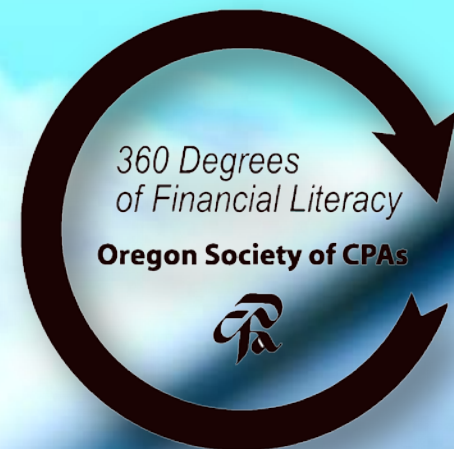


Credit Cards: What You Don't Know CAN Hurt You

**A Presentation by the
Oregon Society of CPAs**



Where We Are

- We are financially illiterate
- Until 2008, the savings rate in the U.S. was the lowest since the Great Depression
- Even now, it's only at about 5%—well below the recommended 10%
- One in six families with credit cards pays only the minimum due every month.

(Source: Experian national score index study, February 2007)

OSCPA Financial Literacy Project

- Since 2005, the OSCPAs has worked in conjunction with the American Institute of CPAs (AICPA) on the 360 Degrees of Financial Literacy project—providing financial literacy at every stage of life.
- OSCPAs member volunteers decided to focus on high school and college age students, to help address the issue before students hit “the real world”

Where Students Are

- **84%** of undergraduates have a credit card
 - 67% of students report already having one as freshmen
- **50%** of undergraduates had four or more credit cards in 2008—up from 43% in 2004

(Source: Sallie Mae's National Study of Usage Rates and Trends 2009)

(Source: Sallie Mae, "How Undergraduate Students Use Credit Cards," April 2009)



Where Students Are

- Median debt for college students is \$1,645, up from \$946 reported in 2004
- What are they charging?
 - Food (84%)
 - Clothing (70%)
 - Cosmetics (69%)
- 36% of students reported getting their first credit card freshman year; 39% got their first *before* entering college

(Source: Sallie Mae, "How Undergraduate Students Use Credit Cards," April 2009)

Where Students Are

- 1/4 of the students surveyed in US PIRG's 2008 Campus Credit Card Trap report said that they have paid a late fee, and 15% have paid an "over the limit" fee
(Source: U.S. PIRG, "Campus Credit Card Trap")
- People in 18 – 24 age bracket spend nearly 30% of income on debt repayment—don't let that be you!
 - The average credit card indebted young adult household now spends nearly 24% of its income on debt payments, four percentage points more, on average, than young adults did in 1992.
(Source: "Generation Broke: Growth of Debt Among Young Americans")

Why Do People Charge?

There are a lot of reasons people spend more than they make. But here are a few:

- “I’ll have more money later”
 - Best not to count on future income...you may not get it
- “Someone will pay it off for me”
 - Are you sure that’s the case??
- “I need it now, but I don’t have any cash”
 - Do you mean *need* or *want*?
- “It’s an emergency”
 - Best to have emergency cash available, but what will happen if you don’t have cash and your credit card is maxed out?

Constructive vs. Destructive Debt

- Constructive Debt: Student loans, home mortgages, business loans, etc.
 - A loan you take out as an investment (appreciates)
 - Get something in return
- Destructive Debt: Consumer items
 - No investment (depreciates)
 - Clothes, entertainment, vacations, even cars!



