
Practical Money Skills Workbook

Smart Tips for Better Money Management



Getting Started

Whether you are just starting out on your own or you've been managing your own money for years, basic budgeting, saving and credit skills can help you gain control over your financial future. This workbook is designed to help you learn basic budgeting skills and understand how financial services and products work so you can manage your money with confidence.

The earlier you start using good money management practices, the easier it will be to stick with them and the more positive impact you'll have on your financial future. This workbook provides an opportunity to become better at managing your money starting today, so you can enjoy life, free of undue financial stress.

That's why Visa has put together this program. We want you to understand the basics of managing money wisely. Our hope is that after you complete this workbook, you'll have a better understanding of living within a budget, the nuances of banking and how to handle credit responsibly — skills that can help you create a more secure financial future.

Table of Contents



Budgeting Basics	2
Mastering Your Money	2
Making a Plan	5
Monthly Expense Tracker	6
Balancing Your Budget	8



Online and Mobile Banking	10
Your Money and Online Banking	10
Cashless Payments	12



Checking Account	14
Getting Started: Banking Options	14
Good Record-Keeping	17



Debit Cards	18
Debit Versus Credit: What's the Difference?	18
Things to Remember	19



Savings Account	20
Saving for a Rainy Day	20
Savings Worksheet	21



Understanding Credit	22
What is a Credit Score?	22
How to Improve Your Score	24
Credit Cards – Know Your Limit	25
Take Care with Credit	28

Test Yourself	32
Glossary of Terms	34
Online Resources	Back Cover

Budgeting Basics



Mastering Your Money

In order to manage your money, you need to have a plan. That is why creating a budget, and sticking to it, is a critical foundation for financial order and stability. By tracking your income and expenses, you will be better able to distinguish between needs and wants and ensure that you're living within your means.

Know Your Income

The first step in this process is to know how much you make, including your salary, wages and tips. Figure out how much you have coming in each month and use the chart below to track your monthly income. Make sure to include only income you can count on — no gifts or bonuses.

Income	Estimated Amount	Actual Amount
Income #1		
Income #2		
Other Income		
Total		

Total Income



Tip: You can track your expenses using personal finance budgeting apps, which make budgeting more convenient than ever.

Tracking Your Expenses

Tracking your expenses is another key step toward financial responsibility. To begin, get receipts or take note of everything you spend over the month and record it weekly in the Budgeting Worksheet on page 9. Many people are surprised how unplanned purchases can add up. By making a habit of tracking your expenses, you can see where your money is going, curb unnecessary spending and increase your savings.

Six Saving Ideas

If you find you are spending more than you make, now is the time to start spending less and setting aside more. Here are a few of the many ways you can save.

- > **Pay yourself first:** Determine a set amount of money to put away every month and treat it like any other bill. Put away part of every paycheck — ideally at least 10-15% — and watch your savings grow.
- > **Save on food:** Plan out the week's meals with your budget in mind. Try making dishes that rely on the same staples to save on your grocery bill. Just make sure to mix things up so you won't get bored; this could make you more likely to splurge on eating out.
- > **Reconsider coffee:** That daily coffee run could be costing you over \$850 per year, not including tip. Cutting back on these small daily expenses or purchasing an inexpensive coffee maker could help you save in the long run.
- > **Save your windfalls:** Did you receive an unexpected bonus at work, an inheritance or a tax refund? Instead of depositing the money into your checking account where you may be likely to spend it, put some or all of it into your savings account for safe keeping.
- > **Visit your local library:** Save money by borrowing books from your library instead of buying them. Most libraries have e-books and movies you can stream online so you don't even have to leave home to enjoy them.
- > **Weatherproof your home:** Visit your local hardware store to buy supplies to fix drafty windows that may be letting warm air out in the winter and cool air out in the summer, a factor that could be impacting your utilities bill.
- > **Share living expenses.** Living with a roommate is a great way to cut monthly costs in half.
- > **Get the best rates.** Compare costs from different insurance companies to ensure you're getting the best rate.
- > **Plan for big expenses.** Try to put money aside when you know big expenses, like holiday gifts, a car repair or a family trip, are coming up.
- > **Use credit wisely.** Carefully consider how quickly you can pay off purchases before using credit, as high monthly payments can take a toll on your budget.

Budgeting Basics



Consider sharing living expenses with a roommate. It's a great way to cut monthly costs in half.

Compare costs from different insurance companies.

Make a list before shopping for groceries. It will help you avoid pricey impulse buys.

Use credit cards with care. High monthly payments can impact your budget.

Making a Plan

Track your expenses for a month with the worksheet on pages 6 and 7. Look at all of your expenses by category, estimate your monthly income, see what you've spent and make a spending plan for the coming month. Tracking your expenses will allow you to compare your discretionary purchases (items you want) to non-discretionary purchases (items you need) so you can cut back on unnecessary spending and increase your savings. (See example on the opposite page.)

