Credit cards versus Debit cards

This is Tray Thompson. Today we’ll be having our first webinar of the semester, “Credit cards versus Debit Cards.” As you know we have a Chat feature in this as well, so hopefully you get a chance to ask a few questions, or pause me if I'm speaking too fast. Or even, you know, ask me to crank up the volume if I'm speaking too low. All right. So we'll get started with this. Some of the things that we hope to accomplish within this webinar is make sure we understand the difference between debit and credit cards. And go over some of the pro's and con's of using the debit card and a credit card, and then some typical tips of using the cards as well. Okay. So we'll jump straight into - we’ll jump straight into the cards theirselves. So within credit and debit cards, they typically look alike and they can be used in very identical ways. But there are some very important differences that we want to make sure we have and know so we can use them in our financial toolbox. Okay. Okay, so when spending in our debit cards, we're spending on our debit cards, that means we're spending our money. We all know that. It comes directly from our checking account or whatever account it's associated with. And when used properly on spending on
our cards is just a straight strategy for budgeting and
staying out of unplanned debt. So that's one of the
main good features that we want to keep out there. For
debit cards also they have no minimal, which are fees
or no annual charges. They have no interest. You're
not borrowing any money. So there’s no APR on the
card. They’re accepted at many locations. So, prime
example is your Visa debit card. Visa has made it easy
to partner up with different banks such as Wells Fargo,
Chase, City Bank, and other national banks. Even some
credit unions in some situations where they’ll be
accepted at all locations or mostly all locations. I
know a prime example for credit cards they might not be
accepted at different locations. We want to keep that
in mind also when trying to identify what the
differences are. And, of course, we bring them back,
you use your own money. You’re using your own funds.
And, there's no borrowing in your debit card, when
you're using your debit card, unless you have an
overdraft on your account. And of course, you're going
to be fined, you're going to be penalized $25 to $35 in
some situations for just borrowing even if it was $2
under your account balance, so keep that in mind also.
Also debit card helps you have a better understanding
of your financial picture by setting up your budget.
Okay. Okay, so we want to talk about one of the great strategies or a golden strategy. This is a good strategy to use with your debit card for every day purchases. And then you might want to use your credit card for internet or mail order purchases. That's to make sure there's no fraud or anything of those natures. Okay. Because it's easy to get ahold to your Visa check card and use all of your money up in case something happens online and you put in two orders and then to have it on your credit card and then be able to fight that off with your credit card company. And at the end of the day you want to make sure within this golden strategy that you're paying off your credit card balance to avoid any interest charges. So this strategy really sets you up to utilize both the debit card and the credit card for what they were made for. And, that's definitely to make sure you're able to purchase something right now and use it right now and pay for it at a later time. But remember we want to pay for it as soon as possible so we won't have any interest charges. Okay. So, let's move on to credit cards. So when you’re spending with a credit card that means we're spending money we don't have. That's basically a loan. Yeah, we're borrowing money. If we're not borrowing from your credit card we're
probably borrowing from our parents. But most of the
time it's put on the card. So many people use credit
cards to pay off their balance each month in full. So
they use their credit card and then they pay off what
they owe to the credit card, to their bank or whoever
else they have a credit card with. So with that they
won't have any fees or interest associated with that.
So they are basically using the credit card for free.
And that's what we want to be able to do while we are
using credit card, using similar to a debit card but
remember we're building our credit as well. And, we'll
talk about that in upcoming slides also. So when other
people carry a balance from month-to-month meaning that
they are paying interest on the money they have already
spent and can be charged a fee for missing a payment.
It's a little more risky when you're carrying a balance
from month-to-month because, of course, you're already
being charged and what happens when you miss that
payment. Okay. So keep that in mind. Now there's not
enough money in your checking account to make a
purchase, this one quote I like to live by, “there's no
money in my checking account then, why make a purchase
on my credit card.” If you don't have the money to be
sure that you're going to able to pay for it at the end
of the month, then you really need to look into other
ways you can finance that or maybe you cannot purchase those, you know, shoes or whatever else that you needed to purchase at that time. So reconsider that option. Okay. So, do we have any questions at this point?