Students and Credit Cards

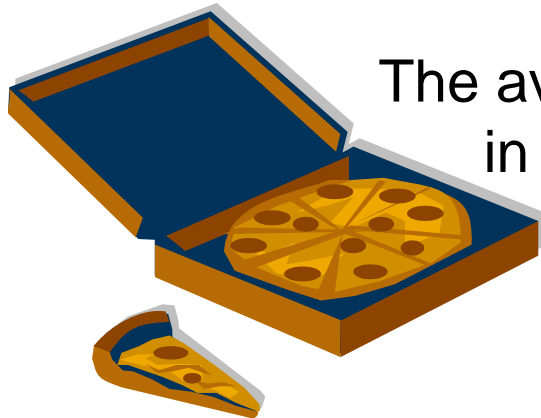
	1998	2000	2002	2004	2008
Percentage who have credit cards	67%	78%	83%	76%	84%
Average number of credit cards	3.50	3.00	4.25	4.09	4.60
Percentage who have 4 or more cards	27%	32%	47%	43%	50%
Average credit card debt	\$1,879	\$2,748	\$2,327	\$2,169	\$3,173
Median credit card debt	\$1,222	\$1,236	\$1,770	\$946	\$1,645
Percentage with balances \$3,000–\$7,000	14%	13%	21%	16%	21%

Table: Percentage of students with credit cards, average number of cards and average and median balances by study year
Source: credit bureau data

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Let's Say You Charge Some Things

First month of school, you spend...	
Books for school	\$1,000
Laptop	\$1,100
Lab fees, other class expenses	\$ 200
iPod Touch	\$ 229
Clothing	\$ 400
Food	<u>\$ 244</u>
TOTAL	\$3,173



The average undergrad student has \$3,173 in credit card debt, according to a study done by Sallie Mae in 2008

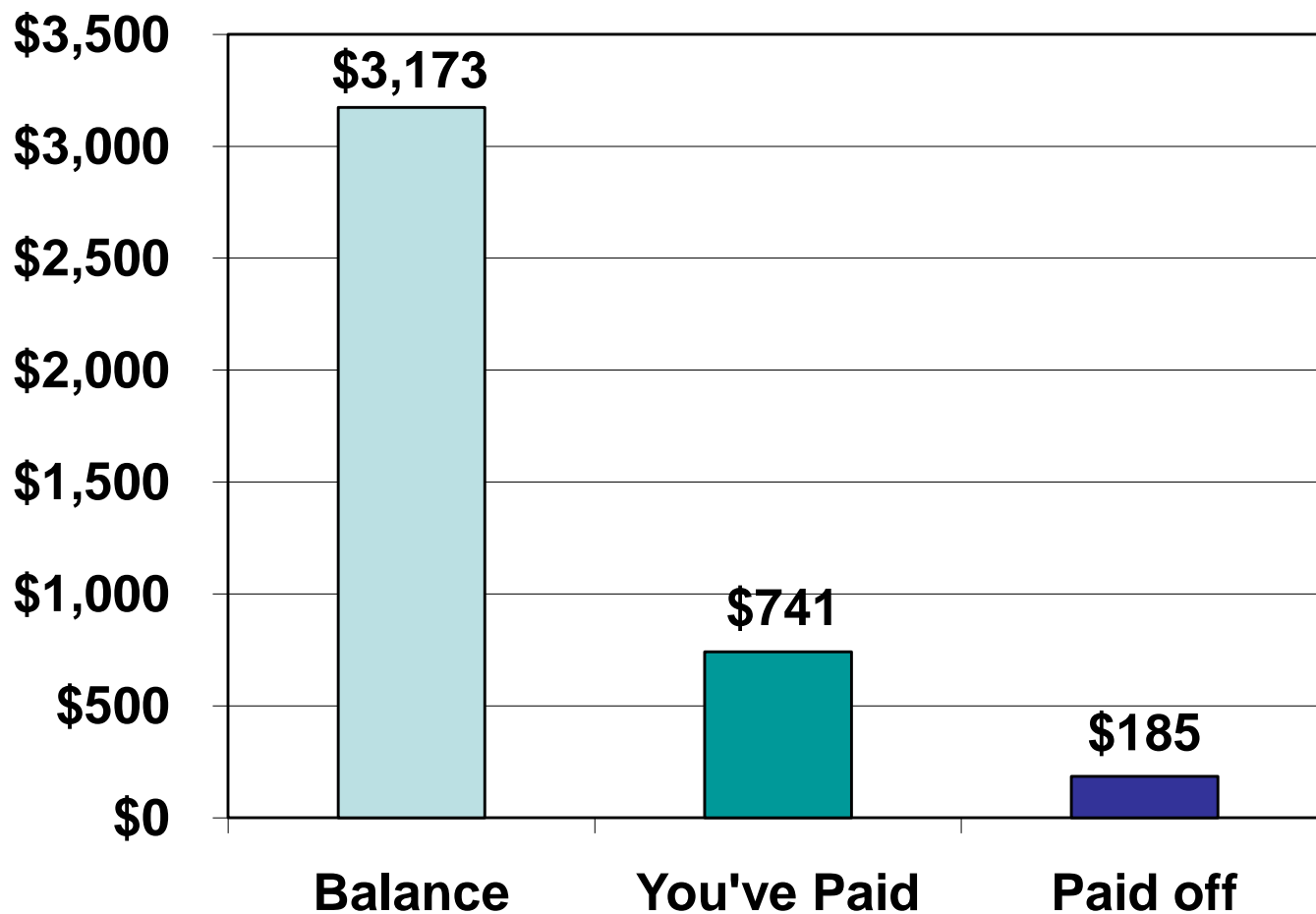
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Credit Card Minimums