Make sure to balance your budget every month to ensure you're not spending more than you're making. If you find you're spending too much on discretionary purchases like entertainment or clothes, you can cut back the next month. Keep in mind that non-discretionary expenses, like housing and utility bills, will take a little more planning to reduce. If you find the process difficult at first, don't worry. A personal budget is a work in progress, and spending within your budget will soon become second nature.

Budgeting to Meet Your Goals

- > Prioritize your savings goals. Consider what you would like to achieve financially, whether it's making a down payment on a house, going on a summer vacation or paying off your credit card debt.
- > Set short-term, medium-term and long-term goals. Short-term goals, like setting up an emergency fund, require less than six months to achieve; medium-term goals, like buying a car, take six months to a year; and long-term goals, like saving for retirement, take longer than a year.
- > Consider what you need to do in order to accomplish these goals within your projected time frame. You can set monthly savings goals to help you work towards your end goal over time.

Budgeting Apps

Consider looking into free budgeting apps, which allow you to link your bank account and separate your expenses into different categories like rent, loans, groceries and entertainment costs. You can set a budget for each category to keep your expenses organized and controlled.

Monthly Expense Tracker

Expenses	Week 1	Week 2	Week 3	Week 4	Monthly Total
Living					
Rent	\$750				
Utilities	\$50				
Cable					
Cell Phone		\$80			
Internet			\$50		
Furnishings	\$35				
Misc.					
Total	\$835	\$80	\$50	\$25	\$990
Transportation					
Car Payment			\$350	\$25	
Insurance		\$40			
Fuel	\$30	\$45	\$36	\$38	
Parking					
Repairs					
Public Transportation			\$120		
Misc.				\$15	
Total	\$30	\$85	\$506	\$53	\$674
New Parents					
Childcare	\$500		\$500		
Clothing		\$60			
Food	\$35	\$50	\$45	\$65	
Healthcare					
529 Plans					
Total	\$535	\$110	\$545	\$65	\$1,255

Expenses	Week 1	Week 2	Week 3	Week 4	Monthly Total
Medical					
Doctor					
Dentist					
Eyes					
Insurance	\$300				
Prescriptions					
Misc.				\$15	
Total	\$300			\$15	\$315
Personal					
Entertainment	\$25				
Clothing				\$32	
Laundry		\$45			
Toiletries	\$10	\$5		\$6	
Misc.				\$12	
Total	\$35	\$50		\$50	\$135
Food					
Groceries	\$35	\$42		\$51	
Dining Out	\$53	\$46		\$38	
Snacks					
Misc.					
Total	\$88	\$88		\$89	\$265
Loans					
Credit Cards	\$50				
Savings				\$175	
Misc.					
Total	\$50			\$175	\$225

Budgeting Basics



Monthly Expense Tracker

	Expenses	Week 1	Week 2	Week 3	Week 4	
Living	Rent					
	Utilities					
	Cable					
	Cell Phone					
	Internet					
	Furnishings					
	Misc.					Monthly Total
	Total					
Transportation	Car Payment					
	Insurance					
	Fuel					
	Parking					
	Repairs					
	Public Transportation					Monthly Total
	Misc.					
New Parents	Total					
	Childcare					
	Clothing					
	Food					
	Healthcare					Monthly Total
	529 Plans					
	Total					

	Expenses	Week 1	Week 2	Week 3	Week 4	
Medical	Doctor					
	Dentist					
	Eyes					
	Insurance					
	Prescriptions					Monthly Total
	Misc.					
	Total					
Personal	Entertainment					
	Clothing					
	Laundry					
	Toiletries					Monthly Total
	Misc.					
	Total					
Food	Groceries					
	Dining Out					
	Snacks					Monthly Total
	Misc.					
	Total					
Other	Loans					
	Credit Cards					
	Savings					Monthly Total
	Misc.					
	Total					

Budgeting Basics



Balancing Your Budget

Once you get in the habit of tracking your expenses, you're ready to start balancing your budget. Take a look at how much you're spending every month in each category. This will give you a clear picture of where your money is going, so you can see whether you're making more than you're spending. Balancing your budget can also help you reduce your spending in one category to cover upcoming needs or wants in another. For example, if you anticipate needing a repair made to your car, you can cook at home a few more nights a week instead of eating out in order to pay for the repair without exceeding your budget. You can also consider getting an extra source of funds, like taking on a side gig in your spare time, to supplement your income so you can cover extra expenses without compromising your budget.

Budgeting Worksheet

This budget worksheet will help you set up your personal budgeting system. Enter your estimated income and expenses in the first column. After a month, compare the totals to your actual expenses and income. How far off were you? If you're spending beyond your means, make adjustments and track your spending again the next month.



Tip: Set aside 15 minutes each week to make sure that your expenses are matching up with your online bank statement and that your budget is on track.

