



Debit and Credit

Lessons Two and Three: Personal Spending and Savvy Shopping

Debit? Credit? There are advantages and disadvantages to both methods of payment. You need to consider each carefully.

- A **debit card** allows for an immediate electronic transfer of money from a cardholder's bank savings or checking account. A debit card is essentially a paper check but doesn't require the processing time a check does. A cardholder must have the money in the bank to pay for the purchase.
- A **credit card** provides a preapproved credit. A credit card allows a holder to buy goods and services now and pay for them later. Credit cards are not free money. Money charged to a credit card must be paid back, like any other type of loan, plus interest if the bill isn't paid in full each month.

Credit—the ability to borrow money—can be a helpful tool when used responsibly. Credit offers many advantages: the freedom to carry small amounts of cash, the opportunity to establish a good credit history, and the ability to track expenditures. Credit also increases financial flexibility, allowing users to enjoy goods and services now and pay for them at a later date.

Notes:

Vocabulary

Bankruptcy
A legal process that gives a debtor protection from creditors.

Cash
Money in the form of bills or coins.

Check
A written order for a bank to pay money.

Credit
The amount of financial trust extended to a person or a business by a lender; a loan.

Credit card
A card authorizing the holder to buy goods and services that can be paid for later.

Debit
An amount deducted from a bank account.

Debit card
A card that looks like a credit card but operates like cash; money is immediately subtracted from the cardholder's bank account when a purchase is made.

Debt
Money owed.

Foreclosure
A legal process in which a lender takes possession of mortgaged property from a mortgage holder who failed to make payments.

PayPal
An online payment service that allows consumers to transfer money electronically.

Debit Card Advantages

- Buy now, pay now.
- Easy access to your money; operates like a check or cash. The purchase amount is subtracted from your account.
- No interest charges.
- Withdraw cash at ATMs using the card's PIN (personal identification number).
- No annual fee (usually).
- Online statements.
- Federal law limits liability to \$0 if the card is reported missing before someone uses it.

Debit Card Disadvantages

- Monthly maintenance and overdraft fees may apply.
- ATM charges for out-of-network banks.
- Debit card use is not a way to build credit history; activity is not reported to credit bureaus.
- If account number is stolen, money can be withdrawn.
- \$500 liability if the card is reported missing more than two business days after a loss or theft, but less than 60 calendar days after a statement is sent.

Credit Card Advantages

- Buy now, pay later.
- Enjoy goods and services without needing to have the cash on hand.
- Flexibility to make purchases anytime and anywhere.
- Use for online purchases.
- Handy in emergencies.
- Cash, travel, and gift rewards.
- Pay bill in full by due date to avoid interest charges. Grace period is usually 25 days.
- Federal law limits liability to \$50 for unauthorized charges if card is stolen.

Credit Card Disadvantages

- Subject to credit qualification.
- Annual fees may apply.
- Terms, rates, and fees are changeable.
- Interest is usually charged on unpaid monthly balances. The interest rate (annual percentage rate or APR) carries over on balances from one billing cycle to the next.
- Rates vary and will depend on creditworthiness—debt, income, credit score, and payment history.
- Sample APR on purchases: 14.99%.*
- Sample APR on balance transfers: 15.99%.*
- Sample APR for cash advances: 21.99%.*
- Sample APR penalty: 28.99%.*
- Missed payments affect credit rating.

*Source: [federalreserve.gov/creditcard/#](https://www.federalreserve.gov/creditcard/#)

Sample Credit Card Statement

My Bank USA

April 2018 Statement 03/08/2018 – 04/05/2018

Stacie Casey

New Balance **\$936.36**
 Minimum Payment Due \$ 15.00
 Payment Due Date 05/03/2018

Late Payment Warning:
 If we do not receive your minimum payment by the date listed above, you may have to pay up to a \$35.00 Late Fee.

