Understanding Credit Cards
What is a Credit Card?

**Credit card** - a plastic card that you can use to access a line of credit that has been established in advance.

A person can borrow up to an established credit limit.

Credit limit – maximum dollar amount that can be borrowed.

Is a credit card open-end or closed-end credit?
Credit Card Interest

Interest is charged **each month** the balance is not paid in full.

Rate at which interest is charged is referred to as:

**Annual Percentage Rate (APR)**

The cost of credit expressed as a yearly interest rate.
To prepare for her first semester of college, Miranda purchased a new computer for $1,000 and textbooks for $500, spending a total of $1,500 on her credit card charging 15% APR. How much would Miranda pay in interest if she makes the minimum payment?

<table>
<thead>
<tr>
<th>Payment Made</th>
<th>Time to pay off card</th>
<th>Total amount of interest paid</th>
<th>Total amount paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Payment</td>
<td>$1,500</td>
<td>1 month</td>
<td>$0</td>
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<td>$135</td>
<td>1 year</td>
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<td>Minimum Payment</td>
<td>$30</td>
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Credit Card = Helpful Financial Management Tool
...if managed responsibly

Develop positive credit history

Convenient payment tool

Protected from unauthorized charges

Credit card safer for online shopping

Credit card bonuses
Develop a Positive Credit History

Follow these positive behaviors:

- Pay credit card balances in full every month
- Pay credit card bills on time
- Be conscious of how credit cards affect your credit history
- Check the monthly credit card statement for errors

Credit card use can have a positive or negative impact on your credit history.
Convenient Payment Tool

No need to carry large amounts of cash

Useful in emergencies

Often required to hold a reservation

Be conscientious of all credit card purchases to not overspend!

How is a credit card a convenient payment tool?
Protect Yourself from Unauthorized Charges

- Report lost or stolen cards immediately!
- Check your statements monthly!

Maximum Liability

- $50
- $0

Unauthorized use

If a lost credit card is reported before it is fraudulently used

If the credit card number is used fraudulently, but the credit card itself is not used
Safer Online Shopping

What is the difference between a credit card and a debit card?

Credit cards are **safer** than debit cards:
- More protection against fraud
- Less liability for unauthorized credit card charges
- Money is not connected to depository institution account
Should you choose “debit” or “credit” at a point of sale (POS)?

Point of Sale

If you pick “credit”
- A receipt must be signed (optional if purchase is under $25)
- Potential benefit: Extra liability protection from fraudulent charges

If you pick “debit”
- Must enter the card’s personal identification number (PIN)
- Potential benefit: Option to withdraw cash from your depository institution account for no fee
Rewards, Rewards, Rewards...

Cash rebates

Airline miles

Warranties for items purchased

Travel insurance

Additional Benefits

May charge additional fees or higher interest rates

Carefully evaluate if the benefits outweigh the cost

Would you be willing to pay higher/additional fees or higher interest rates to obtain credit card benefits? Explain.
Credit Cards
Advantages & Disadvantages

How many advantages can you think of?

How many disadvantages can you think of?
Credit Cards
Advantages & Disadvantages

- Convenient payment tool
- Useful for emergencies
- Often required to hold a reservation
- Able to purchase “big ticket” items and spread out payments
- Protection against fraud
- Opportunity to establish a positive credit history
- Online shopping is safer than using a debit card
- Possibility of receiving bonuses

- Interest can be costly when a balance is revolved
- Additional penalty fees may apply
- Tempting to overspend
- If not used responsibly, it will have a negative impact on your credit score
Credit Card Offers

Credit card issuers are required to disclose the terms and fees of credit cards in an easy to read box format.

Called the **Schumer Box**
Credit cards may charge many different types of interest rates

**Annual Percentage Rate (APR) for Purchases**

- Interest rate paid for purchases
- Multiple interest rates may be listed
  - final interest rate may depend on creditworthiness of applicant

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Introductory Rate

- **Introductory rate**: APR that may be charged (usually increased) after the introductory period ends
- Not all credit cards have an introductory rate

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How does credit worthiness impact APR?