Gregorio Alcantar: Tray I'm looking at the Chat feature and there are no questions at this time. But feel free to please put your questions on the Chat room and as soon as we get a chance we will go ahead and make sure we answer all your questions. Remember, this is only a 30-minute webinar. So we want to make sure we make use of time. But, no questions at this time, Tray.

Tray Thompson: Okay. Thank you. Okay, so let's dive a little deeper into credit cards. I know we tend to have our own idea what we think a credit card is. But in all reality credit card companies are making a lot of money off of us. And as you can see from this slide here, the annual percentage rate -- do we all know what the APR is? That's how often we're going to be charged the interest on our card. So as you can see, it says depending on your credit worthiness, it can be anywhere from 9% to 13%. And for college students, the average right now is going for about 22% for interest rates on credit cards for college students. So this example here is really a good
interest rate. But, as you can see those are just
introduction rates. Below it says after that you're
APR, which is your interest rate will go up to 14.99,
which is a 15% interest rate. Okay. So we know what
the interest rate is and that's calculated accordingly
on the daily balance method, and we'll look more into
that, but they get how much balance you have throughout
the month and then you go from there as far as how you
need to calculate it with your interest rate. Okay.
So the APR for balance transfers. Let's see who knows
what a balance transfer is? Does anybody know what a
balance transfer is? Within balance transfers, those
are, those are when you have a credit card and you just
open it and you say hmmm, well, I have another credit
card and it currently has 28% interest and this credit
card, you know, 15% interest. Well, let's see maybe I
can transfer the amount from this card to my new card.
So, that's when you transfer your balance from one
credit card to the next. Sometimes there's a fee
associated with it, as well as, a higher interest rate.
You want to keep that in mind also. But sometimes it
might be getting you out of a pickle if you had a
higher interest rate on your other card, which can be
sometimes 28%, 22%. So, that's a great thing we can
save on interest but you have to calculate how much
you're going to be paying in new interest on this new card and how much you're going to pay on the fee that they want for it as well. Okay. Then we go on to the penalty APR. So, if you make a late payment or you go over the credit limit. The credit limit is the amount of money that the bank has authorized to give you. And within the credit limit you want to make sure that it's only between 20 or 30% of what you’re spending on any particular time. Okay. So if they gave you a $1000 and said here's your credit card for a $1000, your credit report and your credit score will begin to be impacted if it's higher than 30 to 40%. So, my suggested rate of how much you should use on the card at any particular time is 20 to 30%. So if you got a $1000 card, that means anywhere from 2 to $300. Okay. So, keep that in mind also. Now, we move on and I want to talk about some of the fees. Of course, they have all sorts of different fees for credit cards out there. So of course, they start with they have an annual fee everything else is free. Well, some cards don't even have an annual fee and that's a great thing. So what you want to focus on is making sure your account doesn't have fees. And those are some of the questions that you might want to ask when considering a credit card. So there’s some annual fees, American Express
can get as high as a $500 a year or a $1000 a year.

And I would not even consider some of those things.

And most people say, well, it has benefits. Well, it
depends on how often are you going to be able to use
those benefits. How often are you using the card?

Right? If you have a $1000 limit you only use $2 or
$300 at one time. Then how often are you going to be
able to get that percentage right? You know. So, if
you are paying $500 in fees for a $1000 limit, as well
as, you’re now going to be getting, what 1% or 2% cash
back or flight miles, it won't be worth it at the end
of the year. So consider those and do the equations,
work out, work out the scenario and see if it's
feasible for you. Okay. You will also sometimes
charge you set up fees and other fees out there as
well. So keep those in mind also when considering if
you want to open a credit card or anything like that.