Income	Estimated Amount	Actual Amount
Income #1		
Income #2		
Other Income		
Total		

Total Income

Expenses	Estimated Amount	Actual Amount
Living		
Transportation		
New Parents		
Medical		
Personal		
Food		
Other		
Total		

Total Expenses

Total Income		Total Expenses		Net Income	
	—		=		

To use our online Budget Planner,
visit practicalmoneyskills.com/reworkbudget

Online and Mobile Banking



Your Money and Online Banking

Online and mobile banking are convenient and valuable because they can help keep you aware of your spending with just a few clicks. Just remember that it's important to keep track of debits and deposits that may not have cleared yet on your online banking statement. You can also use peer-to-peer payment service apps, which allow you to make fast, easy, cashless transactions with friends and others. For example, you can pay back a friend for lunch or pay for a babysitter — all without a trip to the ATM or waiting for a check to clear. All of these tools help you keep a closer eye on your money, which is great for both budgeting and security. Although today's financial institutions have sophisticated fraud protection services; the more you stay on top of your daily transactions, the faster you can identify any suspicious activity.

Bill Pay

With online banking, it's easier to schedule and pay bills on time, and to track your expenses quickly and efficiently. You can easily list payees such as your landlord, phone provider or insurance company. By identifying your payee name, address and account number (if applicable), you can send payments from your account almost instantaneously. If you choose to, you can set up your account so bills are paid automatically at a predetermined date or so a reminder will be sent to you when a payment is due. Many banks will have your bills sent to you online depending on whether or not the payee offers electronic billing.

Bill tracking apps allow you to link your bank account to pending bills so that you can pay your landlord or utility vendors with ease. You can pay your bills directly from the app to avoid late fees and stay organized.

Statements

Another useful feature is the ability to view your statements online, including past statements. It's convenient, paperless and it deters mail fraud and identity theft.

Funds Transfer

One of the best qualities of online banking is that it allows you to transfer funds electronically, which eliminates the risk of someone stealing your checks from the mail. You can transfer money between your personal accounts and outside accounts, such as car loans, credit cards and sometimes other contacts' accounts — like your landlord's. It may also allow family members and others to send you money instantly. While there are many apps and payment services on the market, utilizing your bank's services is convenient and safe.

You can also use automatic funds transfers to help you save more. This service allows you to automatically transfer a portion of your paycheck or checking account balance into a savings account or investment fund each pay period or month. You can typically set this up online, at your local branch or by using an investment savings app.



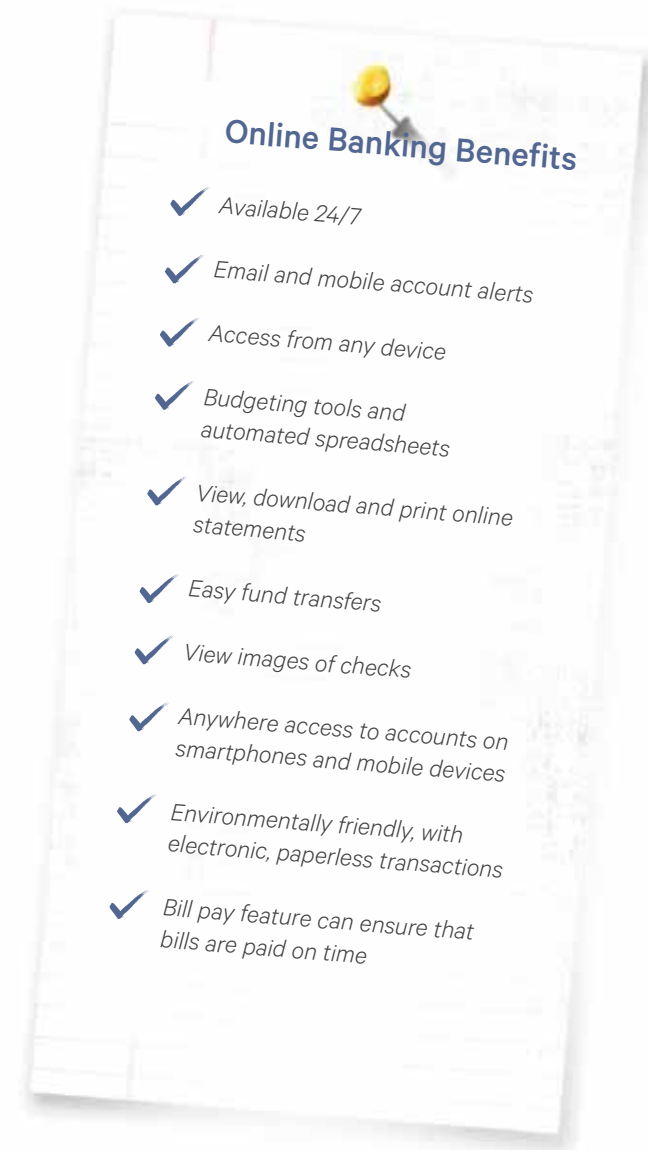
Online and Mobile Banking



Cashless Payments

Cashless transactions offer a convenient, safe and fast way to pay. Common ways to make electronic payments include digital wallets, wearables like smart watches and online payments systems for digital money transfers and other transactions; these serve as an electronic alternative to paper methods like cash and checks. A digital wallet, for example, allows you to make cashless payments from your card through your phone. More and more stores are beginning to accept payments like these.

