FINANCIAL FOOTBALL

MODULE 3 // CREDIT, DEBIT & PREPAID CARDS

HALL OF FAME: AGES 18+

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MODULE 3 // FINANCIAL FOOTBALL PROGRAM

Financial Football is an interactive game designed to acquaint students with the personal financial management issues they are beginning to face as young adults.

It was developed with the philosophy that games can be powerful teaching tools. With most teens and young adults being familiar with some form of computer game, Financial Football engages students in a fun, familiar activity, while educating them on topics essential to developing successful life skills.

Financial Football features questions of varying difficulty throughout the game. Like football, successful financial management requires strategy, finesse and endurance.

The following curriculum is intended as a weeklong program. Before you play the game, we recommend reviewing and completing the four, 45-minute educational modules with your students to help them get a jump on the financial concepts the game covers.

MODULE 3 // CREDIT, DEBIT & PREPAID CARDS

Overview: In this lesson, students will gain the knowledge to use credit, debit and prepaid cards to their advantage, master the meaning of various credit card terms, and understand the factors to consider when choosing credit and debit cards.

Age Level: 18+ years old

Time Allotment: 45 minutes

Subject: Economics, Math, Finance, Consumer Sciences, Life Skills

Learning Objectives:

- Discover the similarities and differences between credit, debit and prepaid cards
- Determine the various pros and cons to all types of cards
- Learn how to manage purchases and payments

Materials: Facilitators may print and photocopy as handouts the quiz and written exercises at the back of this document. Students may use an online dictionary or search the web for commonly used financial terms. The Practical Money Skills web site has a glossary located here: http://www.practicalmoneyskills.com/glossary

Answer keys for all practice exercises are found on the last pages of this document.

MODULE 3 // INSTRUCTION GUIDE

When a football coach is directing his team toward a win, he chooses the players best suited for each play based on the athletes' strengths and weaknesses.

By the same token, when it comes to choosing among credit cards, debit cards and prepaid cards, it's good to know their relative strengths as well. Knowing how they work and how best to use them in various spending circumstances lets you tap into the advantages of each without getting penalized.

Here's an easy way to remember the difference:

PAY NOW: DEBIT CARDS
PAY LATER: CREDIT CARDS
PAY IN ADVANCE: PREPAID CARDS

Let's take a look at each.

PAY NOW: DEBIT CARDS

A ***debit card*** (also known as a check card) looks like a credit card but is an alternative payment method to cash and checks. When you make a purchase with a debit card, the funds are immediately withdrawn from your bank account and transferred into the account of the store or business where you completed the transaction. Because a debit card links directly to your bank account, you can spend only what you have in your account.

While this helps keep you out of debt, you need to monitor debit card purchases closely and stick to your budget so you don't overdraw your checking account. If you use your debit card to buy something that costs more than the amount of money in your account, the charge may be rejected or, if you have overdraft protection, you may be charged an overdraft fee.

Benefits of debit cards:

- They allow you to make the same kinds of purchases as you do with credit cards so you don't need to carry cash.
- Most provide the same type of "zero liability" protection as credit cards.
- There is no APR or interest rate charged.
- There are no monthly payments or debt accrued.
- Some debit cards offer rewards programs.

Things to watch for:

- If you overdraw your account, you will be charged a fee for each transaction.
- If you withdraw money from an ATM machine that's not part of your financial institution's ATM network, you could incur fees on both sides – from your bank or credit union and the other institution that operates the ATM.

PAY LATER: CREDIT CARDS

A ***credit card*** entitles you to make purchases based on your promise to pay for these purchases at a later date. The card issuer grants you a line of credit, which is a promise from the card issuer to you that they will loan you any amount of money up to the credit limit on the account. You can use that credit to purchase goods, pay bills or obtain cash advances. New laws from the credit CARD Act of 2009 place strict limitations on issuing cards to consumers under 21. If you fall in that age group, you have to have a co-signer or show proof of sufficient income to repay the debt.

Each month, the card issuer sends you an account statement that lists all of your purchases and the total amount you have purchased using the card that month. The total amount is called your balance. When you pay the full amount of the balance, the card issuer charges you no interest for this service. If you do not pay the full amount, the balance on your card account becomes a loan to you from the card issuer and you begin paying interest on this loan.

Benefits of credit cards:

- They let you buy items in stores, online, on the phone or through a mail order catalog without using cash.
- They help you to establish credit history if you use them wisely.
- Enable you to purchase airline tickets, reserve hotel rooms and rent cars – all transactions that can be difficult to do using cash. Some cards also offer a Rental Collision Damage Waiver (CDW) benefit, which allows you to decline the auto rental company's CDW and Liability Damage Waiver (LDW), thereby saving you money.
- Provide "zero liability" protection, which means that if your card is lost or stolen you will not be responsible for unauthorized merchant charges.
- Provide access to cash advances in cases of emergency.
- Depending on the credit card issuer, their rewards program may provide points with each purchase that can be used to receive free airline miles, merchandise or cash back on purchases.