- Typically, minimum payments are calculated as a percentage of the balance owed
- Our example assumes the minimum payment is 2% of the balance, or \$10, whichever is higher
- Given that information—how long do you think it takes to pay off the \$3,173 balance?



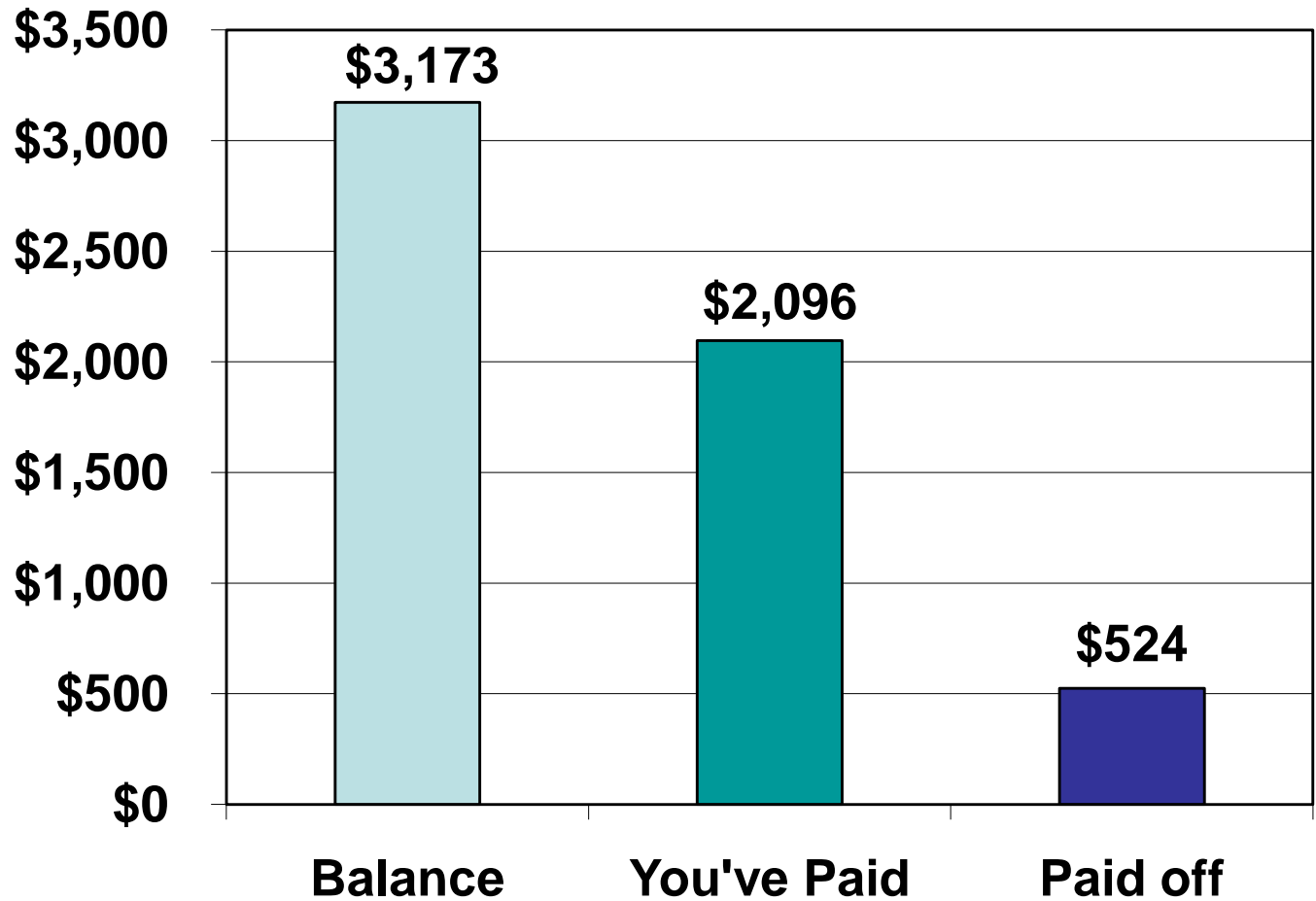
After 1 Year Paying the Minimum Balance (18% Interest)