Cashless payments are often made via mobile transaction. For example, you can place a mobile order before ever reaching a store or send gifts to friends and family from your smartphone. With contactless credit and debit cards, you can tap your card at a store's checkout terminal, your card is scanned and you get confirmation that the transaction is complete via a beep, checkmark or green light. There is no fumbling with cash or waiting for change. You can also choose the way you pay, whether it's with a contactless card, payment-enabled phone, smart watch or other device.



Online Banking Benefits

- ✓ Available 24/7
- ✓ Email and mobile account alerts
- ✓ Access from any device
- ✓ Budgeting tools and automated spreadsheets
- ✓ View, download and print online statements
- ✓ Easy fund transfers
- ✓ View images of checks
- ✓ Anywhere access to accounts on smartphones and mobile devices
- ✓ Environmentally friendly, with electronic, paperless transactions
- ✓ Bill pay feature can ensure that bills are paid on time

Checking Account



Getting Started: Banking Options

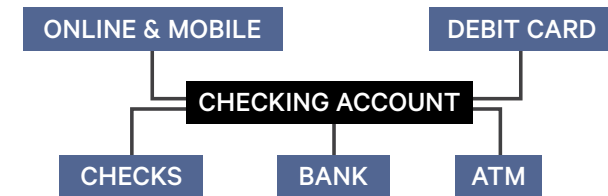
To open a checking or savings account, you can apply online or visit a bank or credit union's branch. Once your account is opened, you'll be able to enroll in online banking via the bank or credit union's website and use your login information to download and start using the mobile banking app. It's a good idea to comparison shop across financial institutions and look for minimal fees and the best interest rates on savings, as well as all the tools and technology that suit your needs.

Checking Account Checklist

- ✓ Balance your account monthly
- ✓ Know your schedule for automatic transactions
- ✓ Keep track of fees
- ✓ Look out for security features
- ✓ Report suspicious activity immediately

About Checking and Savings Accounts

The building blocks of budgeting and online banking are your checking and savings accounts. Before you open accounts, it's important to understand why they exist and how they work. Your checking account is the central hub for your money and allows you to access funds in several different ways: with checks, ATMs, your debit card, at banks and via online banking. Your savings account, which can also be accessed with your debit card or at your banking center, is a great place to save for a rainy day or future expenses, like a car or house.



Check Safety and Security

If you are going outside of your bank or credit union to get checks printed, make sure you do your homework on a third-party check provider. A reputable check printer offers security features built into the check. Items to look for are a padlock icon on the printer's website to the left of the web address, micro printing, a security screen and warning boxes that appear on the front and back of the check. Do not put private information on checks like your Social Security Number, your driver's license number or any unnecessary personal data.

Checking Account



Writing a Check

While you may not need to use checks often, knowing how to write one is an important skill. When you write a check, funds won't be debited from your account until the payee cashes or deposits the check. For this reason, it's important to keep track of any checks you write so that you don't accidentally overdraw your account. Most mobile banking apps will allow you to photograph and upload the check for deposit.



Good Record-Keeping

Part of responsible financial management is good record-keeping, and with automated bill payments, this is fast and easy. Your online account is a great organizational tool, but it can be just as important for you to keep a hard or digital copy of your finances for your own day-to-day records and budgeting purposes. Once you get in the habit of tracking expenses, it should be easier to monitor any outstanding checks you may have written, in addition to monthly automatic payments or other pending payments.

A problem many people experience at some point in their lives is overdrawing their account. Every time you overdraw, you incur an insufficient funds fee. One way to avoid this is to stay on top of your account balance and keep good records. You can also link your checking account to other accounts, such as a savings or credit account, for overdraft protection. With this in place, money will be automatically transferred from your savings or credit account if you don't have enough money in your checking account to cover a check or withdrawal.



Debit Cards



Debit Versus Credit: What's the Difference?

A debit card looks similar to a credit card whether you are presenting it for payment or using mobile banking services. It offers a lot of the same features as a credit card, but it's different in a few important ways. One difference is where the money is withdrawn from when you purchase something. A debit card is tied directly to a checking account, so when you make a purchase with that card, money is withdrawn from your account. When you use most credit cards to purchase goods or services, the charge is made to a line of credit by the company that issued the card. One exception is secured or prepaid credit cards, which require you to make an initial deposit and allow you to spend only up to 100% of the deposit amount.