Things to watch for:

- Credit cards make impulse buying easier, which can throw off your budget and increase your level of debt.
- Items charged cost more (cost of item plus interest) unless you pay the balance in full each month.
- Late payments may incur fees, increase your interest rate and negatively impact your credit rating.
- If you don't carefully monitor spending, your purchases can push you over the credit limit, resulting in an additional fee. This could also increase your interest rate and lower your credit score.
- While cash advances can be helpful in emergencies, they come with additional fees and the interest rate can be higher than for standard purchases.

PAY IN ADVANCE: PREPAID CARDS

A ***prepaid card*** may look exactly like a credit card or a debit card. However, instead of being linked to your bank account (like a debit card), or providing you a line of credit (like a credit card), a prepaid card lets you spend only the amount that's been pre-loaded onto the card.

There are two kinds of prepaid cards: gift and reloadable.

Gift cards

A gift card is pre-loaded with an amount of funds. Once those funds are spent, the card is no longer valid and cannot be reloaded. Many stores and online retailers offer branded gift cards that are good only at their stores. Many financial institutions offer prepaid gift cards that are accepted wherever debit cards are accepted.

Reloadable

Reloadable prepaid cards work exactly like prepaid mobile phones, where you use minutes and then refill them. With a reloadable prepaid card, you (or your parents) load the card with an initial amount of money. You use the card wherever debit cards are accepted. When the balance gets low, you can refill the card by telephone or online and continue to use it.

Other types of reloadable cards include payroll cards — a safe, convenient way for companies to pay employees, with monthly salaries preloaded on the cards. Similarly, benefit cards can also be issued to employees to cover benefits like health care or transportation costs.

Benefits of prepaid cards:

- Spend only what you load onto the card.
- Track your spending online which helps you budget.
- No need to carry large amounts of cash.
- Lets you make the same kinds of purchases as with debit cards and credit cards such as airline reservations and online purchases.
- Most provide the same type of "zero liability" protection as credit cards.
- No APR or interest rate charged.
- No debt accrued.

Things to watch for:

- Some cards are limited to certain stores.
- Some prepaid cards charge fees, including a loading fee and monthly maintenance fee. Shop around for the best value.

Key Terms

Before we delve further into debit, credit and prepaid cards, review the following terms. Understanding them will help you choose the right card, better manage accounts and prevent unexpected fees and activities that can harm your credit history.

- **Annual fee** – This is a fee that some, but not all, credit card issuers charge to use their credit card.
- **Annual percentage rate (APR)** – Also known as interest rate, it is the percentage used to compute the finance charges on an outstanding balance.
- **Available credit** – The amount of unused credit available on your credit card account.
- **Cash advance transaction finance charge** – Most credit cards let you obtain a cash advance from your account, but there is a dollar limit and you may be charged an additional fee for this transaction. Plus, interest rates charged for cash advances are often higher than the rates for purchases.
- **Cardholder agreement** – This document details the terms and conditions of your credit card account. It will include your APR, any applicable annual fee, penalties and other costs associated with the use of the card.
- **Credit line (or credit limit)** – The maximum amount you are allowed to carry as a balance on the card.
- **Finance charge** – Based on the interest rate, this is the amount of interest you pay on the outstanding balance.
- **Grace period** – The period of time between the billing statement date and the date full payment must be received before interest is charged on your account balance and new purchases.
- **Introductory rates** – The APR offered by a credit card company as a promotional offer, which can vary from a few months to a year. The rate is then adjusted to the standard APR.
- **Late payment fee** – Amount charged if your payment is received after the billing due date.
- **Minimum monthly payment** – The amount due based on the percentage of the outstanding balance, or a minimum fixed amount.
- **Overdraft** – When you write a check or make a withdrawal from your checking account that leaves you with a balance below zero. If you sign up for overdraft protection, your bank will cover the transaction but will likely charge you an overdraft fee to do so.

PROTECTING YOUR IDENTITY AND PREVENTING FRAUD

Fraud prevention is crucial to managing your credit, debit and prepaid card accounts. Here is some common advice given to credit and debit cardholders to keep their accounts safe:

- If your credit or debit card is lost or stolen, report it *immediately* to the credit card issuer.
  - Also report it to the police and use the police report to dispute any fraudulent charges with creditors.
- For such occasions, maintain a list of all your credit and debit card account numbers in a secure location, along with the phone numbers for each card company.
- When ordering items online, look for secure websites that have https:// in their web address and utilize Secure Socket Layer (SSL) and certificates to keep your transactions safe from hackers.
- Guard your account numbers.
  - Do not give out your account number to anyone who calls you — share it only with those companies you yourself contact. The same goes for your Social Security number and other personal information.
  - Most merchants show only the last four digits of your card number on the bill; if the full number appears, cross it out when signing the bill.
  - Shred any documents and receipts where your card number may appear.
  - Never send your card number or other personal information through email, since this is typically not a secure electronic process.