It will influence if a person receives a credit card and the APR. APR will be higher if a person has a poor credit history.
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**Fixed vs. Variable-rate APR**

- **Fixed-rate APR:** cannot change during the period of time outlined in a credit card agreement
- **Variable-rate APR:** may change depending on other factors (such as economic conditions)

Would you prefer a fixed or variable rate credit card? Why?
Interest Rates and Interest Charges

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### How to Avoid Paying Interest on Purchases

Pay your bill in full by the due date

**Minimum Interest Charge**

Typically $0.50 - $2 per month
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Explore the Federal Reserve Board website

[www.federalreserve.gov/creditcard](http://www.federalreserve.gov/creditcard)

Identify three resources on this site that could help you in the future when it comes to managing your credit cards.
## Set-up and Maintenance Fees

- **Annual fee:** yearly fee that may be charged for having a credit card
- **Set-up fee:** fee for opening the account
- **Participation fee:** monthly fee for having the credit card
- **Additional card fee:** fee to have a second person on the account

### Why would a consumer choose a credit card with an annual fee?

**Benefits,** such as airline miles,* the card offers are of greater value to them.

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---

* How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)."

* Loss of Introductory APR: We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.
### Interest Rates and Interest Charges

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Percentage Rate (APR) for Purchases</strong></td>
<td>12.99%, 13.99% or 14.99%, introductory APR for one year, based on your creditworthiness. After that, your APR will be 14.99%. This is a variable-rate APR that will vary with the market based on the Prime Rate.</td>
</tr>
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<td>15.99%</td>
</tr>
<tr>
<td><strong>APR for Cash Advances</strong></td>
<td>21.99%</td>
</tr>
<tr>
<td><strong>Penalty APR and When it Applies</strong></td>
<td>28.99%</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td><strong>APR for Cash Advances</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Penalty APR and When it Applies</strong></td>
<td></td>
</tr>
</tbody>
</table>

- This APR will vary with the market based on the Prime Rate

### How to Avoid Paying Interest on Purchases
Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.

### Minimum Interest Charge
If you are charged interest, the charge will be no less than $1.50.

### For Credit Card Tips from the Federal Reserve Board
To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at [http://www.federalreserve.gov/creditcard](http://www.federalreserve.gov/creditcard)

### Transaction Fees
- **Balance transfer fees**
- **Cash advance fees**
- **Other**
**Interest Rates and Interest Charges**

<table>
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<td>21.99% This APR will vary with the market based on the Prime Rate</td>
</tr>
<tr>
<td><strong>Penalty APR and When it Applies</strong></td>
<td>28.99% This APR may be applied to your account if you:</td>
</tr>
<tr>
<td>1. Make a late payment;</td>
<td></td>
</tr>
<tr>
<td>2. Go over your credit limit;</td>
<td></td>
</tr>
<tr>
<td>3. Make a payment that is returned; or</td>
<td></td>
</tr>
<tr>
<td>4. Do any of the above on another account that you have with us.</td>
<td></td>
</tr>
<tr>
<td><strong>How long will the Penalty APR apply?</strong></td>
<td>If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.</td>
</tr>
<tr>
<td><strong>How to Avoid Paying Interest on Purchases</strong></td>
<td>Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.</td>
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<td></td>
</tr>
<tr>
<td><strong>Set-up and Maintenance Fees</strong></td>
<td></td>
</tr>
<tr>
<td>NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $250, initial available credit will be only about $209.</td>
<td></td>
</tr>
<tr>
<td>Annual Fee: $20</td>
<td></td>
</tr>
<tr>
<td>Account Set-up Fee: $20 (one-time fee)</td>
<td></td>
</tr>
<tr>
<td>Participation Fee: $12 annually ($1 per month)</td>
<td></td>
</tr>
<tr>
<td>Additional Card Fee: $5 annually (if applicable)</td>
<td></td>
</tr>
<tr>
<td><strong>Transaction Fees</strong></td>
<td></td>
</tr>
<tr>
<td>Balance Transfer: Either $5 or 3% of the amount of each transfer, whichever is greater (maximum fee: $100)</td>
<td></td>
</tr>
<tr>
<td>Cash Advance: Either $5 or 3% of the amount of each cash advance, whichever is greater</td>
<td></td>
</tr>
<tr>
<td>Foreign Transaction: 2% of each transaction in U.S. dollars</td>
<td></td>
</tr>
<tr>
<td><strong>Penalty Fees</strong></td>
<td>Late Payment: $29 if balance is less than or equal to $1000 OR $35 if balance is more than $1000</td>
</tr>
<tr>
<td></td>
<td>Over-the-limit: $29</td>
</tr>
<tr>
<td></td>
<td>Returned Payment: $35</td>
</tr>
</tbody>
</table>

**Penalty Fees**

Penalty fees in addition to Penalty APR

- **Late-payment fee**: charged when a cardholder does not make the minimum monthly payment by the due date
- **Over-the-limit fee**: charged if the account balance goes over the set credit limit
- **Returned payment fee**: applies if the cardholder does not have enough money to cover a payment.