While most credit cards allow you to purchase now and pay later, debit card transactions are paid instantly, not in the future. When you get your monthly credit card bill, you pay back a portion or all of it. While credit cards have a limit on how much you can borrow, debit cards generally only let you access the amount of funds available in your account.

Many of the same features and protections offered by credit cards are also offered by debit cards. One example is zero liability, which means you are generally not liable for unauthorized purchases on your debit card if you notify your financial institution right away.

Note that different types of debit card transactions may be processed differently. Some debit your account within 24 hours, while others may take two to three days.

Using your debit card, cash, check or a secured credit card for most purchases can be a good way to stay financially responsible as it can keep you from making impulse buys. Credit cards are a convenient way to pay and can be a useful way to build credit, but it is best to use them for budgeted purchases you can pay off immediately.

**To learn more about debit cards,
visit practicalmoneyskills.com/debitcards**

Things to Remember

How to use your debit card wisely:

- > Look for the symbol of a processing network that indicates your card will be accepted.
- > Create a Personal Identification Number (PIN) that won't be easy for others to guess. Avoid basing your PIN on the obvious — your name, address, phone number or birth date.
- > Keep your PIN private and memorize it. Don't write it down (especially on the card) and don't tell it to anyone.
- > Know your current account balance. With overdraft protection, available funds will be automatically transferred from the linked account to cover purchases in the event you don't have enough funds in your checking account. This can help you prevent returned checks, declined purchases and related fees. Just note that even if you have overdraft coverage, bouncing a check will cost you in the form of overdraft fees.
- > Some debit cards have transaction fees — check your cardholder agreement.
- > When you get receipts, keep them somewhere secure or dispose of them carefully, as they contain information a thief could use to make fraudulent purchases using your account. When it comes to financial documents such as property records, keep them indefinitely. As for ATM receipts, deposit slips and bank statements, these can be shredded monthly or annually.
- > Keep track of your transactions online or on mobile devices. Remember to track any debit card fees that may apply (like when you use another bank's ATM).
- > Report lost or stolen cards to your bank immediately.

Savings Account



Saving for a Rainy Day

Another key element of your financial plan is a savings account. Think of this account as a place where you'll keep your money long term and give it a chance to grow. While your checking account is continually fluctuating in size, your savings account should be stable, if not growing at a steady rate. Earlier in the workbook, we mentioned budgeting or planning to set aside 10 to 15% of your income for savings every time you get paid. If you're not able to save this much, consider setting aside funds that are realistic for your budget, or adjust your spending to free up more for savings. Remember that the more you set aside, the more interest you earn, and the more your money grows. In addition to your overall savings, it's a good idea to set aside money for emergencies. This is called an emergency fund, and it's meant to cover unplanned expenses related to illness, a layoff or another unplanned event. Experts say it's smart to build and maintain an emergency fund with three to six months' worth of living expenses, so begin building yours with that amount in mind.

Compound Interest

Savings accounts typically earn compound interest. Compounding means that whenever interest is calculated, it is based not only on the original amount in the account but also on any interest that has accumulated. The more frequently interest is compounded, the faster the balance grows. The yearly rate at which interest is compounded is referred to as the Annual Percentage Yield (APY). The APY measures the total amount of interest paid on an account based on the interest rate and the frequency of compounding. Banks must provide account disclosures for new accounts that reflect the APY.

Simple Interest

Simple interest is based only on the original amount. If you have an account with \$100 in it and it earns 2% simple interest per year, it earns \$2 interest. Multiply the dollar amount by the interest rate to get the annual return. By the end of three years, you will have earned \$6 in interest for a total of \$106. Although it's extremely rare, you may come across accounts with simple interest as you grow older and your investments diversify.

Rule of 72

The Rule of 72 can give you an approximation of how long it will take to double your money at a specified interest rate. If you're earning 2% compound interest, divide 72 by 2. That means it will take about 36 years for your original investment to double in value at a 2% interest rate.

Savings Worksheet

1. If you put \$200 in a savings account that paid 2% simple interest each year, how much interest would you earn in five years?

2. If you put \$150 in a savings account that paid 1.5% compounded yearly, how much interest would you earn in five years?

3. If you put \$25 each month into a savings account that paid a simple interest rate of 1.8% each year, how much would you have in your account at the end of two years?