Okay. Transaction fees. A prime example if you're out
of the state, if you’re out of the country, call and
see if your card is going to be accepted out of the
state. There's foreign transaction fees. So, they're
going to give you this information once you sign all
the documents or, and before you sign the documents so
you can go over this and see what hidden fees do they
have. It does seem like a lot, but once you highlight
and you read it and go over it for yourself, you will
know what to do and what not to do. A prime example if
I'm going out of the country, I'm going to bring cash.
So, I'm not going to focus on credit cards because of
the 98.2%, you know, of each transaction in our U.S.
dollar. See keep that in mind. Then there are penalty
fees, as I talked about earlier. There's a lot of fees
associated with credit cards, and it does seem like a
lot and it condition overwhelming but credit cards are,
like I said at the beginning, if you use them right you
can be sure to avoid some of those, most of these fees
or even all of these fees when using such a tool in
your financial toolbox. Okay, so I see a question and
it says, "What if you’re late, what if you're laid off
and all your payments are now on your credit card and
it’s way over your allowance?" Okay. So this question
is more related to his budget and how he's going to
able to afford his credit card payment after being laid
off or not working. I would suggest calling your
credit card company and telling them what's going on in
your life. In most situations, they give you the
opportunity to say, hey you know we can postpone it or
we can take $10 this month or and you give them a
timeline of what might work for you. So, that's the
first option. The second option is to definitely keep
it down at 20 to 30% because at any given time you'll have, you know, $20 to $25 every month to pay the minimum that your credit card is asking for. Okay. So, keep that in mind. Okay. Hopefully that answers your question. Okay. So how many in avoided fees? Well, my suggestion is two credit cards. Of course, some of us have more, we're in college. The average is definitely higher than two. It's around four. But I think we should focus on just two. I know prime example is I got one when I was younger, you know, first few years of college, and it was a higher interest rate. It was a higher interest rate because I knew the ballroom. That’s the first reason. The second reason is because they don't know how much, I wasn't making a lot of money. So definitely they gave me a card with a high interest rate. And for that we just have to make sure we pay our bills on time. Keep the, make sure we're not paying interest, which means we're paying in full each month. And then after that a few years of success, you make sure, okay well, maybe it’s time to get another card. One thing you want to consider is a low interest rate. Okay. That brings up another question as well, which one to pay for first. If you have credit cards right now, do you pay for the higher balance or do you pay for the higher interest or
the lower interest or do you pay off the one that has
the lowest balance. It's really up to you. But I can
give you two scenarios where I would pay off the higher
interest first because you're paying the bank more
money. Now if that was the higher interest and it had
a lower amount, then I would focus on the low interest
with the higher amount. So it really depends on how
much money is on those cards. Okay. But if they both
have the same, I would definitely consider paying off
the higher interest because I don't want to give away
money. And then I would focus on the next card which
has the lower amount because I want to feel some sort
of gratitude and some sort of success in my financial
budget that I can, you know, carry on and continue to
pay for my other bills. It feels good to finally have
that burden off your back that you've paid off a bill.
Okay. So some of the benefits with a credit card is
for our protection, which is similar to your debit card
in a way. But with credit cards it takes it to another
level. We passed an Act quite a few years ago to
protect you for that reason with credit cards. Okay.
So keep that in mind when something pops up on your
credit card, and I didn't make this charge, then you
want to make sure you're checking what does that mean.
Okay. And you're checking your statements every month.
Okay, I see another question. It says, “Is it better to take loans and pay off your credit and slowly pay off your loan because still, we still get time of being undergraduate students?” Okay, this one can be or can either make you work harder to pay off that loan or get you further in debt. If you are not going to focus on paying down your credit cards or paying down on your credit line with that loan and then you're not comfortable cutting up that card afterwards, as a undergraduate student most likely you'll be spending or putting more money on that credit card even though you paid it off. Okay, so you're not going to have a lot of discipline to be able to do something like that, but it's doable. Especially if it's a subsidized loan where interest doesn't start and you can still start to pay off that loan back to the university or back to the other financial institution while you are still in school. Okay. So that's something you might want to consider, but like I said you have to have a lot of discipline and also you want to be sure that you're not going to put the same amount you're not going to put a large balance on your credit card. And, remember emergencies come. And that's what we want to make sure our credit cards are used for. These are emergencies or we're paying off the balance each month. Okay. I
