4-4: Use Credit Cards Wisely

<table>
<tr>
<td>

Cast List
- Darryl
- Terri
- Don Marshall, high school biology teacher
- Jeremy Elder, high school chemistry teacher and Don's colleague

Synopsis
- Don's spending and use of credit cards has gotten out of control. His friend and colleague Jeremy saw his brother go through a financial crisis because of his credit card debt, and wants to help Don before he's in too deep.

Location
- High school hallway
- High school science lab

</td>
<td>

A. How Credit Cards Work
  a. Convenient way to make smaller purchases
  b. Don't forget that you are borrowing the money
  c. Unlimited purchases up to credit limit
  d. Promise to pay at least a portion of the balance every month
  e. Grace period – possible to avoid interest with prompt payment
  f. Interest can be high, fees can increase cost significantly
B. Different Types of Cards
  a. Contrast between credit and
    i. Charge cards
    ii. Debit cards
    iii. Prepaid/smart cards
C. Choose the Best Card for You
  a. Compare
    i. Interest rates (APR, fixed or variable)
    ii. Terms and conditions
    iii. Fees
  b. Unsecured and secured credit cards
  c. You can shop for the best card(s)
  d. Beware low introductory APR and other gimmicks
D. Understand Your Statement
  a. Errors and fraud
  b. Finance charges
  c. Fees
  d. Balances and limits
E. Pitfalls and Problems
  a. Fees
    i. Annual
    ii. Late
    iii. Over-the-limit
    iv. Balance transfer
    v. Cash advance
    vi. Penalty rates
    vii. Universal default
  b. Bad habits
    i. Cash advances
    ii. Making only minimum payment
      1. Finance charges
    iii. Not looking over statement
      1. Fair Credit Billing Act (error protection, credit card dispute rights, process)
  c. Debt
    i. Pay highest-interest rate cards first
    ii. Pay using cash/check
    iii. Beware debt-consolidation loans
    iv. Credit counselor

</td>
</tr>
</table>

Theme music up

TERRI: *(whisper)* Welcome to another edition of the "Money Smart Podcast Network, with Terri and Darryl."

Music cross fade with SFX: a high school hallway during a class period; maybe we hear voices muffled by closed classroom doors, possibly a locker closing

TERRI: *(whisper)* This is a very interesting edition of our show, as today Darryl is going back to school. While he could be going back to school for any number of things he needs to re-learn—

DARRYL: —hey!

TERRI: *(whisper)* Shhhh! Ok, ok. Truth be told, Darryl and I are both "going back to school," so to speak, to help a teacher whose credit card purchases have gotten way out of hand.

DARRYL: *(whisper)* That's right. One of our audience members, Jeremy Elder, called us to share some concern he has for his colleague. We're going to help figure out… well, let's just play you Jeremy's message:

[Prerecorded voice of JEREMY]: Uh… I teach chemistry at Middlewood High. My friend and colleague, Don, teaches biology here. We share space for storage and supplies and stuff. Right before the holidays, I noticed Don had a lot of personal packages coming to the school. Not surprising, since he's known for keeping his family's gifts a secret until the very last second. But the flood of packages didn't stop! Heck, in February he was still buying as if he was Santa Claus on the way to deliver gifts! I can't help but think of my brother. A few years back, he had a lot of purchases delivered to his office in order to keep his wife from knowing how much he was spending. My wife is a credit counselor, and she worked with him for several years to help him get out of debt…. I dunno. Maybe I'm overreacting, but, I have a hunch that Don is digging himself into a bad financial hole. Can you help?

SFX: sound of school bell coming through the door

TERRI: Ooooh! That means we can catch Jeremy and Don during their free period. Jeremy has arranged for us all to meet in the chemistry lab.

SFX: Sounds of high schoolers breaking free of their chains and rushing into the hallway; we hear a door creak open as Terri and Darryl go into Don's classroom and shut the door behind them.

JEREMY: Oh, wonderful! Welcome Terri. Darryl. I'm Jeremy.

TERRI: Good to meet you.

DARRYL: *(simultaneously)* Hi.

