

Debt and credit cards

Daniel Folkinshteyn, PhD
<http://finance-lectures.com/>
personal@finance-lectures.com

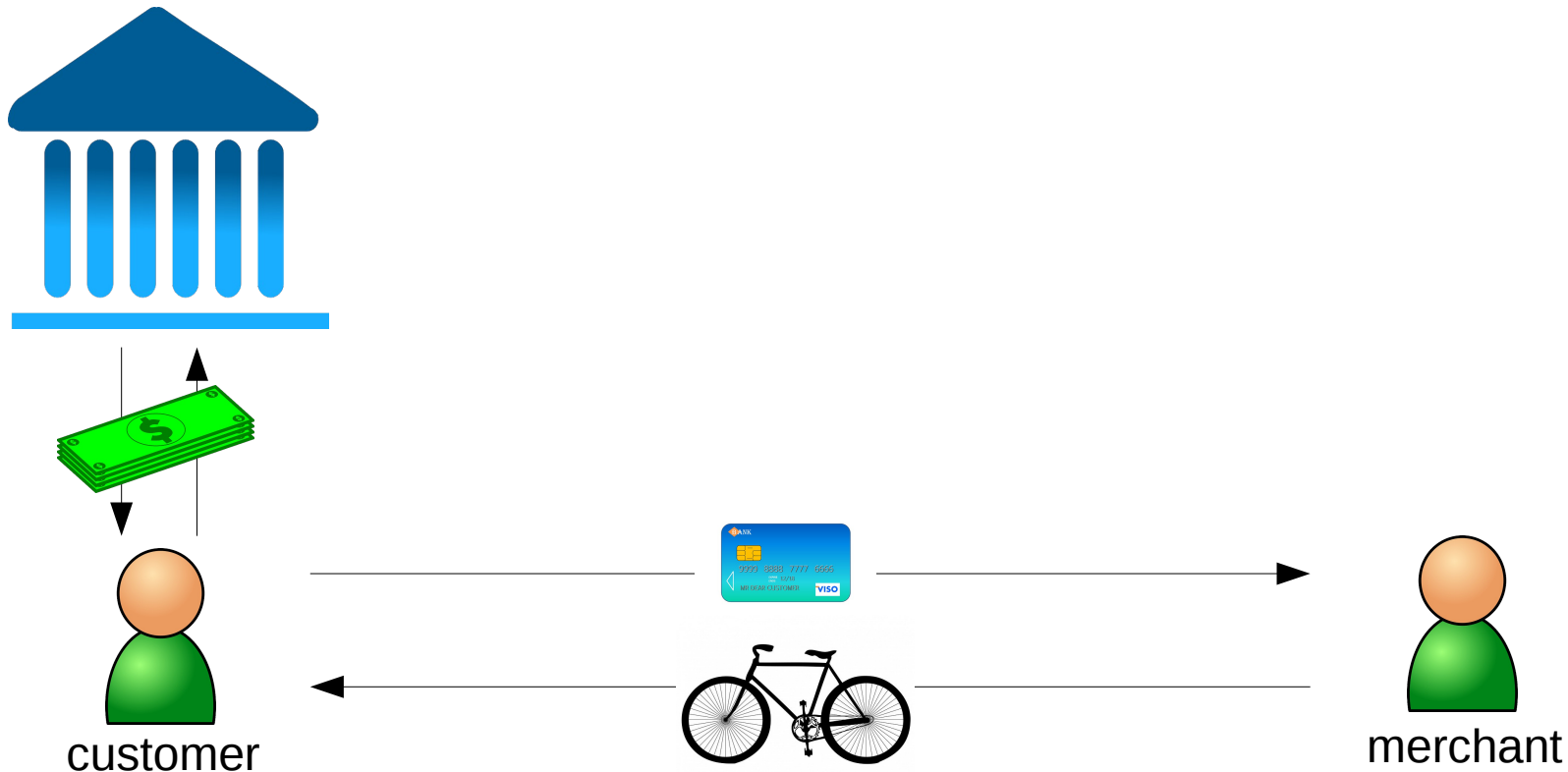
Learning objectives

- Describe the basic features of credit cards
- List statistics on credit card debt in the US
- Explain major types of credit card fees
- List benefits of credit cards
- Calculate monthly interest and length of time to pay off debt
- Describe how to use a credit card to your advantage

Nature of credit cards

Automatic borrowing facility

Similar to debit card, but use other people's money



CC debt statistics

Total US credit card debt: ~ 890 billion

Average per household: ~7,000

Percent of households carrying debt: ~33%

Average interest rate: ~15%

Sources:

<http://www.creditcards.com/credit-card-news/credit-card-debt-statistics-1276.php>

<http://www.creditcards.com/credit-card-news/interest-rate-report-100114-up-2121.php>

Credit card fees

- Charged to card holder:

- Interest rate: 0% - 30%

- Annual fee: \$0 - \$500

- Late fee: \$25 - \$35

- Cash advance fee: 3% - 5%, \$10 minimum

- International transaction fee: 1% - 3%

- Over limit fee: \$25 - \$35

- Charged to merchant:

- Processing fees: 2% - 3%

Credit card benefits

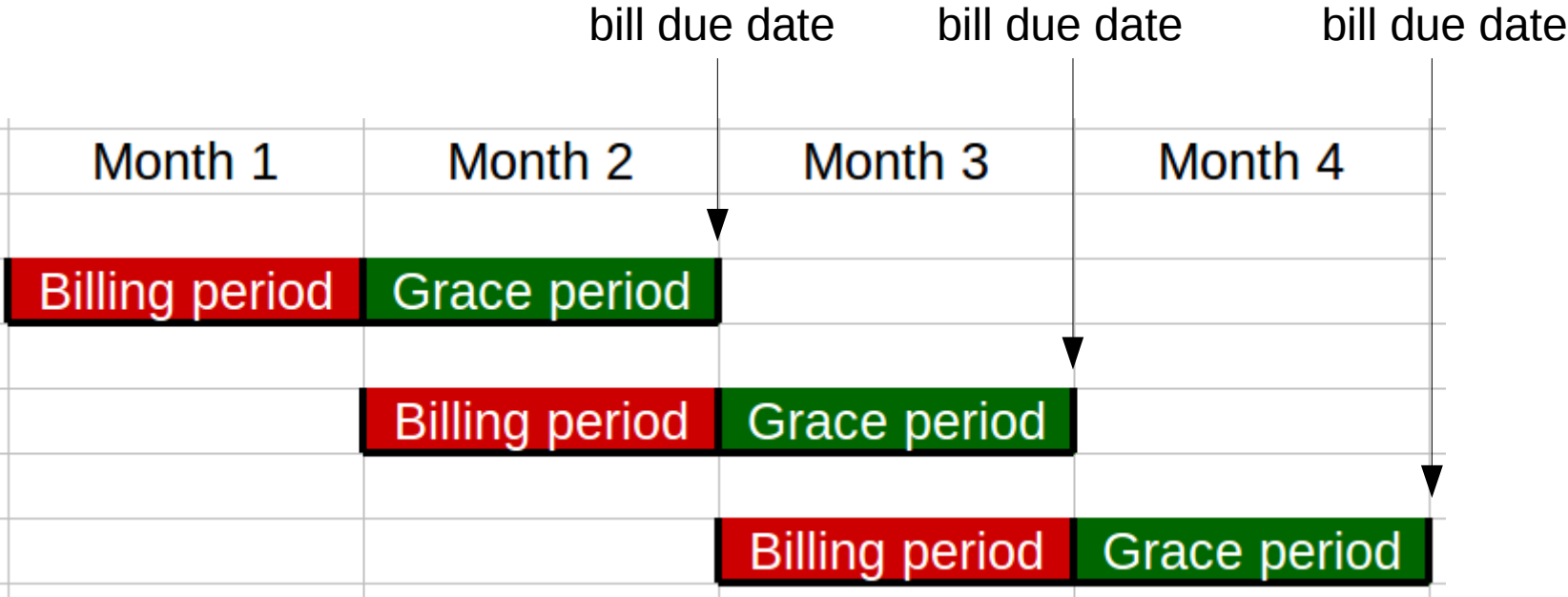
No need to carry cash

Free money for a month

Fraud protection

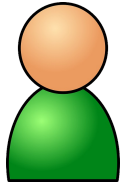
Discounts and rewards

CC timeline

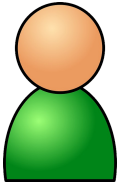


Fraud protection

Cash



Debit



Credit



Rewards

- 1% - 2% cash back
- Free discount, if you can avoid paying the fees
- Stay away from attempts to influence your spending:
 - Rotating bonus categories
 - Airline miles
- Main thing is: avoid fees. Rewards are negligible.

Quiz 1

Let's say you spend 10K per year on your card, which gives you 1% cash back. How much are you saving in dollar terms?

$$10,000 * 0.01 = 100$$

Example: debt repayment

Like the average household, you have 7K in credit card debt, at a 15% interest rate. You make the minimum required payment of \$150 per month.

How long will it take to pay it off?

How much in interest will you pay in total?

Rates stated as APR (annual percent rate):

Monthly rate is $APR/12$

Quarterly rate is $APR/4$

Quiz 2

What if you pay 200 per month toward your credit card debt instead of 150.

How soon will you finish paying it?

How much in interest will you pay in total?

Results: 46 months, \$2,263 interest

Saved: 24 months, ~\$1,300 in interest

Being smart about credit cards

Do not pay fees

Do not pay interest

Pay off entire balance every month

Enjoy fraud protection

Check statement every month

Reap cash rewards

Additional reading

Search the web for "smart credit card use"

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