*How We Will Calculate Your Balance: We use a method called “average daily balance (including new purchases).”*

* Loss of Introductory APR: We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.
### Interest Rates and Interest Charges

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<td>28.99%</td>
</tr>
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</table>

- This APR will vary with the market based on the Prime Rate

### How We Calculate Your Balance

Credit card companies use one of several methods to calculate an outstanding credit card balance.

**How We Will Calculate Your Balance:** We use a method called "average daily balance (including new purchases)."

**Loss of Introductory APR:** We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill.

**Fees**

- **Set-up and Maintenance Fees**
  - NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of $250, initial available credit will be only about $209.
  - Annual Fee: $20
  - Account Set-up Fee: $20 (one-time fee)
  - Participation Fee: $12 annually ($1 per month)
  - Additional Card Fee: $5 annually (if applicable)

- **Transaction Fees**
  - Balance Transfer: Either $5 or 3% of the amount of each transfer, whichever is greater (maximum fee: $100)
  - Cash Advance: Either $5 or 3% of the amount of each cash advance, whichever is greater
  - Foreign Transaction: 2% of each transaction in U.S. dollars

- **Penalty Fees**
  - Late Payment: $29 if balance is less than or equal to $1000 OR $35 if balance is more than $1000
  - Over-the-limit: $29
  - Returned Payment: $35
2.6.3.G1

Interest Rates and Interest Charges

<table>
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<td>28.99%</td>
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</table>

**How We Will Calculate Your Balance:** We use a method called “average daily balance (including new purchases).”

**Loss of Introductory APR**

If the card has an introductory rate, this area will list how the lower introductory rate can be lost.
Credit Card Chaos

Two credit card terms will be provided

Identify which term is true on your credit card offer

Move to the correct side of the room indicated by the arrow
Credit Card Chaos

Does your credit card offer have a:

Fixed-rate APR for Purchases

OR

Variable-rate APR for Purchases

Card 3 – 15.99%

Card 1 – 14.99%

Card 2 – 14.99%
Credit Card Chaos

Does your credit card offer have an Introductory Rate?

No Introductory Rate

OR

Introductory Rate

Card 2

Card 1 – 12.99-14.99% for one year
Card 3 – 11.99% for one year
Credit Card Chaos

Does your credit card offer have an:

APR for Purchases greater than or equal to 15%

OR

APR for Purchases less than 15%

Card 3

Card 1
Card 2
Credit Card Chaos

Does your credit card offer have a Minimum Interest Charge?

Minimum Interest Charge

<table>
<thead>
<tr>
<th>Card 1</th>
<th>$1.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Card 3</td>
<td>$2.00</td>
</tr>
</tbody>
</table>

OR

No Minimum Interest Charge

Card 2
Credit Card Chaos

Does your credit card offer have an **Annual Fee**?

**Annual Fee**

Card 1 - $20
Card 3 - $15

**OR**

**No Annual Fee**

Card 2
Credit Card Chaos

Does your credit card offer have a Balance Transfer Fee?

No Balance Transfer Fee

OR

Balance Transfer Fee

Card 3

Card 1 - $5 or 3%
Card 2 - $25 or 5%
Credit Card Chaos

Does your credit card offer have a Late Payment Fee?

Late Payment Fee

Card 1 - $29 if balance less than $1000 or $35 for balances greater than $1000
Card 2 - $30
Card 3 - $35

OR

No Late Payment Fee
How Do I Obtain a Credit Card?

Shop around

Compare credit card offers and determine which card best fits your needs

Complete a credit application

A form requesting information about a person’s ability to repay

Approval?

Applicant may or may not be approved (depends on creditworthiness)

If approved, review the final credit terms closely

Credit card companies send **pre-approved** credit card applications in the mail when the individual has passed the initial credit check
Obtaining a Credit Card

- You must be 21
- Or, have a co-signer
- Or, have proof of sufficient income to make payments

If a credit card is not managed responsibly, what impact does that have on a co-signer?
What is a Credit Card Statement?