JEREMY: And, this is Don Marshall. *(to Don)* Don, this is Terri and Darryl – from the Money Smart podcast I told you about.

DON: Uh – hello?

TERRI: Don, Jeremy shared with us some concern that you might have a growing shopping habit. He asked us to come out today and—

SFX: Loud crash coming from the shared storage room; we hear Darryl let out a little scream

TERRI: Uh, you ok in there Darryl?

DARRYL: *(from other room)* Uh…sort of.

TERRI: Uh, so whether or not you have a problem—

SFX: A smaller crash from the storage room; some box-moving noises and such continue under the next few lines

TERRI: —we thought that we could at least share some information with the both of you and our audiences on using credit cards wisely.

DON: Well I guess it couldn't hurt. You know, to help your audience.

JEREMY: *(with a touch of sarcasm)* The audience. Sure.

DON: So I did a lot of my holiday shopping with catalogs and online. And I had the stuff shipped here.

TERRI: Uh huh.

DON: And then I, uh, found a couple of stores I really love, and—

SFX: single bump

DARRYL: *(from the other room)* Ow, my toe!

SFX: Darryl returns from the supply closet; maybe we hear him dragging one foot and a little moan

DARRYL: Uh, don't mind me.

DON: Um…well, since we just paid off our car, I've had a little fun money to splurge with.

JEREMY: So you're buying everything with cash – and your wife is cool with your "fun money"?

DON: Ahh… well, I have a couple of store credit cards I use. Aggie handles most of the household expenses, but I've, uh, been paying the bills for the store cards I use. She's, uh, pretty cool about fun money…

TERRI: Heck, I've never met Aggie and already I can tell she's not quite as "cool" about "fun money" as you think she is.

DARRYL: *(finally letting it all out)* You have no idea what's back there, Terri! There have to be thirty overnight boxes, all piled one on top of the next as well as tons of shopping bags. There is also a small box that, when you walk into it, feels like it just has to contain weights.

JEREMY: Ooops. That's for my thermal expansion experiment. It's the only thing in that room that's mine. Sorry, Darryl.

TERRI: Don, you were telling us about how "cool" your wife is about fun money?

DON: Well, yeah…but she wants us to get serious about saving for a bigger house.

JEREMY: So… she really doesn't know how much "fun money" you're spending, does she?

DON: Well, not exactly… like I said, I've been using a couple of store cards, mostly.

TERRI: How many is a couple?

DON: Ummm... let's see – there's Wild World where I got my bush hat and wallaby wallet. They have really great accessories. Then I found the Cheese Palace. It was fantastic for holiday gifts, and I order from home maybe once a month…. Then there's Gadget Land.

TERRI: Okay – let's just count these "couple of" store cards. Hand 'em over.

SFX: sound of a wallet opening, credit cards clicking together

DARRYL: Ooooh! A wallaby wallet!

DON: Nice, right?!

TERRI: Hmmmm. So, it looks like you've been using seven store cards, plus two major credit cards.

DON: Yeah…that sounds about right.

TERRI: Using a small number of credit cards is a good way to establish a credit history, *if* you keep your purchases down and pay off your balance monthly to avoid paying interest, but I'm guessing you don't?

DON: Uh, I pay what's due every month.

JEREMY: That's the *minimum* due, but you have to pay interest every month on the balance.

TERRI: Right – see, you're acting like your purchases are from your fun money. But you're actually borrowing the money – and paying it back with interest – possibly a lot of interest. That makes even small splurges very costly over time.

DON: But, I'm paying on time. And with some cards I even pay more than the minimum amount due… so what's the big deal?

JEREMY: So Aggie wouldn't think it's a big deal… if she knew? Isn't that why all the packages come to the school?

DON: Uh… well, some of it back there is classroom stuff. The school district will reimburse me for that.

JEREMY: But most of it?

DON: Ok, well… Aggie's really gotten sort of fanatical about saving lately. I mean, we have decent income between us, and I think a little fun is okay.

JEREMY: There's fun… and then there's playing with fire. Credit cards can be a good way to pay for something – or a terrible temptation that gets some people in deep financial difficulty.