What can be done if you discover an unauthorized charge on your account?

- If you reported your card as lost or stolen, many cards offer “zero liability” protection, meaning you will not be responsible for fraudulent charges made against your account.
- In many cases, you have up to 60 days to report billing errors to the credit card issuer, but you should do it immediately after you discover the charge so it can be resolved as soon as possible. They, in turn, must respond to your inquiry within 30 days.
- If a merchant made an unauthorized charge, the card issuer will act on your behalf to dispute the charge and have it removed.

PROTECTING YOUR PIN

Debit, credit, and in some cases, prepaid cards come with a **Personal Identification Number (PIN)**. Known only to you, your PIN is a secret numeric password you key in during a transaction to authenticate yourself as the legal owner of the card. Without the correct PIN, debit cards (and prepaid cards that require a PIN) cannot be used, and you may not be able to get a cash advance on your credit card.

It is important to choose a random number that you can remember but that's not related to personal information, like your birth date or address. ***Never write your PIN on the back of the card or keep it in your wallet***.

CHOOSING A CARD

When you are considering debit, credit and prepaid cards, you'll have a few decisions to make before choosing the right card for your needs.

Choosing a debit or check card is fairly simple, since it's standard practice to obtain one through your checking account. But it's important to be aware of potential fees, including ATM transaction and overdraft charges.

When choosing a prepaid card, shop for one that has the lowest fees, doesn't expire and is accepted everywhere. Don't lock yourself in to a prepaid card that is good at only one store and must be spent within six months.

Choosing the right credit card takes additional consideration. In most cases, you need to be 21 years old or have an adult co-signer to apply. It's important to discuss your options with a parent or guardian. The fees and interest rates can vary from one card issuer and type of account to another. So it's important to know how you're going to use the credit card. Ask yourself:

- Do you plan to pay off the balance every month? If so, the APR, or interest rate, may not be as much of a factor as what the card issuer charges as an annual fee for usage.
- Do you plan to make a large purchase and pay it off over time? If so, the APR is a key cost factor, so shop around for a lower percentage rate, weighing that with other fees that might be charged.
- Are you looking for a low introductory rate to transfer an outstanding balance from another credit card?
    - Plan ahead and read the cardholder agreement carefully.
    - Make sure you can budget monthly payments that pay off the balance within the introductory rate time period.
    - Always pay on time, since delinquent payments can incur penalty fees and potentially void the zero or low interest rate.

Managing your card accounts is critical to your financial game plan. But it can be done when you consistently follow a few simple but very important guidelines:

- Stick to your budget:
  - Don't be tempted to make purchases you can't afford.
  - Use credit card cash advances for emergency needs only.
- Follow the "20-10" rule:
  - Limit your credit card debt to less than 20% of your total annual income.
  - Less than 10% of your net monthly income should go toward paying credit card debt. If it is more, reevaluate your spending habits.
- Be a good credit customer:
  - Paying at least the minimum monthly payment by or before the due date will keep your credit in good standing.
  - Try to pay more than the minimum due or even the entire balance each month to stay out of debt and avoid paying interest.
- Reviewing your monthly statements:
  - Ensures you don't spend beyond your credit limit.
  - Helps you to stay on budget.
  - Alerts you if unauthorized or fraudulent charges appear or if billing errors have been made.
- Take advantage of secure online access to both your credit card and debit card accounts:
  - Regularly view all account activity and payment history to spot errors or fraud.
  - Sign up for automatic credit card payments or set up a payment ahead of time before it's due.
  - View your outstanding credit card balance or checking account balance (for debit card purchases) *before* you make a charge.
  - Set up alerts to receive an email or cell phone text message if a large purchase is made, if you've gone over your credit limit or when a payment is due.
  - Some card issuers also enable you to log in to your account from a cell phone that supports secure Internet access.

MODULE 3 // DISCUSSION

Decisions around credit, debit and prepaid cards often require critical thinking. Discuss the following scenarios and evaluate the possible outcomes and consider better solutions where possible.

Paul is a recent college graduate who just landed a job and opened a new bank account. His birthday is January 1, 1996. He tells everyone that he was the first baby born in 1996. Because he can remember his birthday quite easily, Paul chooses 0101 as his pin. Good idea? Why or why not?

BAD IDEA. This PIN would be far too easy to guess. The key to a good PIN is coming up with something you will always remember but other people will have trouble guessing.