4. If you put \$10 each week into a savings account that paid 2.2% interest compounded yearly, how much money would you have in your account after three years? (Hint: Use the *How Will My Savings Grow?* calculator on practicalmoneyskills.com).

$$1 \text{ } \$200 \times 0.02 = \$4$$
$$\$4 \times 5 = \$20$$
$$2 \text{ } \$159$$
$$\$150 (1 + 0.015/1)^1 = \$152.25 \text{ (after 1 year)}$$
$$\$152.25 (1 + 0.015/1)^2 = \$154.53 \text{ (after 2 years)}$$
$$\$154.53 (1 + 0.015/1)^3 = \$156.85 \text{ (after 3 years)}$$
$$\$156.85 (1 + 0.015/1)^4 = \$159.20 \text{ (after 4 years)}$$
$$\$159.20 (1 + 0.015/1)^5 = \$161.59 \text{ (after 5 years)}$$

$$3 \text{ } \$605.40$$
$$\$300.00 (1 + 0.018) = \$305.40 \text{ (after 1 year)}$$
$$\$305.40 + \$300.00 = \$605.40 \text{ (after 2 years)}$$
$$4 \text{ } \$1629.65$$
$$\$10 \times 52 = \$520$$
$$\$520 (1 + 0.022/1)^1 = \$531.44 \text{ (after 1 year)}$$
$$\$531.44 + \$520 = \$1051.44$$
$$\$1051.44 (1 + 0.022/1)^3 = \$1074.57 \text{ (after 2 years)}$$
$$\$1074.57 + \$520 = \$1594.57$$
$$\$1594.57 (1 + 0.022/1)^3 = \$1629.65 \text{ (after 3 years)}$$

Answers for the savings account worksheet

Understanding Credit



What is a Credit Score?

If you haven't started to build your credit already, now is a good time. You can do this by taking out a loan or credit card in your name. The loan can be for a car, a home, a credit card or a personal loan. Your performance in paying back these loans, and your other bills in your name, will determine how your credit is graded — this grade is called your credit score.

Credit reporting companies calculate scores in different ways, but all use a complex mathematical model to take certain factors into account. Your score changes over time to accurately reflect your current financial behavior. Credit reports contain your credit history, including things like debts, bankruptcies, unpaid bills and credit card use.

These Things Affect Your Credit Score and Report:

- > Your repayment track record
- > The amount of debt you have
- > How long you've used credit
- > How often you've applied for new credit
- > The types of credit you currently use
- > New credit

What's a Good Credit Score and Why Is It Important?

In simplest terms, a credit score is a number that helps lenders determine how likely you are to repay your debt. The higher the number, the better the score. Credit scores are based solely on credit history and don't take into account things like race, religion, national origin, gender, age, education or marital status — just numbers.

Your credit score is fluid. Every time you apply for, use, make or miss a payment on a loan or credit card, you build another entry on your credit report, which in turn raises or lowers your credit score. The best way to have an excellent credit score is to start out paying every bill on time, every time. After you open your account and use it regularly, only borrow as much as you can pay back. Here are the three ranges for credit scores, to help you know where you stand and where you want to be.



When Does Your Credit Score Matter?

- > **Buying a car or home:** Lenders may look at your credit score before deciding whether you are a good risk for a car loan or home mortgage — or how much interest to charge if they give you the loan.
- > **Opening phone or utility accounts:** Utility companies may check your credit score before deciding whether you have to pay a deposit.
- > **Renting an apartment:** Landlords may check your credit report before deciding whether to rent to you.
- > **Applying for a job:** Employers typically run a credit check before making a decision about whether to hire you — a good credit report demonstrates responsibility.

How is Your Score Determined?

- > **35% Payment history**
Whether you pay bills on time and have recently missed any payments.
- > **30% How much you owe**
This includes your debt balance and the ratio of your debt to your credit limit.
- > **15% Types of credit**
Which credit cards you use and types of loans you carry are important factors in determining your credit score.
- > **10% New accounts**
If you open too many new accounts in a short period of time, it can have a negative impact on your score.
- > **10% Length of credit history**
The amount of time you've had credit will play a part in your score.

Understanding Credit



How to Improve Your Score

All the factors contributing to good credit make it seem like a complex math equation. Here are some common-sense guidelines to establishing and maintaining a good credit score.

> Establish a good credit record.

Open a credit account in your name and use it wisely. Limit the number of credit card accounts and loans that you take out. If you find yourself in financial trouble, consider contacting a debt counseling agency; just verify that it is a member of the National Foundation of Credit Counselors, the nation's largest national nonprofit credit counseling network.

> Be sure to make monthly payments on time.

If you miss the due date on a payment, send it as soon as possible. You'll incur penalties after the interest-free period has expired, and the longer your payment is overdue, the more your credit score will be affected.

> Avoid running up the balance on your credit card.

Use your credit sparingly, and keep well within the credit limit on the account. Most financial experts recommend not using more than 30% of your available credit, if possible.

> Pay off card balances instead of moving debt to other cards.

Opening new accounts you don't need can lead to more debt, and too many open accounts may lower your credit score.

> Finally, check your credit report regularly to make sure it is error-free.

You can get one free credit report each year from each of the three major credit bureaus (Equifax, Experian and TransUnion). Visit annualcreditreport.com to get yours today.



Tip: It's important to remember that your credit score is going to determine what kind of interest rates you'll be offered when you apply for loans or credit cards.