It is important to review each monthly credit card statement closely!

Andrew’s Credit Card Statement
Please help Andrew interpret his credit card statement.
How much did Andrew charge in new purchases during this credit card billing cycle?  
$517.12
### Payment Information
- **Total new balance**
- **Minimum payment amount**
- **Date payment is due**

---

**What is Andrew’s minimum payment due for this billing cycle?**

**$53.00**

---

#### Summary of Account Activity

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Balance</td>
<td>$295.07</td>
</tr>
<tr>
<td>Payments</td>
<td>-$450.00</td>
</tr>
<tr>
<td>Purchases</td>
<td>$517.12</td>
</tr>
<tr>
<td>Balance Transfers</td>
<td>$+795.00</td>
</tr>
<tr>
<td>Cash Advances</td>
<td>$+318.00</td>
</tr>
<tr>
<td>Over Due Amount</td>
<td>-$0.00</td>
</tr>
<tr>
<td>Fees Charged</td>
<td>$+69.45</td>
</tr>
<tr>
<td>Interest Charged</td>
<td>$+11.36</td>
</tr>
<tr>
<td>New Balance</td>
<td>$1,786.00</td>
</tr>
</tbody>
</table>

---

#### Payment Information

- **New Balance:** $1,786.00
- **Minimum Payment Due:** $53.00
- **Payment Due Date:** 4/20/12

**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 APR’s may be increased up to the Penalty rate of 28.99%

**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...

<table>
<thead>
<tr>
<th>Only the minimum payment</th>
<th>8 years</th>
<th>$2,785</th>
</tr>
</thead>
<tbody>
<tr>
<td>$62</td>
<td>3 years</td>
<td>$2,232 (Savings=$553)</td>
</tr>
</tbody>
</table>

---

### Interest Charge Calculation

- **Annual Percentage Rate (APR)**
- **Balance Subject to Interest Rate**
- **Interest Charge**

<table>
<thead>
<tr>
<th>Type of Balance</th>
<th>Annual Percentage Rate (APR)</th>
<th>Balance Subject to Interest Rate</th>
<th>Interest Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>14.99%</td>
<td>$1,786.00</td>
<td>$253.32</td>
</tr>
<tr>
<td>Cash Advances</td>
<td>14.99%</td>
<td>$318.00</td>
<td>$47.40</td>
</tr>
<tr>
<td>Balance Transfers</td>
<td>0.00%</td>
<td>$1,786.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

---

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Funded by a grant from Take Charge America, Inc. to the Norton School of Family and Consumer Sciences. Take Charge America Institute at the University of Arizona.
Late Payment Warning
What will happen if a payment is late—usually additional fees and a higher interest rate

Minimum Payment Warning
Estimate of how long it can take to pay off balance if only minimum payment is made

How long will it take Andrew to pay off the balance of his credit card if he only pays the minimum payment?

8 years
Notice of Changes to Your Interest Rates

Yes, he will pay 28.99% on all transactions made after 4/9/12.

Has Andrew triggered the Penalty APR?

Yes, he will pay 28.99% on all transactions made after 4/9/12.
Important Changes to Your Account Terms

- Must be notified of any significant changes
- Any changes can only apply to new charges
- Account can be closed before the changes go into effect

Other than implementation of the Penalty APR, will there be any other changes to Andrew’s account terms?

Yes, his APR for Purchases is increasing to 16.99%
**Transactions**
- List of all transactions since the last statement
- Should be reviewed for errors

**Fees and Interest Charged**
- Fees and interest charges must be listed separately

---

**Does Andrew owe a late fee?**
Yes, he owes a $35.00 late fee
Year-to-Date Totals
Total amount paid in fees and interest charges for the current year

What is the total amount of interest Andrew has paid in the year 2012?
$18.74

Interest Charge Calculation
Summary of the different types of transactions

Why is it important to understand how to read a credit card statement?