Kate is getting a credit card to pay for a 10-day vacation to Barcelona. She has good creditworthiness but little savings built up, so she needs the card to essentially finance the whole trip, which she'll pay back over the next year or two. She chooses a card because it is aligned with her favorite airline, and she wants to earn miles on purchases. The APR is 23.1%. Good idea? Why or why not?

BAD IDEA. Save for a vacation. Don't finance one. Especially don't finance one at 23.1% for two years.

Note: If Kate had saved the money to pay for her vacation before her trip, getting a credit card would be an excellent idea, as travelling with one is safer than travelling with cash. Also, if she had saved for her vacation in advance and planned to pay off the credit card immediately upon returning home, she won't carry a balance so a card's APR would be less important. However, because Kate has good creditworthiness, better interest rates on a credit card could be available to her. Reward programs are most advantageous to people who charge a lot on a regular basis, not those who make one-time purchases.

Daniel's living room furniture is getting old. He spots a nice couch on sale at the department store and discovers they are having a 20% off one-day sale. He won't get paid for another nine days, so he pops over to the bank next door and takes a $1,200 cash advance to get the sale price on the sofa. His bank will charge a 4% transaction fee for the cash advance. Good idea? Why or why not?

IT DEPENDS. Is the amount he'll save in the sale greater than the cash advance transaction fee? Will he be able to pay the full amount back during the grace period and not accrue additional finance charges? In general, it's best to save cash advances for emergency situations only.

Noushi does most of her banking and bill paying online. She loves the convenience it offers and the time it saves as well. She recently set up an automatic payment for her credit card bill to pay the minimum amount due every month. This way, she knows she'll never miss a payment and when life gets busy or when she's traveling, she doesn't have to worry about her credit card bill. Good idea?

YES AND NO. Automatic payments are a great way to ensure you always pay on time. However, paying just the minimum every month is not the best debt management strategy. Noushi should consider increasing the monthly payment she makes, or making additional payments when she has the funds. Also, cardholders should always review their monthly statements to help avoid receiving any unauthorized or fraudulent charges.

MODULE 3 // QUIZ

Answer the following questions:

1. True or false: All credit cards charge an annual fee.

2. True or false: The grace period refers to the time between the billing statement date and the due date.

3. All of the terms and conditions of a credit card account are outlined in what's called a _____.

4. True or false: Most credit cards are issued by airlines and hotel chains.

5. List three types of things that can determine a person's credit limit.

6. True or false: Prepaid cards play an important role in establishing one's credit history.

7. Interest rates on cash advances are usually _____ than those for regular purchases.

8. True or false: Some prepaid cards require a PIN to use, but others do not.

9. _____ is a policy that protects cardholders from fraudulent charges.

10. The 20/10 rule is an effective way to manage one's _____.

MODULE 3 // WRITTEN EXERCISES

How do credit cards and debit cards work? Check all that apply.

	Credit Card	Debit Card	Prepaid Card
They cover fraudulent charges.			
Charges are added to outstanding debt, unless they are paid in full each month.			
Can be reloadable or disposable.			
Allow ATM cash withdrawals from your checking account.			
Build credit history to enable renting an apartment, obtaining loans, getting car insurance.			
Incurs over-the-limit fees if charges exceed the credit limit.			
Used to purchase products and services online.			
Can offer rewards points.			
Purchases draw money from your checking account.			
Manage charges and payments online.			

MODULE 3 // ADDITIONAL WRITTEN EXERCISE

This is an additional exercise to determine how much knowledge you've retained about credit, debit and prepaid cards.

Scenario: Your best friend, who teaches a basic money management night class at a nearby community center, has come down with a nasty cold. She's asked you to teach her class tonight, which is about the similarities and differences between credit, debit and prepaid cards. Create a poster or three smaller visual aids that explain clearly the main features of each card, how they are different, their benefits and drawbacks, and the typical uses for each type of card.

MODULE 3 // WRITTEN EXERCISE ANSWERS

Quiz Answers:

1. False. 2. True 3. Cardholder agreement 4. False 5. Income. Credit score. Payment history. 6. False. Credit cards do. 7. Higher. 8.True 9. Zero liability 10. Debt, budget, savings

Written Exercise:

	Credit Card	Debit Card	Prepaid Card
They cover fraudulent charges.	XX	XX	XX
Charges are added to outstanding debt, unless they are paid in full each month.	XX		
Can be reloadable or disposable.			XX
Allow ATM cash withdrawals from your checking account.		XX	
Build credit history to enable renting an apartment, obtaining loans, getting car insurance.	XX		
Incurs over-the-limit fees if charges exceed the credit limit.	XX		
Used to purchase products and services online.	XX	XX	XX
Can offer rewards points.	XX	XX	
Purchases draw money from your checking account.		XX	
Manage charges and payments online.	XX	XX	