

WHERE TO TURN FOR HELP WITH DEBT MANAGEMENT

There's help available when you're in trouble. If you think you're falling seriously behind, credit counseling resources are available at little or no cost.

NATIONAL FOUNDATION FOR CREDIT COUNSELING

1.800.388.2227

www.nfcc.org

THE FEDERAL TRADE COMMISSION

www.ftc.gov/bcp/menus/consumer/credit/debt.shtm

AMERICAN CONSUMER CREDIT COUNSELING

1.800.769.3571

www.consumercredit.com

Practical Money Skills



PRACTICAL MONEY GUIDES

CREDIT CARD BASICS

What you need to know about managing your credit cards

TAKE CHARGE WHEN YOU CHARGE

Credit cards can be powerful financial tools for you and your family, and as with all financial tools, they need to be used carefully. This guide outlines the basics of credit cards and the responsible use of credit.



For more information, visit www.practicalmoneyskills.com

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PRACTICAL MONEY GUIDES

BUDGET BASICS

CREDIT HISTORY

CREDIT CARD BASICS

DEBIT CARD BASICS

PREPAID CARD BASICS

IDENTITY THEFT

When you understand how to manage your finances, you've got an invaluable tool in taking control of your life. Wise use of these skills can provide peace of mind, financial freedom, increased buying power and a secure future. This guide is one of a series on **PRACTICAL MONEY SKILLS FOR LIFE.**

THE CONVENIENCE OF CREDIT

Credit cards offer many features. There is the convenience of being able to buy needed items now and the security of not having to carry cash. You also receive fraud protection and in some cases rewards for making purchases.

With these advantages also come responsibilities. You need to manage credit cards wisely by understanding all of the card's terms and conditions; staying on top of payments; and realizing the true cost of purchases made with credit. Using a credit card is like taking out a loan. If you don't pay your card balance in full each month, you'll start paying interest on that loan.

Choose Wisely

The best way to maximize the benefits of credit cards is to understand your financial lifestyle – your money needs and wants. Once you determine how you'll use a credit card, it's important to understand all of the card's features including:

- Annual Percentage Rates (APRs) and whether rates are fixed or variable
- Annual, late and over-limit fees
- Credit limit on account
- Grace periods before interest begins accruing
- Rewards including airline miles or cash back

Stay Alert

Some credit card issuers offer free, personalized and automatic alert messages to your phone and email to help you keep track of:

- Available credit
- Balances
- Payment due dates
- Payment histories
- Purchase activity

Understand Your Rights

Credit cardholders are entitled to protections:

- Zero liability means you are not responsible for fraudulent charges when you report them promptly.
- In some cases, you have the right to dispute purchases with merchants for unsatisfactory products or services.

Follow the 20-10 Rule

This general "rule of thumb" helps you understand how much credit you can afford. Credit cards are loans, so avoid borrowing more than 20 percent of your annual net income on all of your loans (not including a mortgage). And payments on those loans shouldn't exceed 10 percent of your monthly net income.

Write it Out

Do you actually know how much debt you have? Many people don't. Start by making a list of everything you owe, whether it's a mortgage, a credit card or even student loans you took for the kids' education. Then write down:

- The lender name
- The amount you owe
- The term of the loan
- The interest rate and fees

Then total them up. The numbers will probably make you worry, but you've already made a positive step.

Think Three Years

Reducing debt is like losing weight. You're not going to lose 50 pounds in a month. You need realistic goals in reasonable timeframes. Same with debt. Most people take four to five years to become debt free. So aim for three years. It's not too long or too short.

Cut and Heal Spending

The best way to save money is to stop spending it. Cutting spending is the fastest way to reduce debt load. It's literally like a surgical "cut" of your finances. And once you start healing, you'll notice that your attitude, relations with others, emotions and sense of humor get better, too.

The True Cost of Credit Card Purchases

If you don't pay off your credit card balance every month, the interest assessed on your account means you may be paying more than you expect. See how much extra you might pay on a \$1,000 credit card purchase with varying interest rates.

TOTAL PURCHASE AMOUNT The balance due on your credit card	\$1,000	\$1,000	\$1,000
CREDIT CARD APR The annual interest rate on your credit card	10%	15%	25%
MONTHLY PAYMENT The minimum monthly payment	\$40	\$40	\$40
NUMBER OF MONTHS TO PAY OFF PURCHASE AMOUNT* Time it will take to pay off the balance	29	31	36
TOTAL FINANCE CHARGE The total amount of money you will pay in interest alone	\$126.02	\$206.50	\$427.22
TOTAL COST The final amount you will pay for your purchase	\$1,126.02	\$1,206.50	\$1,427.22

* In general, this assumes that your account has no new charges and that your Annual Percentage Rate does not change.