TERRI: Jeremy's right! One danger with credit cards is that they let you make as many purchases as you want, right up to the credit limit. But if you don't pay in full by the due date, you have to pay interest. This means you could pay a lot more for a purchase than you initially intend.

JEREMY: Plus many cards have fees. It looks like one of your major credit cards has an annual fee.

DON: I just like the convenience of using a card. Besides, I hate carrying cash, and, Aggie keeps the checkbook.

DARRYL: Smart lady!

DON: Hey!

DARRYL: Hey, I got in trouble just with a debit card – so I sympathize. But I know how dangerous credit cards can be for me.

JEREMY: Don, if you don't want to use cash, there are other options – like a charge card. You pay an annual fee, and charge purchases as you would with a credit card. The difference is you are expected to pay the balance in full each month.

DARRYL: *(lowering his voice)* Say, Don… where's the bush hat?

DON: It's right here, under my desk.

SFX: we hear some light rummaging noises; nothing terribly distracting

TERRI: With a charge card, there's no interest, and there are often benefits like discounts or reward points. That might encourage you to spend only what you can afford every month. Just be aware that you'll have a penalty – and the card may be suspended – if you're late paying the full balance.

JEREMY: You could also use a debit card. The money comes directly out of your checking account – again no interest. But if you attempt to spend more than you have in your account and you use your bank's overdraft service, you may incur an overdraft fee. And you could also bounce checks as a result, which can trigger returned check fees.

DARRYL: *(rummaging stops)* Or you can use a prepaid card. You put the amount you want on the card, paying a small fee. Then use it like a credit or debit card. You can also check your balance online or by phone.

SFX: light rummaging begins again

JEREMY: Prepaid cards are an option to consider – just be aware that some of them have fees,. And you may not have the same type of legal consumer protections you would with a debit or credit card. They should be treated like cash because if they're lost or stolen, anyone can use them.

DON: Hmm, I like the idea of a prepaid card – I could load it with my fun money every month.

TERRI: Make sure you know about ALL the fees for any prepaid card you choose. Some cards charge monthly fees, fees for loading funds onto the card, or even fees for each transaction.

JEREMY: And before you even think about a prepaid card, shouldn't you use your fun money to pay off the balance on some of those credit cards – don't you think?

TERRI: Jeremy has a good point. You should compare your cards and decide which to keep. Let's start with the store cards – they often have higher interest rates than the major credit cards.

DON: Yeah – the Cheese Palace card is the highest.

JEREMY: Once you pay it off, you can use a check, debit card, credit or charge card, or a prepaid card to shop there.

DON: Okay. The Wild World and Audio Heaven both have the same interest rate.

JEREMY: But Audio Heaven also has a fifty dollar annual fee, which gets charged automatically to the card – that makes its APR or Annual Percentage Rate a bit higher – so those become two and three to pay off.

TERRI: What about Women's Warehouse?

DON: I just used that during the holidays for Aggie, and I think I paid it off last month.

TERRI: Good!

JEREMY: Okay – call them and verify that you have a zero balance. Then notify them that you're going to cancel the cards, and make sure to do it in writing after you call.

TERRI: So, of the store cards, that leaves Gadget Land, Tool Town, and Reliable Department Store. They have the same APR?

DON: Yes – but Tool Town has a reward program – for every five hundred dollars you spend with your card, you get a twenty-five dollar gift card. We're planning to get a new stove and dishwasher soon – so we'll probably get fifty or seventy-five dollars in cards.

JEREMY: Okay – pay off and get rid of Gadget and old Reliable – but don't let the gift cards dazzle you. You'll spend way more than that in interest if you don't plan for and pay off your Tool Town balance every month.

TERRI: So, now on to your major credit cards – are either of them secured?

DON: Uh… well, the wallaby wallet's pretty secure…

JEREMY: Terri's referring to a specific type of credit card. Secured cards are used primarily by people who do not have a satisfactory credit history, such as those just starting out. The credit limit is tied to your deposit. But be careful to understand any fees you may have to pay. My brother got one to rebuild his credit rating. It'll still be a couple of years until he qualifies for an unsecured card.