hope that answers your question. Now, I will go over a few more credit card benefits. Like I said, you can dispute different settlements on your credit card, if somebody stole it. And it helps you build your credit. Of course, it's one of the main things that helps build your credit. It goes directly on your credit report. And it provides perks. Some of those perks are cash back, some of the perks are flying, you know mileage that you can fly. You know different things like that. But you want evaluate which perks work for you. Prime example is I know I'm not getting any vacation soon, so why do I need a flight? I need the cash back and then I can pay down my debt even further. Do you feel? Okay. So, and then the last thing is the ability to cope with emergencies. So that's one thing that we definitely want to stay focused with is focusing on emergencies. Okay. Here are some of the questions that you might want to ask when considering a credit card. What's the credit limit? What's the APR? What's the annual percentage rate? What is the interest rate? Okay. How widely accepted is the card? If it's AMEX, it's not going to be accepted everywhere. Right? If it's AMEX, which is American Express, it might not be accepted at all merchants. Other questions you might want to ask is what services does
it have? Some services even give you a certain period of time to try out that new product and send it back. Or in case that product has a defect, you can send it back. You know a lot of cards have some cool features like that. Okay. And other features like for our protection, credit card, credit monitoring. So look those up and be sure to go in with a better understanding of the questions you want to ask in considering a credit card. You want to understand what is your grace period? What if you don’t pay your credit card? How many days do you have until they say they are going to report it to the credit bureaus? Right. So stay focused on these questions because sometimes it's a 5-day grace period, sometimes it’s a 10-day grace period, sometimes there's no grace period. But if you understand you will have a little extra room to work with. And in some situations you can definitely ask them, hey, you know, can I change my payment date? They might work with you and the day that you get paid. So that's another option as well that you can call of the bank or the company to work that out. Okay. Ask them are there any annual fees? Will they have any fees associated with their cards, with their account, with their services? Ask them about all the fees, all the different fees because it's
important to you that you know what you’re getting
yourself into. Okay. If there are transaction fees;
right. A lot of gas places now, you know, now they
start charging 35 cents or 10 cents higher in gas
because you’re using your credit card or you’re using
your debit card. And that might be an instance where
you want to go to the bank and pull out, you know, cash
to go to the gas station. Okay. The last thing that
we really want to focus on is the major importance of
your credit report and your credit scores; right. So
here are the websites and I hope you all take advantage
of this because they are free. These are free
resources out there for you that the government makes
available. The first one the government makes
available to you because you need to know what your,
where your credit stands and if the right people, the
right merchants have been reporting to your credit
report and to the credit agencies. Okay. So that’s
the free annual credit report. This is not
freecreditreport.com. This is annualcreditreport.com
which is powered through the three credit bureaus.
Okay. And that's annualcreditreport.com again. And
then we have your free credit score. So of course, we
need to know our credit score, which can range anywhere
from 350 to 850. We have that being creditkarma.com.
Credit and karma is with a “K” dot com. So these are some great resources out that you can do right now. You can do this one online and have it mailed to you for your credit report. You actually get three opportunities throughout the year, so one from each credit bureau. Normally I get one every four months, so I can keep an eye on my credit, so I can know what’s going on. If I don’t know what’s going on, then when I apply for a new credit card or when I apply for a house, then if something comes up then that’s going to delay my price. It's going to increase my price, as well as, delay me getting that, you know, home or that car or is that new credit card. Okay. And if you had a better understanding of what your credit score is you will definitely know, hey I know my credit score, I’m going into a bank and telling them, hey I have a 780. What can I get with a 780 instead of them pulling your report. Right. Similar companies like T-Mobile and other phone providers now try to pull your report as well. So, if you have a better understanding and if you qualify, then that's something you might want to do also. Now, the cool thing also everyone to stay focused on is we will be talking more about your credit report and your credit score at our credit workshop. So be sure, it should be on our website. It is on our
website, it's called the “Importance of credit.” So make sure you get a chance to go out, to go to that workshop, which will be in Juniper Hall, 4117. Okay. And for our last slide is to just make sure you contact us with any questions or concerns or if you even want to set up an appointment with us one-on-one to go over your credit report, to go over your credit score. I see another question here. It says, “What’s the difference – and I’m thinking you’re asking what’s the difference between the different credit bureaus? There's not too much of a difference, but you know, there is different companies for different things. So, prime example there's one Transunion, Equifax, and Experian. Those are the three major credit bureaus. But you can't just trust one company with relaying information about your credit history. Some companies use Experian to pull your credit report and some employers even use, you know, Transunion to pull your credit report to see if you're going to be a reliable candidate for employment. So, there are three different companies and for that reason to make sure that you have access to each one of those. Okay. So are there any other questions or did I miss any questions before we leave? We have about two more minutes.
Gregorio Alcantar: Yes, I’ve been picking up good questions and I've got a few questions I would like to ask that I got from the Chat room. The first question is, "How do we check what our current APR is?"

