

Money Management: Borrowing

ProjectFAME
Credit Cards
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June 27, 2011

Welcome Back!!!

- Let's start with daily activities
 - Logon
 - Open Worklog (Word)
 - Set up and write any opening thoughts
 - Summary of Last Week
 - Questions???

Last Week

- Worklog
- Excel Savings Spreadsheet
- Finding your passion
- Planning and Recordkeeping
- Ethics
- Interviews and Resumes
- Credit Scores
- Credit Card Intro

What we're going to do

- What's up for today:
 - Credit Cards
 - Vocabulary
 - Discussion
 - Spreadsheet

Credit Cards

- Remember: companies that issue credit cards are in business to make money

To talk about them we need some vocabulary

- Using them:
 - Charge
 - Cash advance
 - Limits
 - Credit limit
 - Cash advance limit
 - Outstanding balance*
 - Average daily balance*

Outstanding Balance

- Balance from previous statement
- + charges on the statement
- - payments made this cycle
- Basically what you owe now

Average Daily Balance

- Add together
 - Ending daily balance for each day in billing period (cycle)
- Divide by number of days in billing period

What they charge you

- Interest (finance charge*)
 - Annual percentage rate
 - Daily finance charge*
- Late fees
- Annual fee

Daily finance charge rate

- Annual percentage rate
 - Divided by 365
- $$13.99\% = \frac{13.99}{100} = .1399$$
- $$\frac{.1399}{365} = 0.00038$$

Finance Charge

- Daily finance charge
- Times number of days in billing period
- Times average daily balance

When you pay

- Payment due date
- Grace period
- Minimum payment

Credit Card Options

- No credit cards
 - Save money, then buy
- Pay it off each month
- Transfers
- Pay as much as you can each month
- Make minimum payment

How does this relate to my credit score?

- Wait, what is a credit score?
- Let's see what we can find on the web...
 - Equifax
 - Experion
 - TransUnion

Choosing a card (or NOT)

- <http://www.creditcards.com/>
- <http://www.indexcreditcards.com/>
- <http://www.bankrate.com/>
- <http://www.consumerreports.org/>

Putting it all together to read a statement

- To understand it you need to be able to compute all of the numbers
- Statement handouts (3)
 - New (sort of) laws
 - Read the statement
 - Read the fine print on the back
 - What is interest charged on?

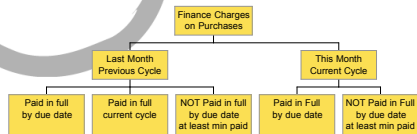
Fine Print

- Balance Transfer
 - No grace period
- Cash Advance
 - No grace period
- Charges (purchases)
 - Let's figure out the grace period

Grace Period

- Depends on
 - Last period
 - This period
- Paid in full by due date
- Paid in full during current cycle
- Not paid in full
 - Less
 - Minimum
 - Really not paid

Things to look at before computing Finance Charges



Grace Period

- IF
 - Pay current new balance in full
 - Paid previous balance in full during current cycle
- THEN
 - Grace period on current new balance

Grace Period

- IF
 - Don't pay current balance in full
 - Did pay previous balance in full by its due date
- THEN
 - Grace period on part of balance you pay
 - Using their allocation method

Grace Period

- Their Allocation method
 - You paid ones with least interest first
- Moral:
 - Much easier if you pay it off every month
 - Make sure that it comes with a grace period that allows this

Stepping back for a minute

- When is an offer too good to be true?
 - Smell test
 - How to check it out
- Security (especially with the internet)
- Why are they doing it?
- How do they make money?
- Should we buy the protection plan?

Identity Theft

- What is it?
- How can you prevent it?
- Be very careful about:
 - SSN
 - Date of Birth
 - Account Numbers
 - PINs and passwords
 - Drivers license number
 - Mother's maiden name

Maria Break

- Mentoring
 - How many?
 - No one can meet all of your needs
 - Find your own mentors
 - Don't be passive
 - Don't be a pain
 - When you know what your passion/career is
 - Find someone who is doing it successfully
 - Ask them how they did it
 - Better yet, find more people and ask them

Newspaper Break

- Modesto Bee
 - Work and Money
- SF Chronicle
 - Business Report
- NPR Market Place at 6:30 pm 91.3 FM
- Car ads

Examples and Practice

- Independent Practice Handout
 - Create a spread sheet with columns:
 - Month
 - Beginning Balance
 - Minimum Payment
 - Interest rate (decimal notation)
 - Interest Paid
 - Principal Paid
 - Ending Balance

Month

- Start with 1 in first A2
- In A3 use formula
 - =A2+1
- Copy formula in cell A3
- Paste it into cells A4 - A50

Beginning Balance

- In cell B2 enter 325
- In cell B3 enter the formula
 - = G2
 - Ending balance of previous month
- Copy formula in cell B3
- Paste it into cells B4 - B50

Minimum Payment

- In cell C2 enter the formula
 - =IF(PRODUCT(B2, 0.035)>10,PRODUCT(B2, 0.035),10)
 - If 3.25% of the beginning balance is more than \$10 pay that amount, otherwise pay \$10
- Copy formula in cell C2
- Paste it into cells C3 - C50

Interest Rate

- In cell D2 enter the formula
 - `=PRODUCT(0.22,1/12)`
 - Interest rate in decimal notation divided by 12 months
- Copy formula in cell D2
- Paste it into cells D3 - D50

Interest Paid

- In cell E2 enter the formula
 - `=PRODUCT(B2,D2)`
 - Beginning balance times interest rate
- Copy formula in cell E2
- Paste it into cells E3 - E50

Principal Paid

- In cell F2 enter the formula
 - `=SUM(C2,-E2)`
 - Payment minus interest portion
- Copy formula in cell F2
- Paste it into cells F3 - F50

Ending Balance

- In cell G2 enter the formula
 - `=B2-F2`
 - Beginning balance - principal paid
- Copy formula in cell G2
- Paste it into cells G3 - G50

For Tuesday

- Read Chapter 5 in Shriver
- Bring yourself
- Questions???

But there's more!

- Put the final touches on the entry for today in your worklog
- Have a great lunch!
- **PS Don't forget your flash drive!**