Transactions

Payment and Other Credits

Post Date	Trans Date	Ref #	Transaction Description	Amount
03/26	03/26	0027	Payment. Thank you.	\$ 15.00
Total This Period				\$ 15.00 cr

Purchases and Other Debits

Post Date	Trans Date	Ref #	Transaction Description	Amount
03/12	03/11	2243	ABC Stores Unlimited	\$ 19.95
03/18	03/16	4567	Café Express	\$ 28.31
03/25	03/22	5468	Just 4 You Nails	\$ 55.00
03/26	03/25	4319	Sleep Easy Hotel	\$ 113.75
04/01	03/29	6639	PayPay Fitness USA	\$ 35.00
04/01	03/28	3400	Pharmacy	\$ 20.00
04/04	04/03	5489	Great Online Movies	\$ 6.45
Total This Period				\$278.46

Fees

Post Date	Trans Date	Ref #	Transaction Description	Amount
04/05			Annual Fee	\$ 0.00
Annual Percentage Rate (APR)			Purchases 15% Variable	

Activity Summary

Previous Balance \$665.15
 Payments \$ 15.00 cr
 Purchases \$278.46
 Balance Transfers \$ 0.00
 Advances \$ 0.00
 Finance Charges \$ 7.75
New Balance \$936.36

Credit Limit \$3,000.00
 Line of Credit
 Available: \$2,063.64
 Days in Billing Period 29

Credit Scenarios

Read the following scenarios carefully. In each scenario, find either one advantage or one disadvantage of using credit. Circle the advantages and underline the disadvantages.

Scenario One

Before the Gonzalez family went to Walt Disney World for vacation, Mom decided to put most of the money the family had allotted for the trip into a savings account and not carry it with her to the amusement park. She then wouldn't have to worry about losing it or having it stolen. She would use her credit card to pay most of the expenses and then pay for the trip in one lump sum when the credit card bill came.

Scenario Two

Mario left for college and was excited to be on his own. He received several credit card applications and decided that having one card would be helpful while he was away from home. After receiving the card, Mario found it easy to use and started impulsively buying things he thought he really needed. Soon his bill was up to the limit, and someone had to pay it. His parents were not happy with him.

Scenario Three

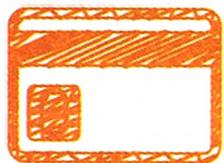
Ricardo bought a used motorcycle with a small loan from his credit union. He made regular monthly payments of \$180 for three years until he had it paid off. When he received the motorcycle title and final paperwork and looked them over, he realized that with interest added, he had paid the credit union \$140 more for his motorcycle than he would have if he had paid cash.

Scenario Four

Rolanda and her best friend were each given a trip to Europe when they graduated from college. They calculated their expenses and planned on taking a small amount of cash and paying for everything else by check. Seeking advice from their bank, they were told that a credit card would be a better option because it would be accepted for payment in many places that would not take personal checks.

Scenario Five

Randy used his credit card to buy a watch that later stopped working. He returned to the store and was given a replacement that also didn't work. He decided he wanted his money back instead of another watch of the same kind. He was told the problem could be easily taken care of because he had charged the watch. He was given full credit on his credit card account for the price of the watch.



Debit and Credit

Lesson Four: Managing Credit

You may know about the consequences of bad debt but do you know the benefits of good debt? When a debt is paid on time and with no missed payments, the action reflects positively on a consumer's credit. When credit is used responsibly, it demonstrates to lenders that a consumer is creditworthy—that he or she has used credit successfully with a history of paying bills on time. Maintaining a good credit record is important. With it, consumers can get loans for houses, cars, boats, and home improvements.

Lenders need a way to understand the financial risk of issuing a line of credit. Credit reports and credit scores are two ways prospective lenders assess the likelihood of a consumer loan being paid on time and in full. A **credit report** determines a consumer's creditworthiness. It details personal and financial information about a person, including existing loans and credit accounts, any late payments, and recent inquiries from other creditors. It can only be obtained by prospective lenders with the borrower's permission. A **credit score** is a numerical expression of a person's creditworthiness and is based on information in a credit report. Lenders may seek scores from more than one agency, depending on the credit being applied for.