18% interest, 2% of balance, or \$10, is minimum payment, whichever is more

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After 3 Years...



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After Almost 32 Years??

- At this rate it would take 381 months (31 years, 9 months) to pay off your credit card balance, assuming
 - You didn't buy anything else
 - Interest rate stays the same
 - Never a late fee
- If you are 18 now, you would be over 50 years old
- Total payment on that \$3,173
 - ...**\$11,089!**
 - **\$7,916 in interest**



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What Is the Real Cost of those Purchases?

True cost, factoring in interest...		
Books for school	\$1,000	\$3,495
Laptop	\$1,100	\$3,844
Lab fees, other class expenses	\$ 200	\$ 699
iPod Touch	\$ 229	\$ 800
Clothing	\$ 400	\$1,398
Food	<u>\$ 244</u>	<u>\$ 853</u>
TOTAL	\$3,173	\$11,089

*Approximate, based on paying 18%, 2% minimum or \$10/month, whichever is more

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Why Is this Important to Me?

- As students progress through college, credit card usage swells
(Source: “Undergraduate Students and Credit Cards in 2004”; Nellie Mae)
- University administrators state that they lose more students to credit card debt than academic failure
(Source: Utah Mentor, 2003)
- Those with highest average debt worked the most & had highest levels of anxiety
(Source: “Undergraduate Students and Credit Cards in 2004”; Nellie Mae)
 - Increased work hours
 - Distraction from studies





Giving Credit Card Issuers the Power

- 93% of cards allowed the issuer to raise any interest rate at any time by changing the account agreement.
(Source: Pew Safe Credit Cards Project, March 2009)
- 72% of cards included offers of low promotional rates which issuers could revoke after a single late payment.
(Source: Pew Safe Credit Cards Project, March 2009)
- 17 out of 22 credit card issuers said they can increase the APR or change my terms ‘any time for any reason.’ This includes all Top Ten issuers—even Citibank, which pledges not to change a customer’s terms before the card’s expiration date.
(Source: Consumer Action credit card survey, July 2008)