---

Interest Charge Calculation

<table>
<thead>
<tr>
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<th>Balance Subject to Interest Rate</th>
<th>Interest Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>14.99%</td>
<td>$533.32</td>
<td>$6.57</td>
</tr>
<tr>
<td>Cash Advances</td>
<td>21.99%</td>
<td>$265.00</td>
<td>$4.79</td>
</tr>
<tr>
<td>Balance Transfers</td>
<td>0.00%</td>
<td>$575.67</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th>Annual Percentage Rate (APR)</th>
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<th>Interest Charge</th>
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<td>$265.00</td>
<td>$4.79</td>
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<tr>
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<td>0.00%</td>
<td>$575.67</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

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Transactions

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Trans Date</th>
<th>Post Date</th>
<th>Description of Transaction or Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX1</td>
<td>2/22</td>
<td>2/23</td>
<td>Store #1</td>
<td>$535.07</td>
</tr>
<tr>
<td>XXXX2</td>
<td>2/25</td>
<td>2/25</td>
<td>Payment</td>
<td>$450.00</td>
</tr>
<tr>
<td>XXXX3</td>
<td>2/26</td>
<td>2/26</td>
<td>Cash Advance</td>
<td>$318.00</td>
</tr>
<tr>
<td>XXXX4</td>
<td>2/27</td>
<td>3/11</td>
<td>Balance Transfer</td>
<td>$785.00</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Reference Number</th>
<th>Trans Date</th>
<th>Post Date</th>
<th>Description of Transaction or Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX5</td>
<td>2/23</td>
<td>2/23</td>
<td>Late Fee</td>
<td>$35.00</td>
</tr>
<tr>
<td>XXXX6</td>
<td>2/27</td>
<td>2/27</td>
<td>Balance Transfer Fee</td>
<td>$23.55</td>
</tr>
<tr>
<td>XXXX7</td>
<td>2/28</td>
<td>2/28</td>
<td>Cash Advance Fee</td>
<td>$10.90</td>
</tr>
</tbody>
</table>

Total Fees for this Period $69.45

Interest Charged

- Interest Charge on Purchases $6.57
- Interest Charge on Cash Advances $4.79

Total Interest for this Period $11.36

---

2012 Totals Year-to-Date

Total fees charged in 2012 $90.14
Total interest charged in 2012 $18.74

---

New Balance $1,786.00
Previous Balance $575.07
Minimum Payment $35.00
Past Due Amount $450.00
Balance Transfer Fee $23.55
Cash Advance Fee $10.90
Late Fee $35.00
Payment $535.07
Balance Transfer $2,000.00
Cash Advance $1,786.00
New Balance $533.32
Previous Balance $533.32
Minimum Payment Warning

---

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:

- As of 5/10/12, the Current APRs will continue to apply to these transactions.
- If you are already being charged a higher Penalty for purchases, the Penalty APR will apply to these transactions. We may keep those transactions as well.
- If you make no additional transactions made before 4/9/12: the APR at this level indefinitely.
- If you make no additional transactions made on or after 4/9/12: the APR will apply to these transactions.

<table>
<thead>
<tr>
<th>Type of Balance</th>
<th>Previous Balance</th>
<th>Minimum Payment Warning</th>
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<tr>
<td>Purchases</td>
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Interest Charged

- Interest Charge on Purchases $6.57
- Interest Charge on Cash Advances $4.79

Total Interest for this Period $11.36

---

Types of Balance:

- Balance Transfers
- Cash Advances
- Purchases

---

Notice of Changes to Your Interest Rates

- Days in billing cycle
- Statement closing date
- Available credit
- New Balance
- Fees Charged
- Past Due Amount
- Cash Advances
- Balance Transfers
- Purchases
- Payments

Transactions made before 4/9/12: the APR at this level indefinitely.
Transactions made on or after 4/9/12: the APR will apply to these transactions.

---

Interests Charges for the current Year

- Current rates will go into affect at this time. These changes will go into effect when the Penalty APR no longer applies to your account.
- If you make no additional transactions made before 4/9/12: the APR at this level indefinitely.
- If you make no additional transactions made on or after 4/9/12: the APR will apply to these transactions.

---

<table>
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<tr>
<th>Transaction</th>
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<tr>
<td>Store #1</td>
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Be Andrew’s Financial Advisor

Andrew has come to you and voiced his concerns about having a credit card. He is considering getting rid of his credit card.

As a “financial advisor,” you understand that credit cards are financial tools that can be used or abused.

What three pieces of advice will you give Andrew?
Summary

To avoid paying interest on a credit card, pay the balance in full every month.

A credit card can have a positive or a negative impact on credit history.

Credit card companies are required to disclose the terms and fees of a credit card.

If you apply for credit and are approved, be sure to review the final credit terms offered.

Credit card statements outline important information about a credit card and should be checked carefully for errors.