DON: That's pretty sad.

JEREMY: Your cards are both likely to be unsecured. You'll want to compare their rates and terms. Do either of them have variable interest rates? It might be a good idea to check to see if there's a better card available from your bank or credit union. Just be sure to compare all the terms and the APRs. Be careful about introductory offers because card companies offer a low initial rate that goes much higher after six months or a year.

DON: Hey! I got a great offer in the mail. There's a new card that has 0% financing for a whole year.

JEREMY: Yeah, that's not so new. That's a deferred interest card. The catch is, if you don't pay off the balance in full, the lender will often charge you interest on the full amount you charged – and the rates are often twenty-five percent or more.

DON: So if I charged one thousand dollars and paid back everything but fifty dollars, I'd get charged two hundred and fifty dollars in interest?

JEREMY: Yep – possibly more, depending on how they're compounding the interest on your charges.

TERRI: Okay, now that we've prioritized which cards you're going to pay down, it's important to keep up with all your monthly statements until you can cancel the high-interest cards.

JEREMY: Get in the habit of reviewing your statement every month. Make sure there aren't any errors – like a payment you make online that doesn't show up in your statement – or charges that you didn't make.

TERRI: Also make sure that your finance charges haven't increased for any reason. Card companies are required to give you advance notice in writing of any changes in interest rates or terms.

JEREMY: So, are you on board with us to clean up your credit card use?

DON: Well yeah… but aren't you going a little too far with this? I know your brother got into trouble with credit, but I'm on time and I've agreed to get rid of several high-interest cards.

TERRI: The deal is that it's so easy for consumers to get in over their heads. First, did you know that your credit card provider can increase your interest – for any reason or no reason, once you're account is over a year old?

DON: No – I guess I didn't know that.

JEREMY: Do you know all the different types of fees you could be responsible for?

DON: Well, we talked about the late fees – but I'm never late in paying!

JEREMY: Here's a rundown of common fees. Think how much these could add up for one account, much less 8 or so. The annual fee, which several of your cards have. You already know about late fees. If you have opted in to use over-limit services, and you go over your credit limit – even once, or even by a small amount, many creditors will charge a fee.

DON: Okay – so that's one more reason to watch my statements.

JEREMY: Right.

SFX: Darryl limps back to the group.

DARRYL: Hey! This hat is awesome!

TERRI: Don, if you decided to look into a balance transfer for some of your high-rate cards, you need to know what to watch out for. A balance transfer often has a great "teaser rate." The rates can vary from as low as zero percent for six months to a year. However, there's usually a transfer fee that's a flat rate or a percentage of the balance you transfer. And if you're late with a payment, the teaser rate might escalate to a much higher rate.

JEREMY: A lot of people don't realize that a cash advance often has a fee – and an interest rate significantly higher than a purchase. There's often no grace period and interest starts accruing as soon as you get your cash.

TERRI: Don, I know you're current on your payments. But you should know that in addition to late fees, most creditors can also increase your interest rate if you're late 60 days or more.

JEREMY: That's exactly right. The rates can go to thirty percent or more in some cases for these "penalty rates." That's one thing that got my brother in so much trouble – his rates went from ten and twelve percent – to twenty and twenty-four percent. With late fees piling up and a huge jump in his monthly payments, he couldn't make the minimum payments and his debt began to snowball.

DON: Okay – I see why you're so… determined about this.

TERRI: Jeremy, what about universal default – that's something many borrowers don't know about.

JEREMY: You're right Terri.

DON: Universal default?

JEREMY: Creditors usually check your credit reports regularly. If they see that you're late or in default for another account – be it a mortgage, another credit card, or even your utility bills, they can increase your interest rate because they consider you a higher risk. They may also lower your credit limit or even close your account and demand immediate payment in full.

DARRYL: Wait – I thought I heard that a law changed that.

JEREMY: You're thinking of the CARD Act – which stands for the Credit Card Accountability, Responsibility and Disclosure Act of 2009. That law makes it illegal for creditors to retroactively increase rates on account balances, but they can increase the rate for future credit—

TERRI: —or even cancel your account—

JEREMY: —all based on activity with other accounts, even if you're current and have a perfect payment record with them.

