Unit 8:

Credit Cards and Shopping Online

Personal Financial Literacy

Objectives

- Compare costs and benefits of using credit cards.
- Analyze differences among credit cards, and the importance of comparison shopping for a credit card.
- List fees associated with credit cards.
- Discuss the importance of paying off a credit card on or before the payment due date.

Objectives - Continued

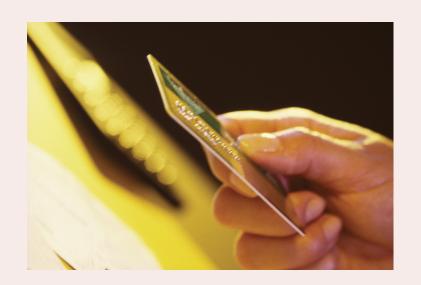
- Select from a list benefits of online shopping.
- List ways to protect yourself when shopping online.

Credit Card Benefits

- Good option when paying for something that will go up in value
- Can take advantage of sales and special offers
- Convenience; don't have to carry around large sums of money
- Bonus points, cash rebates
- Establish a consumer's credit rating

Credit Card Benefits - Continued

- Simplify recordkeeping with statements
- Credit card company can help with refunds; limits liability
- Can use goods and services while paying for them
- Available for emergency situations



Credit Card Costs

- Can become a habit
- Contribute to impulse buying
- Pay more for items than you would with cash if you don't pay them off each month
- Late or missed payments damage credit rating
- Credit problems lead to higher interest rates

Credit Card Costs - Continued

- May spend more than you earn
- Encourage overspending
- Tie up future income
- Danger of credit card fraud
- Identity theft



Types of Credit Cards

- 30-day cards
- Affinity card
- Co-branded card
- Prestige-status card
- Smart card



Interest Rates

- Annual Percentage Rate or APR
- Applied to unpaid balance as part of finance charge
- No interest on new purchases during the grace period
- After grace period, finance charges apply based on accrued interest from the day of purchase

Universal Default Clause

Things that can raise interest rate:

- Late credit card or bill payment
- Getting a new mortgage or car loan
- Going over credit limit on or using over half of credit line
- Too many credit accounts
- Applying for credit
- Too much debt

20/10 Rule

- Total credit card debt Don't exceed 20% of annual take-home pay.
- Monthly debt payments 10% or less of monthly take-home pay.

Online Shopping Advantages

- Place orders without leaving home
- Shop any time of day
- Compare selection and prices
- Find products that aren't available locally
- No sales taxes at time of purchase
- No aggressive salespeople or crowds to deal with
- No worries about parking; saves gas

Online Shopping Disadvantages



- Can't inspect items before buying
- Wait for delivery
- Must add cost of shipping and handling
- Encourages impulse buying
- Difficult to determine reliable sellers
- Security issues can put credit card information at risk

Online Security

- Physical address, phone number
- Privacy policy
- Return and refund policy
- Read product descriptions
- Avoid phishing sites
- Lock icon
- Https

Online Payments

- Terms of agreement
- Privacy policy and security
- Beware of payment service website that looks unprofessional or is based in another country.
- Call payment service to verify online identify
- Pay by credit card

Online Payments - Continued

- Know total cost
- Save copy of receipt
- Don't allow website to save credit card number



Online Shopping Disadvantages

- Lack of individual customer service
- Can affect the local economy adversely
- Returns may be more of a hassle, and sometimes include shipping costs

Unit Review

- 1. Explain the concept of "borrowing to spend."
- Distinguish between credit card credit and vehicle loan credit.
- 3. How are people encouraged to use credit cards?
- 4. Compare and contrast the advantages and disadvantages of using credit cards.
- 5. Explain the difference between private label cards and general purpose cards, giving an example of each.

Unit Review - Continued

- Name at least three types of general purpose of credit cards.
- 7. Describe how credit card interest rates work.
- 8. How can you avoid paying interest when you use a credit card?
- 9. What is the problem with only paying the minimum payment on monthly credit card statements?
- 10. What are some of the factors to consider when shopping for a credit card?

Unit Review - Continued

- 11. Explain how credit card companies use incentives, and is this a good practice?
- 12. Describe fees associated with credit cards.
- 13. Discuss why people like to shop online.
- 14. Describe some of the disadvantages of shopping online.
- 15. What factors are important when shopping online?

Unit Review - Continued

- 16. How can you tell if you're shopping at a secured site?
- 17. Discuss the credit changes required by the CARD Act.

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