Playing Offensive Debt Management

- Monitor your bills
- Beware of teaser rates
- Beware of added “fees”
 - 92 percent of cards included a fee for exceeding the credit limit, including 100 percent of all student cards. The amount of the overlimit fee is \$39 on most accounts.
(Source: Pew Safe Credit Cards Project, March 2009)
- Keep balance low or at zero
- Keep track of your interest rate—try negotiating a lower rate if you have a good history
- Know when the bills are coming



Make Good Habits

- Pull your credit report yearly
 - Credit reporting bureaus: Experian, TransUnion, and Equifax
 - It's free!—www.annualcreditreport.com
 - 64% of American adults, or 144 million people, have not ordered a copy of their credit report in the past year

(Source: National Foundation for Credit Counseling, 2009 Financial Literacy Survey, April 2009)

- Look at your bills and pay on time (at least 5 days prior to due date to be safe)

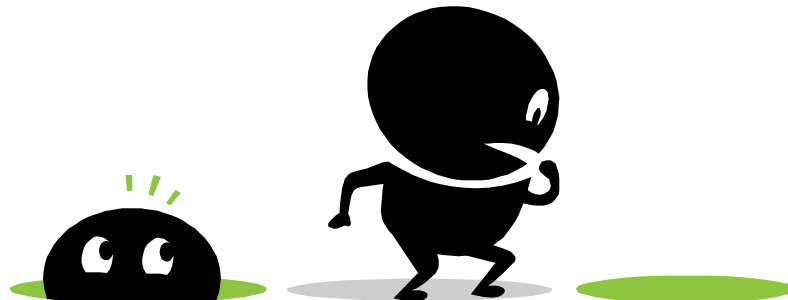


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Playing Defensive Debt Management

- Wait until credit company calls (or worse, the collection agency!)
- Creating more debt to pay off other debts
- Become victim of fraud or identity theft by not checking out bills or credit reports
 - Women were 26% more likely to be victims of identity fraud than men in 2008

(Source: Javelin Strategy & Research, February 2009 study.)

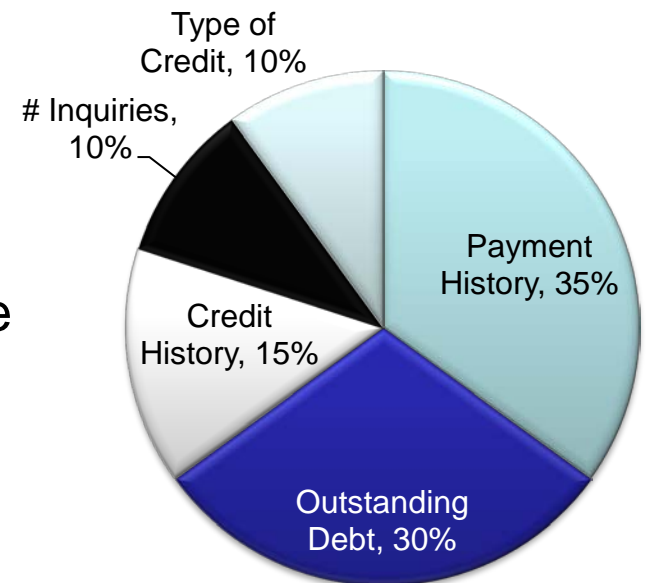


Credit Scores

- Credit scores—“creditworthiness” or a stat that represents the likelihood that the person will pay the debt timely
- Lenders use this score to mitigate risk and determine terms of loan
- Many organizations use it (cell phone providers, utilities, **auto insurance**, employers, gov’t depts, etc.)
- Different ways to calculate, but generally the same

Credit Score Breakdown

- Ranges from 300 to 900
 - 35% based on payment history
 - 30% based on outstanding debt
 - How much is on car/home?
 - How much on credit cards?
 - Debt balance to available credit
 - Debt in relation to income
 - Maxed out cards?
 - 15% on length of time you've had credit
 - 10% on number of inquiries on your report
 - 10% on type of credit you have



Credit Reports

- What's in a credit report?
 - Personal identifying info—Social Security Number, date of birthday, addresses, names
 - History of how you've paid your bills
 - How much open credit you have
 - Employment history
 - Public records (tax liens, court judgments, bankruptcies)
 - Dispute statements



Resources

- 1-888-5-OPTOUT to limit “soft inquiries” (pre-approved credit cards and auto ins)
- Federal Trade Commission sample dispute letter and steps for credit disputes
www.ftc.gov/bcp/edu/pubs/consumer/credit/cre21.shtm
- Free annual copy of report from each agency
www.annualcreditreport.com

How Do I Avoid Getting in Too Deep?

