09-16 Class Summary: Personal Finance — Credit Card Pitfalls, Emergency Borrowing, and Interest Calculations

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Personal Finance Class Summary — September 16

Class Context and Attendance

- Course: Personal Finance (senior-level)
- Date: September 16
- Policy reminder: Phones must be put away or students will be sent to the office
- Session format: Light note-taking; focus on absorbing content. Presentation, individual work, then a class activity

Presentation: Financial Diary of a Young Adult (Credit Card Case Study)

- Scenario:
  - New high school grad with part-time work receives a pre-approved credit card for $2,500 (marketing)
  - Fine print not read: $59 annual fee auto-charged upon issuance
  - Actual approved limit post-credit check: $300 (common for first-time users)
  - Immediate balance before any use: $59 due to annual fee
- Purchase and over-limit cascade:
  - Purchase: Xbox for $300 while $59 fee already posted
  - Issuer lets it go through → over-limit
  - Fees/balances Day 1:
    - Over-limit fee: $40
    - Balance: $399 ($300 Xbox + $59 annual fee + $40 over-limit)

        - Utilization: 133% (very negative)
        - Credit score impact: ~590 → ~550 (−40), over-limit reported
- First bill and missed payment:
    - Expected vs actual bill: Expected $300; actual $399
    - Can't pay minimum (~$40) → skips payment
    - At 30 days late:
        - Late fee: $40
        - APR example: 29% applied
        - New balance: ~ $449
        - 30-day delinquency reported (serious derogatory)
        - Score drop: additional ~80 points → ~500s
- Continued nonpayment:
    - At 90 days late:
        - Balance: ~ $552 (interest + fees)
        - Card frozen; no new charges
        - Score ~440
        - Collection calls escalate; possible collections referral
    - At 180 days late (six months):
        - Balance example: $718.20
        - Status: Default; 180-day severe derogatory
        - Charge-off: Original creditor writes off, sells to collections (~$200 sale)
        - Collector aims to recover full balance for profit (~$500), aggressive tactics
- Legal/practical consequences:
    - Credit score around ~390 ("extremely bad")
    - Likely denials: New credit, apartments
    - Utilities/phone: Possible with large deposits (e.g., $300)
    - Auto insurance: Higher premiums
    - Employment: Some jobs reject over bad credit

- Collections path: Potential lawsuit/judgment and wage garnishment (~30%)
- Card canceled; attempted use risks confiscation or police involvement
- Banking exclusion:
  - Banks may deny new checking accounts
  - Payroll via paper checks; check-cashing fees (~20%)
  - Paying bills via prepaid cards ($15–$20 per use)
  - Overall 30–40% income lost to fees (“financial hell”)
- Core lesson: Early missteps (fees, over-utilization, missed payments) can snowball into long-term limits on housing, work, and banking

Billing and Account Basics

- Typical credit card due date: ~25 days after the billing cycle closes (e.g., cycle starts on the 1st → due on the 26th)
- Cash advance constraint: Requires available credit; with a $500 limit and ~$369 owed, a $500 cash advance isn’t possible

Work Block: $500 Thinking Sheet (Emergency Cash Options)

- Scenario:
  - Low-limit card ($500 limit), current balance $359
  - No emergency fund; behind on utilities
  - Pink notice: Pay $500 past-due by Thursday midnight or electricity off Friday 8 a.m.
  - It’s December; −12°F forecast; electric heat
  - Family can’t help; $500 needed immediately
- Research goal: Evaluate five options—how they work, pros/cons, and likely outcomes; choose one and justify
  1) Loan shark (illegal)
  2) Payday loan store
  3) Auto title loan store
  4) Pawn shop
  5) Credit card cash advance

2) Guidance:

- Use internet and AI to research; synthesize (don't paste blindly)
- Explain mechanics, repayment, and risks in depth
- Payday loans: Full principal due next payday; if not, pay fee to roll over; often a fee-trap cycle
- Pawn shops: Offer a fraction of value; expect needing collateral worth ~3× loan (e.g., ~$1,500 item for $500); risk losing item
- Loan shark: Illegal; discuss moral/legal risks and rapid-access trade-off
- Auto title loans: Collateral is car title; very high APRs; short terms; repossession risk
- Credit card cash advance: Immediate, high fees/interest, no grace period; limit may block feasibility in this scenario
- Decision expectation: Identify pros/cons; select least-worst option balancing survival (heat) vs long-term harm