Credit Cards – Know Your Limit

When you are entrusted with a credit line, you can spend money you may not have earned yet. Using your card responsibly shows that you know how to manage money and puts you on the road to building a solid credit history.

Consider a Secured Credit Card Account

If you're opening your first credit card account or you're trying to rebuild a damaged credit score, a secured credit card account could be a good option. The main advantage of a secured credit card is that you cannot use it to spend outside your means. You are required to make an initial deposit to open a secured card, and after that you will only be able to spend up to 100% of that deposit amount.

What will your loan really cost?			
Loan Amount	\$50,000.00	\$50,000.00	
Annual Percentage Rate	7.5%	8.5%	+1%
Monthly Payment	\$600	\$600	
# of Months to Pay Off	119	127	= +8 months
Total Finance Charge (amount of interest you'll pay)	\$20,848.34	\$20,848.38	= +5,000.04
Total Payment Amount (total of loan plus interest)	\$70,848.34	\$75,848.38	= +5,000.04

To learn more about loans, visit practicalmoneyskills.com/resources/financial_calculators/loans/loan_cost

Understanding Credit



Take Care with Credit

- > A credit card is basically a loan from a financial institution. They assign you a predetermined credit limit, and you can pay back whatever you charge either in full or in monthly installments.
- > If you don't pay back the entire amount owed each month, you'll owe interest on the outstanding balance.
- > Remember, if you buy something on sale with your card but don't pay off your entire balance with your next payment, the added interest may increase the cost to more than what you saved by buying on sale.
- > A rebate or rewards card may be a good option if you plan on paying your bill on time each month. They usually charge higher interest rates and may have annual fees but offer features like airline frequent flier miles, cash rewards and free or discounted merchandise.
- > It's easy to get in over your head by charging more than you can afford to pay off. Save credit cards for budgeted purchases and emergencies.
- > Try to use debit cards, secured credit cards, cash or checks for basic living expenses like your mortgage or rent, food and utilities.
- > You can damage your credit score by having too many open accounts or carrying high balances (learn more about credit scores on page 22).

Advantages and Disadvantages of Credit Cards

Advantages:

- > Convenient
- > Immediate purchasing power
- > No need for cash
- > Bills can be consolidated
- > Zero liability on fraud

But remember...

- > It's a loan
- > Interest rate may go up
- > May include additional fees
- > Can be easy to overspend
- > Can promote impulse buying

Keep Your Eyes on the Fees

Before you open a new credit card account, ask the lender to spell out any possible fees or finance charges, including:

- > **Annual fee** – Charged for using the card. Many cards have no annual fee, so shop around.
- > **Cash advance fee** – Charged for using your credit card to withdraw cash from your available credit limit. It can appear either as a per-use flat rate or as a percentage of the transaction amount.
- > **Late payment fee** – Charged if payment is received after the due date. Credit card companies must send statements 21 days before a payment is due. (Caution: Miss a few payment deadlines, and your interest rate could quickly increase.)
- > **Balance transfer fee** – Sometimes charged to transfer balances from one card to another.
- > **Over-the-limit fee** – Charged if you go over your credit limit, but only if you have opted in and given them permission to authorize purchases that put you over your limit. (Overages can also lead to rate increases.)
- > **Minimum finance charge** – Imposed whenever you carry forward a balance to the next billing cycle. (This can be up to a \$2 charge even if your balance is only a penny.)

Decoding Other Credit Card Terms

Annual percentage rate (APR): The interest rate you'll be charged if you don't pay the balance in full each month. Credit cards often have different APRs for purchases, cash advances and balance transfers, so make sure a low APR in one category isn't offset by unreasonably high APRs in others. Also, if there's a low introductory APR, note how long it's offered and what the rate will be after the introductory period ends.

Interest-free period: If your credit card offers "interest-free days," be aware that in most cases, you get a no interest-free period on purchases if you have an outstanding balance on your last statement. You begin paying interest immediately if you have cash advances, balance transfers or balances carried over from previous months.

Cash advances: Cash advances can bail you out of emergencies, but they can become very expensive loans if you don't pay them off quickly. Ask about each card's cash advance APR, fees and any other limits that may apply.

Understanding Credit



Compare the cost of different credit cards using the APR.

Remember that cash advances will require you to pay a higher APR than you do for purchases.

Things to look for in a credit card

Learn all about the fine print associated with using a credit card.