Tray Thompson: For your current APR you can check your statement, your credit card statement. Or you can even call the number on the back of your card. Or you can even walk into the bank and say, hey what's my credit, what’s my APR, what’s my interest rate on my credit card? And, they’ll look it up in their system and they’ll be able to tell you. So that's a cool feature as well of having them. You can try to negotiate for a lower APR, but most likely they’re going to keep it where it's at. So in the future just build up your credit and apply for a new credit card at a later time. Remember don't apply for too many because it can start to impact your credit report and your credit score. They’ll think you’re just trying to be greedy and you just want to spend a lot of money. Okay. So are there any other questions?

Gregorio Alcantar: I have three more questions. One question was - "I thought that keeping my payments, keeping up on my payments was good for a good FICO score, but now I’m learning that I really have to stay under 35% on my credit card balance; is that correct?"
Tray Thompson: That is exactly right. So, seems like you're on a good track. So you're keeping up your payments and you have a balance on that card. Then that's okay too, but remember you’re going to be paying that interest. Sometimes it cost to do a good credit report and a good score. So keep that in mind also. But, you're at a good area. So try to pay a little more on that card so you can get it down to at least 40%. Because, remember when it starts going past 50, 60, 70, it begins to get unmanageable, as well as, the credit agencies start to look at you and say, well this person doesn't really know how to manage their credit report, their credit cards, okay. What is the next question?

Gregorio Alcantar: Two more questions. The next question is, “In one of the slides you showed two websites, annualcreditreport.com and creditkarma, what is the one difference between both? Why would I go to each one?

Tray Thompson: The difference between both is you have two different things that are related to credit. So you have your credit report, which is like a report card. It has the comments, you know, of all your different merchants you've been with, your address changes, all your information that you have. That's where you get that information from. Remember the
Transunion, the Equifax, as well as, the Experian. So, those are those people. Right. There are also another feature and another thing that companies keep in mind. When they look at that, they also look at your credit score. That credit score is very important to them. Because with that score they put you in a certain categories of how much interest they want to charge you. How loyal have been with your existing cards. And with that they make sure that service is free to you as well. The credit karma website is a website not provided by the government. It is more of a free website where you can go and get that information without paying for it. Because, the annual credit report does not provide it, only at a charge. And this website provides this information to you, but it might try to solicit credit cards offers to you as well. So, you make sure you know what offers you want. You make sure you know and understand what you qualify for and really just use that service for what it really was intended to do was to give you your credit score for free. Okay. Another question.

Gregorio Alcantar: Okay, so since we reached our time, it's now 30 minutes past. We can keep the Chat room open right after we sign off. Because there are some questions that are coming in after, but unless
you have any final thoughts before we would go ahead
and close it.

Tray Thompson: Okay. Well, that's all I have for
you all today. Make sure you email me. I'll stay a
little after to make sure you hear my voice. We'll
just stop recording. Thank you very much for showing
and up and showing out at this webinar.