- Your credit card is NOT free money—it's really a loan you have to pay back
- Make sure you have enough to pay off the balance each month
- If you've already spent too much, pay more than the minimum balance *consistently*
- Pay ON TIME—not only does it affect your credit score if your payments are late, the late fees will dig you deeper into debt
 - Default interest rates range from

28.99% - 32.24%

(Source: www.creditcardguide.com)





When It Comes Time to Buy...

- Leave your credit card at home if you're too tempted to spend when you go out
- Take time to think about your purchase—avoid impulse buys
- Make sure you know how much interest you're being charged, annual fees, etc. so you know the actual cost of your purchase

“I wish I had known this sooner”

- Seniors graduated with an average credit card debt of more than \$4,100
 - Debt is up from \$2,900 almost four years ago
 - Close to one-fifth of seniors carried balances greater than \$7,000
- Direct marketing targeted aggressively at college freshmen

(Source: “Credit Cards on Campus: Academic Inquiry, Objective Empiricism, or Advocacy Research?”; Robert D. Manning & Ray Kirshak)
- Some law & medical schools encourage, or require, applicants to submit credit scores and some employers are starting to do credit checks

(Source: “Online Extra: Personal Finance for Freshmen” Business Week On)

Student Loans

- Always opt for a federal loan over a private loan
- Stay enrolled in school at least half time to avoid triggering repayment grace period
- Borrow the minimum you need, not the maximum you're offered

Student loans

- Pay on time
 - may be rewarded with reduction in interest rate, depending on lender
- Add to a little extra to your payment if possible
- Interest rate for subsidized Stafford loans starts at 5.6%, once the loan enters repayment
 - Interest rate for unsubsidized Stafford loans starts at 6.8% and there is no repayment grace period after graduation

Subsidized vs. Unsubsidized

- Subsidized loans are based on federally defined “need” (cost of attendance minus Expected Family Contribution from the student’s FAFSA)
- Do not accrue interest while the borrower is enrolled at least half-time and for a six month grace period
- Maximum:
 - \$3500 for freshmen
 - \$4500 for sophomores
 - \$5500 for juniors and seniors;
- Not based on “need”
- Begin accruing interest when they are disbursed
- Maximum for dependent undergrads:
 - \$5500 for freshmen
 - \$6500 for sophomores
 - \$7500 for juniors and seniors minus any subsidized loan they’re eligible for
- Independent undergrads can borrow additional unsubsidized loans
 - another \$4000 for freshmen and sophomores
 - another \$5000 for juniors and seniors on top of the above amounts

Make Sure to Feed the Pig™!

- AICPA & Ad Council teamed up to encourage young people to save
- Pay yourself first!
 - Save a little from each paycheck before doing anything else
 - Never too soon to start saving for retirement—time is on your side!
- Making small changes can add up
 - Making your own coffee at home and bringing a lunch are two easy ways to save



Spokespig
Benjamin Banks

FEEDTHEPIG.ORG

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me,
SAVE?

the **5%**
CHALLENGE

beat your
BRAIN

think
HAVING MONEY
is about **LUCK?**

WHAT'S NEW

Check out the latest Feed the Pig Podcast - The 411 on 401(k)s



Thank you!

- For more information on Financial Literacy contact the OSCPA at:
 - www.orcpa.org/public
 - 503-641-7200
 - 1-800-255-1470, ext. 12



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