Interest Rates and Interest Charges	
ANNUAL PERCENTAGE RATE (APR) FOR PURCHASES	11.99% - 20.99% when you open your account based on your creditworthiness. This APR will vary with the market based on the Prime Rate.
APR FOR BALANCE TRANSFERS	11.99% to 20.99% when you open your account based on your creditworthiness. This APR will vary with the market based on the Prime Rate.
APR FOR CASH ADVANCES	23.99%. This APR will vary with the market based on the Prime Rate.
HOW TO AVOID PAYING INTEREST ON PURCHASES	Your due date is 24-30 days after the close of each billing cycle. You will not be charged 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 \$2.00
FOR CREDIT CARD TIPS FROM THE FEDERAL RESERVE BOARD	To learn more about factors to consider when applying or using a credit card, visit the website of the Federal Reserve Board at: www.federalreserve.gov/creditcard
Fees	
ANNUAL FEES	\$0 the first year and any year that you charge at least one purchase to the Account, otherwise \$20.
TRANSACTION FEES	
BALANCE TRANSFER	Either \$5 or 3% of the amount of each transfer, whichever is greater
CONVENIENCE CHECK ADVANCE	Either \$5 or 3% of the amount of each advance, whichever is greater
CASH ADVANCE	Either \$10 or 4% of the amount of each advance, whichever is greater
CASH EQUIVALENT ADVANCE	Either \$20 or 4% of the amount of each advance, whichever is greater
OVERDRAFT PROTECTION ADVANCE	\$10 per occurrence.
FOREIGN TRANSACTIONS	2% of each foreign purchase transaction or foreign ATM advance transaction in U.S. Dollars 3% of each foreign purchase transaction or foreign ATM advance transaction in a Foreign Currency
PENALTY FEES	
LATE PAYMENT	Up to \$35
OVERLIMIT FEE	Up to \$35
RETURNED PAYMENT	Up to \$35

(Sample Credit Card Agreement)

These fees are on top of any interest you might pay.

Note that you may be charged annual fees whether or not you use your card.

Test Yourself

Worksheet

Take our quiz to see how much you know about managing your money.

1. **T / F** The moment you take out a loan, you're starting to build your credit history.
2. **T / F** A car loan doesn't count on your credit report.
3. **T / F** Your credit score is directly related to your credit history.
4. **T / F** Your credit score rarely changes.
5. With a credit score in the 300 to 600 range:
 - a) Getting a credit card or loan should be easy
 - b) You'll need to work hard to improve your score
 - c) Getting a credit card may be a challenge
 - d) Both b and c
6. **T / F** Credit reporting agencies can have inaccuracies in their reports.
7. **T / F** A credit card is a type of loan.
8. **T / F** If you sign for a debit card purchase rather than a credit card purchase, the funds clear your account faster.
9. **T / F** A debit card is backed by a bank loan.
10. **T / F** It's a good idea to write your PIN on your card so you don't lose or forget it.
11. **T / F** Impulse buying is one of the hazards of carrying a credit card.
12. **T / F** All credit cards usually have the same annual percentage rate (APR) for purchases, cash advances and balance transfers.



Glossary of Terms

ATM: Automated teller machine.

Balanced budget: Income equals or exceeds expenses.

Budget: An itemized estimate of income and spending during a specified period.

Compound interest: This is interest calculated not just on the principal amount, but also on any unpaid interest that has been added to the principal. The more often interest is compounded, the faster your balance will grow.

Credit bureaus: Bureaus that report an individual's credit activity. There are three major credit bureaus: Equifax, Experian and TransUnion. For one free annual credit report from each bureau per year, call 1-877-322-8228 or log on to annualcreditreport.com, a website co-operated jointly by all three credit bureaus.

Credit limit: The maximum amount you are authorized to spend on your credit card.

Credit score: A numerical score that's calculated based on information contained in your credit report. Lenders use your credit score, among other measurements, to determine your creditworthiness and potential ability to repay debt. (For more, check out www.myfico.com.)

Simple interest: The cost of using money, expressed as a rate per period of time (usually one year, in which case it is called an annual rate of interest).

Overdraft: The fee an account holder must pay a bank because the balance in the account does not cover an amount he or she has withdrawn.

Overdraft protection: Advances money to cover a withdrawal from an account that does not have sufficient funds. Overdraft protection can loan money to cover ATM withdrawals, debit card purchases, electronic transfers and checks.

PIN: Personal identification number.

Rule of 72: The rule says that to find the number of years required to roughly double your money at a given compound interest rate, you just divide the interest rate into 72. For example, if you want to know how long it will take to double your money at 8% interest, divide 8 into 72 and approximately get 9 years.



Online Resources

Budgeting your money

[Practicalmoneyskills.com](https://practicalmoneyskills.com)

Financial education resources

Banking

[ABA.com](https://www.aba.com)

American Bankers Association

[FDIC.gov](https://www.fdic.gov)

Federal Deposit Insurance Corporation

[ICBA.org](https://www.icba.org)

Independent Community Bankers of America

[NCUA.gov](https://www.ncua.gov)

National Credit Union Administration

Understanding credit

[Myfico.com](https://www.myfico.com)

Information about your FICO score

[Annualcreditreport.com](https://www.annualcreditreport.com)

Free comprehensive credit report

[Consumerfinance.gov](https://www.consumerfinance.gov)

Consumer Financial Protection Agency

For more information, visit: practicalmoneyskills.com