Analytical Framework (Group Outputs Required)

1. Mechanism: Detailed steps and practical considerations
2. Downsides: Key risks/costs
3. Upsides: Benefits/situational advantages
4. Best-fit scenario: Concrete use-case to obtain $500

Borrowing Methods Overview

- Loan Shark
  - Mechanism: Unregulated/illegal; immediate cash, steep price
  - Downsides: Illegal; threats/violence for nonpayment
  - Upsides: No credit checks/collateral; very fast
  - Best-fit: Absolute last-resort life-threatening emergencies when all legal options fail
- Payday Loan
  - Mechanism: Show income; get ~$500; full repayment due in ~2 weeks
  - Fees: ~ $30 per $100; $500 → ~$150 fee every two weeks if rolled over
  - Downsides: Lump-sum due; rollover fees cause debt spiral
  - Upsides: Quick, accessible with proof of income
  - Best-fit: Immediate legal cash need; anticipate difficulty escaping fees
- Car Title Loan

    - Mechanism: Borrow against vehicle title; keep driving; installments at high APR
    - Downsides: Repossession risk; requires owning a qualifying car
    - Upsides: Structured payments; reclaim title on payoff
    - Best-fit: Owners with sufficient vehicle value and no cheaper credit
- Pawn Shop Loan
    - Mechanism: Exchange item for a small fraction of value; repay to redeem
    - Typical advance: ~1/3 of value; need ~$1,500 item to net $500
    - Downsides: Lose item if not redeemed; many lack eligible items
    - Upsides: Quick; no credit check; suitable for low-sentimental items
    - Best-fit: Short-term need with non-sentimental collateral worth ~3× cash needed
- Credit Card Cash Advance
    - Mechanism: Cash via card; high cash-advance APR and fees; interest starts immediately
    - Constraints: Requires available cash-advance limit; not feasible here
    - Downsides: High costs; no grace period
    - Upsides: Can be reasonable if available credit exists and repaid quickly
    - Best-fit: Sufficient available credit and strong near-term repayment capacity

Comparative Conclusions (Least-Worst Options by Context)

- Best (if feasible): Credit card cash advance with fast payoff
- Next: Pawn shop—if a ~$1,500 item is available and acceptable to risk
- Then: Car title loan—only if owning a suitable car and able to manage payments
- Problematic legal option: Payday loan—expect rollover fee risks
- Last resort: Loan shark—extreme risk; only in life-or-death emergencies

Technical/Access Issues and Workarounds

- Issue: Inconsistent access to Discover credit card calculator; some windows blocked under same account
- Interim solution:
    - Use alternative calculators: “credit card payment calculator,” “credit card payoff monthly calculator”

  - Acceptable tools: calculator.net and similar sites not blocked
  - Updated links to calculator.net; if blocked, log out/in or try different calculators
- Input tips:
  - Use fields that matter: balance, APR, monthly payment or months-to-payoff
  - Omit unclear fields (e.g., “monthly budget”) or set to zero
  - Some tools enforce minimums (e.g., $35); accept and document if consistent with issuer policies
  - Keep units consistent (e.g., “12 months” vs “1 year”) to avoid display discrepancies

Calculator Demonstrations and Insights

- Examples:
  - $50/month at 22.95% APR → ~10 years to payoff; ~ $3,000 interest
  - $2,486 balance, $55/month at 24.95% APR → ~11y 10m; ~ $5,200 interest
  - Payoff in 1 year at 24.95% APR → ~ $350 interest (requires higher monthly payment)
  - $55/month at 4.5% APR → ~4y 2m; ~ $246 interest
- Key concepts:
  - Lower payments at high APRs massively increase total interest and payoff time
  - Shorter payoff timelines slash interest costs
  - Two planning modes: fixed payment → time/interest, or target time → required payment
  - Reducing APR (balance transfer/refi) meaningfully saves interest

Classroom Workflow and Management

- Workflow:
  - 20–25 minutes for $500 Thinking Sheet, then class activity
  - Early finishers: “Questions to ask about your credit card,” then “I did something stupid with a credit card”
  - Optional: Instructions offered to run a personal credit check (not for points)
  - Note: One assignment mislabeled under Economics; teacher will fix
- Group activity:
  - Groups formed around borrowing methods; movements adjusted for attendance (Expectations:

- Stay in class; frequent, unverifiable out-of-class trips discouraged
    - Obtain passes in advance for nurse/counselor/staff visits
    - Ask for help during work time; communicate clearly

Credit Behavior Clarifications

- Paying off cards is never bad for credit by itself
- Risk: Using a consolidation loan to pay cards, then running balances back up
- Inactivity:
    - Issuers may close unused cards after ~6–12 months
    - Closure can hurt credit (reduces available credit/average age)
    - Best practice: Small periodic charges and PIF monthly

Credit, Security Clearances, and Military Enlistment

- Bad credit (~500): Enlistment may be possible, but no security clearance roles (e.g., nuclear/cyber)
- Very bad credit (300–400s): Military may refuse to enlist

Data Points and Examples (Consolidated)

- Fees and APR:
    - Annual fee: $59
    - Over-limit fee: $40
    - Late fee: $40
    - Example APR: 29%
- Balance progression (on $300 limit card):
    - Day 1: $399
    - 30 days late: ~$449
    - 90 days late: ~$552
    - 180 days late: ~$718.20
- Credit score trajectory:
    - Start: ~590
    - Over-limit: ~550
    - 30-day late: ~500s
    - 90 days: ~440
    - 180 days: ~390
- Consequences/costs:
    - Utility deposit: ~ $300

- Wage garnishment: ~30%
- Check-cashing fees: ~20% of paycheck
- Prepaid card bill-pay: ~$15–$20/use
- Unbanked fee drag: ~30–40% of income

Conclusions and Lessons

- Read the fine print: Annual fees and lower limits are common for starter cards
- Over-limit usage and high utilization quickly damage credit
- Missing the first payment on a new card has outsized, lasting consequences
- Six months of nonpayment leads to charge-off, collections, and broad life impacts
- Emergency borrowing tools have distinct mechanics and risks; repayment structure matters, especially for payday/title loans
- In emergencies, choose the least-worst option balancing immediate safety (e.g., heat in sub-zero weather) with minimizing long-term harm

To-Dos and Action Items

- $500 Thinking Sheet:
  - Research all five options; list pros/cons; choose and justify
  - For payday loans: Document lump-sum due and rollover fee trap
  - For pawn shops: Estimate collateral value needed (~3× cash) and forfeiture risk
  - Use issuer “rates and disclosures” pages for APRs/fees/cash advance terms; note uncertainties if specifics (e.g., Capital One Platinum limit) aren’t published
- Class activity:
  - Prepare to compare and defend chosen emergency option
- Follow-on assignments:
  - Complete “Questions about a credit card” (fees, due dates, APR; cite sources)
  - Begin “I did something stupid with my credit card” (cost implications)
  - Optional: Run a personal credit check
- Tools and access:
  - If Discover calculator is blocked, use calculator.net or similar; note the tool used
  - Keep inputs consistent (months vs years); verify across two calculators if possible

    - Log out/in or try alternative links if a page is blocked
- Instructor tasks:
    - Correct mislabeled assignment (Economics) in the LMS
    - Continue coordinating with IT to resolve calculator access discrepancies

Prioritization Under Utility-Shutoff Constraints

- With limited income, no assets, and insufficient credit:
    - Pawn shop only if a ~$1,500 item exists and can be risked
    - Car title loan only if student owns a qualifying vehicle
    - Payday loan is legal but likely to cause ongoing strain due to lump-sum and rollover fees
    - Loan shark is an extreme last resort with severe legal/personal risk

Session Notes and Observations

- Some students use calculator tools to compare high vs low APR scenarios; significant interest savings identified by paying faster or lowering APR
- Access anomalies observed: Same account with a tool open in one window and blocked in another
- Emotional reactions to interest totals highlight the importance of early planning and disciplined payoff strategies
- Reminders for students using family-paid cards: Spending still creates obligations; be cautious with discretionary purchases

Next Steps (Suggested)

- Compute exact monthly payment to pay off $2,486 at 24.95% APR in 12 months; compare with a 6-month payoff
- Audit active cards: list APRs/balances; prioritize highest APRs
- Explore APR reduction options (balance transfer, personal loan, promo APRs) and estimate savings
- Keep seldom-used cards active with small monthly charges and pay in full to avoid closures