DON: Wow, this is really scary stuff…

JEREMY: That is why we're here – to save you from some mistakes and bad habits before you have a financial train wreck.

TERRI: Don, we're glad you're taking this seriously. We'll review some of the top bad credit card habits for our audience. Jeremy – what's on your list of "don'ts"?

JEREMY: Cash advances – especially if you rely on them frequently – because of the high fees and interest rates.

DARRYL: You can't only pay the minimum balance on your credit accounts, either.

DON: Why's that?

JEREMY: Let's say you owed five thousand dollars with a ten percent interest rate, and paid just the minimum balance each month. Without ever using your card again, it would take you seventeen years to pay off the balance – and you'd pay three thousand, one hundred and fifty seven dollars in interest.

DON: Whoa! Did you just say seven*teen* years?

JEREMY: Yep.

DON: And I'd be paying interest that added up to be—

DARRYL: —about two-thirds of the amount you borrowed!

JEREMY: Absolutely.

DARRYL: I absolutely have to get myself a bush hat.

TERRI: *(whisper to Darryl)* Put that back!

SFX: we hear Darryl sigh; light rummaging

JEREMY: Now, if you paid two hundred dollars each month instead of the minimum payment, you'd pay off the same balance in two years, with six hundred and thirty-one dollars in interest.

DON: I had no idea what a difference paying the minimum amount due could make.

TERRI: Another biggie is remembering to check your statement carefully each month. You can't take advantage of your consumer rights if you don't pay attention and spot errors or fraud.

JEREMY: We're just about through our free period this morning. Terri and Darryl, I'd like to give your audience a few last tips to avoid credit calamity. Just like we're advising Don, pay off your highest-rate cards as quickly as you can – and then funnel those monthly payments into your next highest credit cards or loans.

TERRI: Right!

DARRYL: And as I've learned the hard way, pay using cash or check – and watch how you're spending – especially for those "little" routine expenses that add up.

JEREMY: Be very wary of lenders that promise you an "easy" debt consolidation loan. With real consolidation, the lender pays off all your other creditors, and you make one monthly payment on the new loan. You might get a lower interest rate, or a longer loan term – check out the terms and the lender carefully. Be aware that there are many scams, including phony lenders who demand a large upfront payment – but never give you a loan.

TERRI: We have also heard about companies that pretend to be non-profits, take a person's money – but then never pay the creditors. The consumer often ends up in even worse financial shape, with more debt, and accounts that are overdue.

JEREMY: You're right. There are even so-called non-profits that actually make loans – but charge excessive fees. Unless you're very careful, you would be better off spending your money to pay down the debt yourself.

TERRI: Jeremy, we often advise our audience members to consider credit counseling.

JEREMY: That's a great point! If my brother had been upfront about his problems earlier, we could have referred him to a good counselor who might have been able to help him get his spending under control and to learn how to manage money.

JEREMY: Don, my wife would be happy to talk with you about the kinds of services credit counselors offer. You should also look at the website for the National Foundation for Credit Counseling at nfcc.org. There's a lot of information as well as referrals to professional counselors. Just be sure to do lots of research before you choose a counselor.

SFX: school bell

TERRI: And it sounds like it's time for fourth period.

DON: Thanks so much to both of you.

JEREMY: *(simultaneously)* Yeah, thanks, guys. Where's Darryl?

DARRYL: *(from inside the storage room)* I'm in here! Hey, this looks interesting— *(Darryl screams)*

TERRI: What on earth? Are you—

SFX: Footsteps, as they run to supply closet; they stop

TERRI: I just…

SFX: we might here a faint chirping of crickets here and there

DON: Ok, man. Not cool. Those little guys were supposed to be for my unit on the North American cave cricket.

SFX: faint crickets cross fade with theme music

JEREMY: Wow.

TERRI: *(to Don, Jeremy)* Welcome to my world, gentlemen. *(to audience)* This has been another episode of the "Money Smart Podcast Network, with Terri and Darryl."

Music fades

SFX: one or two cricket chirps after a very short silence