or the credit card company will approve the charge, but will charge you an "**over-the-limit**" fee.

31. This fee will be charged **each** **month** until you get your balance paid down below your credit limit.

32. You can make your payment to the credit card company by sending them a **check**, making a payment to them using your **online** **bill** **pay**, or you most likely can go their site, log in to your credit card account, and click the "make a payment," or "pay bill now" button on the secure website.

The Cost of Credit

33. Three things affect your credit card costs: annual fees, finance charges and **grace** **periods**.

34. If you do not pay your balance in full each month, you are charged **interest** for the amount you did not pay.

35. You are charged **one-twelfth** of your annual percentage rate on the balance you carry on your account each month.

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36. Credit card companies **make money** when you do not pay the balance off every month.

37. If your payment arrives, even one day after the due date, you will be charged a **late payment fee**.

38. Continually paying late, even if you call, will cause your credit rating to go **down**.

39. When you get approved for a credit card, there is a **credit limit** on the card. This limit is set by the credit card company based on their assessment of your ability to **pay** each month.

40. Your **payment history** is very important to new creditors. They look at your credit history to see if you make your payments as required, if you make your payments on time, and if you go over your **credit limit**.

41. This is an **overall score** assigned to your account by the credit bureaus. The higher the number is, the **better** your rating is. This means, the better your credit rating is, the **lower** your interest rate will be.

42. **Prime rate** is the interest rate used by most banks and based on the federal fund rate.

43. The credit card company takes the current prime rate, then adds **more** interest to it, based on your credit history and credit rating.

44. **Secure cards** are used for people who are trying to rebuild credit, trying to establish a good credit history and trying to get their financial situation back in order.

45. If you pay your credit card balance in full each month, then your credit report will always show a **zero** balance at the end of the month.

46. This causes a **positive** move in your credit rating, because again, it shows good payment habits, and it also shows you do not have any **outstanding debt** on your credit card.

Reading Your Credit Card Statement

47. Your monthly statement from your credit card company is a **snapshot** of your account at the end of the **billing cycle**.

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48. We've broken up the information on a credit card statement into four sections: balances, important dates, payments and purchases, and **limits** and availability of credit.

49. The **opening balance** represents how much is still owed on your account from the previous month's statement.

50. Your **closing balance** represents how much is owed on your account after your most recent payments and purchases are taken into account.

51. This means all payments and purchases made **after** the closing date will not be included on your statement.

52. The other date is the **most important** date that you should pay attention to. It is the payment **due date**. Your payment must be received by your credit card company no later than this date.

53. If there is not enough money in your bank account to cover the automated payment, your payment will be considered **not paid**, and therefore, **late**.

54. Keep your receipts when you **return** items, just like you keep them for purchases you made.

55. If you pay your balance in full each month, you will normally not pay any **interest**.

56. **Previous balance** is the most expensive form of calculating interest and should be avoided if possible.

57. Please note, if you download your transactions throughout the month, reconciling your account will be very **quick** and easy.

58. If you do not use a financial software program, be sure to go through your statement and match each entry with a receipt or **proof** of **payment** to make sure no charges are listed on your account which are not yours and the amounts the merchants ran match as well.

59. Keep any receipts which might be a **tax write-off** for the current tax year and shred all other receipts.