Credit reporting agencies keep records on a consumer's credit experience. A credit report includes information on where you live, how you pay your bills, and whether you have been sued or arrested, or if you have filed for bankruptcy. Nationwide consumer reporting companies sell the information in your report to creditors, insurers, employers (with written consent), and other businesses that use it to evaluate your applications for credit, insurance, employment, or housing. Simply put, if you are a responsible borrower, you will have a good credit rating. If not, you will have a poor credit rating. Whether to use credit is an important decision.

Vocabulary

Credit report

A record of a person's financial information, including previous addresses, Social Security number, current and previous employers, estimated income, credit card accounts with amount owed and payment history, and loan information.

Credit score

A standardized measurement of the potential to repay a debt.

Notes:

PERSONAL DATA

birth date
 health
 personal data
 former employer
 resumé
 information

marital status
 social security
 height
 weight
 permanent address
 present address

**A. Matching.** Write the number of the correct word(s) on the line.

- | | |
|---------------------------|--|
| 1. permanent address | a. _____ your written job history |
| 2. Social Security number | b. _____ place where you can always be reached |
| 3. present address | c. _____ when you were born |
| 4. resumé | d. _____ information about you |
| 5. former employer | e. _____ where you live now |
| 6. personal data | f. _____ number given to you by the government |
| 7. birth date | g. _____ someone you worked for in the past. |

Social Security
health
personal data

former
marital status
information

weight
permanent address
present address

B. Reading. Fill in the blanks with words from the box.

John went job hunting. He went to the local state employment office. The person there gave him a form to fill out. It was called the _____ sheet. It asked for many different kinds of _____. It asked where he lives right now. This is his _____. It also asked for a place where he could always be reached. This is his _____. It asked about his _____. He has no wife, so he wrote *single* on the line. It asked about his _____. He had not been sick for a long time, so he wrote *excellent*. He also wrote down his height and _____.

He could not remember his _____ number. He took a piece of paper from his wallet on which he had written important information, including the names and addresses of his _____ employers.

Name _____

BIRTH CERTIFICATE

Follow the life of Ferdie Fillemout, and you will learn all about filling out forms.

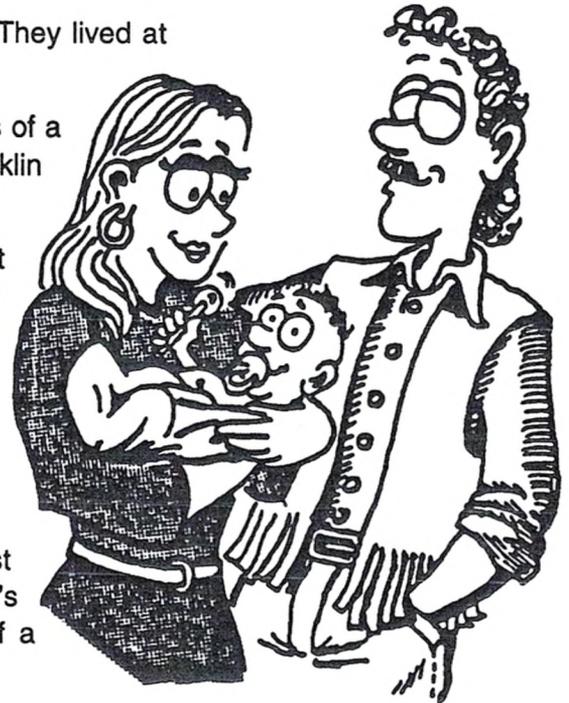
Frederick Francis Fillemout married Frances Fenton Formly. They lived at 54 Palm Lane in Phoenix, Arizona.

On July 30, 1977, Mr. and Mrs. Fillemout became the parents of a bouncing baby boy. They named him Ferdinand Franklin Fillemout.

Ferdie (as his parents called him) was born at 10:30 A.M. at Good Hope Hospital in the city of Phoenix, the county of Maricopa. The doctor who helped at his birth was Dr. Joseph Hill, M.D.

After Ferdie was born, a birth certificate was filled out. **Use the information above to complete Ferdie's birth certificate.**

(Additional information: A woman's MAIDEN NAME is her last name before she gets married. In this case, Mrs. Fillemout's maiden name is Formly. When a form asks for the SEX of a person, it is asking if the person is a MALE or a FEMALE.)



STATE OF ARIZONA Certificate of Live Birth			
NAME OF CHILD	A. First	B. Middle	C. Last
SEX	DATE OF BIRTH	TIME	
PLACE OF BIRTH	A. County	B. Town or City	C. Hospital
FATHER'S NAME	A. First	B. Middle	C. Last
MOTHER'S MAIDEN NAME	A. First	B. Middle	C. Last
Father's Place of Birth	Father's Date of Birth	Mother's Place of Birth	Mother's Date of Birth
Pennsylvania	1/06/49	Iowa	7/16/51
MOTHER'S STREET ADDRESS			
PARENT SIGNATURE	RELATIONSHIP TO CHILD	DATE SIGNED	
DOCTOR'S NAME	DOCTOR'S SIGNATURE		

Name _____

BIRTH CERTIFICATE

Use the information on your Ferdie Fact Sheet to answer the questions below.

1. In what county is Phoenix, Arizona, located?

2. What is Mr. Fillemout's middle name?

3. What is Mrs. Fillemout's middle name?

4. What is Ferdie's middle name?

5. On what date was Ferdie born?



How much do you know about what is on your own birth certificate? Answer as many of the questions below as you can.

1. What is your full name (first, middle, last)? _____

2. In what city, state, and county were you born? _____

3. **At** what time were you born? _____

4. What is your mother's maiden name? _____

5. At what hospital were you born? _____

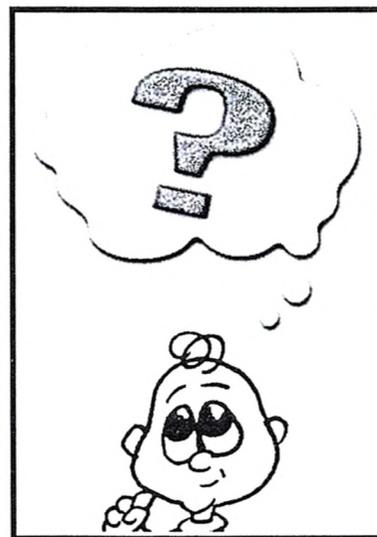
6. In what state was your father born? _____

7. In what state was your mother born? _____

8. What was the name of the doctor who signed your birth certificate? _____

Even though Ferdie is just a baby, he must have his own Social Security number. It will be his identification number for his whole life. He will be asked to write it on income tax returns, college entrance forms, bank accounts, job applications, and other forms. The reason he needs it now is because his parents will have to show the number on their income tax returns when they list him as their child.

Help Ferdie's father complete the form on page 4. First, read the instructions on the form and answer the questions below. You will need your *Ferdie Fact Sheet* to answer some of the questions.



1. What type of writing tool must be used to fill in the form? _____
Should the information be printed or written? _____
2. Look at item #1 on the form. How should Ferdie's name appear on his Social Security card?

Should the next two lines be filled in (nicknames don't count)? _____
3. In item #2, what does "Do Not Abbreviate" mean? _____
4. Ferdie was born in the United States. Which box should be checked in item #3? _____

5. Ferdie's parents are not Asian, Black, Indian, Hispanic, or Alaskan natives. Which box should be checked in item #5? _____
6. Ferdie's dad filled out the application exactly one month after Ferdie's birth. What date should be given for item #14? _____
7. The Fillemout's phone number in Phoenix was (602) 555-2983. Use this for item #15.
8. Sign Ferdie's father's name on line 16. He is Ferdie's natural father. Check the correct box for item #17.