BANKING AND CREDIT

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Presented by Gigi Wolf
Federal Reserve Bank of Kansas City
As the nation’s central bank, the Federal Reserve has three primary functions:

- Monetary Policy
- Supervision and Regulation
- Financial Services

The Fed also acts as the fiscal agent for the U.S. Treasury and is engaged in consumer protection activities.

34 percent of U.S. commercial banks are members of the Fed.
Kansas Consumer Trends

• Overall consumer debt has declined
• Mortgage delinquencies were below the national average - 3.9 percent were seriously delinquent
• The average debt per consumer was just above $15,000
• Revolving debt has declined
• About 2.2 percent of bank cards were delinquent
• About 13 percent of student loans were delinquent, while 3.7 percent of auto loans were past due
• 97 of every 10,000 households filed for bankruptcy
Kansas Consumer Trends

**Map:** Serious Delinquency Rates by County

The map shows the serious delinquency rates in counties across Kansas. The legend indicates the percentage ranges:

- **< 1%**
- **1% - 2%**
- **2% - 4%**
- **4% - 6%**
- **6% - 8%**
- **> 8%**
- Insufficient Information

**Source:** Lender Processing Services, Inc.

Note: Serious delinquencies represent mortgages that are 90 or more days past due or in some stage of the foreclosure process.
Financial Institutions

• Insured Financial Institutions
  o Banks and Thrifts
    o Subject to federal and state laws
    o All deposits are insured by the FDIC up to $250,000
  o Credit Unions
    o In addition to the above, they are nonprofit and require membership from account holders
    o All deposits are insured by the NCUA up to $250,000

• All offer different terms, fees, account types, etc.
Benefits of Financial Institutions

- Safety
- Convenience
- Financial Future
- Security
- Cost

<table>
<thead>
<tr>
<th>Unbanked vs. Banked</th>
<th>Unbanked = $1,300 in fees annually</th>
<th>Banked = $200 in fees annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>$800 for check cashing, bill paying</td>
<td>$60 for savings account</td>
<td></td>
</tr>
<tr>
<td>$200 for money orders</td>
<td>$60 for checking account</td>
<td></td>
</tr>
<tr>
<td>$300 for wire transfers</td>
<td>$100 for service fees</td>
<td></td>
</tr>
</tbody>
</table>
Credit Trends

• Credit cards comprise an increasing amount of consumer debt

• Average college student has 4.6 credit cards -- $4,100 of debt upon graduation

• According to Fair Isaac Co. (FICO):
  o Today’s consumers have an avg. of 13 credit obligations (9 are credit cards)
  o Over 50% of all credit card users make only the minimum payment each month
  o 30% have been delinquent on a credit obligation of 60 days or more
  o Almost 37% carry more than $10,000 of non-mortgage-related debt
  o 1 in 7 are using 80% or more of their credit limit
  o Avg. FICO score: 60% below 749
Credit Basics

• Importance of “GOOD” credit:
  o Helps to expedite large purchases and qualify you for certain transactions (car rental, etc.)
  o Influences how much interest you pay
  o Impacts employment and ability to rent an apartment
  o Affects insurance premiums or ability to be insured

• Four types of credit:
  o Revolving credit Charge cards
  o Installment credit Service credit

• Credit reports are available FREE annually through each of the three credit bureaus, www.annualcreditreport.com
## Cost of Credit

<table>
<thead>
<tr>
<th>Credit card with $2,000 balance and 18.99% APR</th>
<th>Minimum Monthly Payment</th>
<th>Higher Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payment amount</td>
<td>$40</td>
<td>$100</td>
</tr>
<tr>
<td>Number of months to re-pay</td>
<td>264</td>
<td>24</td>
</tr>
<tr>
<td>Total interest paid</td>
<td>$4,786</td>
<td>$424</td>
</tr>
</tbody>
</table>

- Credit card companies and lenders may use the following to determine whether or not to extend credit to an individual.
  - Income
  - Expenses
  - Assets
  - Debt to Income ratio
  - Employment history
  - Credit history
Credit CARD Act Overview

• Credit CARD Act passed in Congress May 2009
  o Credit Card Accountability Responsibility and Disclosure Act

• Staggered implementation August 2009, February 2010, July and August 2010 and January and July 2011
  o Prevents unfair increases in rates, terms and fees and encourages transparency
  o Requires fairness in application and payments
  o Protects the rights of financially responsible card users and safeguards young consumers
  o Provides enhanced disclosures of terms and conditions
  o Strengthens oversight of the credit card industry with increased penalties for violators
New Protections and Disclosures: Interest Rates

- Change in terms notice now requires 45 day advance
- No rate increases during first 12 months, including promos
- No increases for existing balances, even if penalty rates apply
- Universal default is no longer allowed
- Two-cycle billing is prohibited
- Promotional APRs must be at least 6 months long
- New accounts/limit increases based on individual ability to repay
- Penalty rates can be reversed if minimum payments made on time for 6 consecutive months
New Protections and Disclosures: Fees

- No fees unless there is adequate time to make payments
- No fees when payments are late due to a servicer address change
- No over-limit fees without “opting in”
- No fees for making a payment
- Fees limited to no more than 25% of credit limit
- Late penalty fees are limited to no more than $25
- Penalty fees cannot exceed the dollar amount of the infraction
- Inactivity fees are banned
- Fees cannot be assessed multiple times for a single violation
- Increased rates since Jan. 2009 must be re-evaluated
New Protections and Disclosures for Young Consumers

• No new credit cards or credit limit increases for individuals under 21 unless there is:
  o A co-signer over 21 or
  o Financial information showing the individual has the capacity to independently repay the debt
• Prescreened offers are subject to increased limitations
• Affinity arrangements or contracts between universities and credit card issuers must be disclosed
• Offers of tangible items prohibited
New Protections and Disclosures: Other Changes

- Payments exceeding the minimum first applied to balances with highest rates
- No more deceptive marketing for “free” credit reports
- Estate administration for deceased account holders more timely
- New notices distributed after you apply for credit
- What you should do when you receive a notice
  - Review the notice
  - Obtain and examine your credit report
  - Dispute any errors
- Credit card application and billing statement disclosures have improved
- Provisions have been made to debit card and gift/stored-value card practices
Understanding the New Credit Card Rules

<table>
<thead>
<tr>
<th>Interest Rates and Interest Charges</th>
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<tbody>
<tr>
<td>Annual Percentage Rate (APR) for Purchases</td>
</tr>
<tr>
<td>APR for Balance Transfers</td>
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<tr>
<td>APR for Cash Advances</td>
</tr>
<tr>
<td>Penalty APR and When it Applies</td>
</tr>
<tr>
<td>Paying Interest</td>
</tr>
<tr>
<td>Minimum Interest Charge</td>
</tr>
<tr>
<td>For Credit Card Tips from the Federal Reserve Board</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Fees</th>
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<tbody>
<tr>
<td>Annual Fee</td>
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<tr>
<td>Transaction Fees</td>
</tr>
<tr>
<td>• Balance Transfer</td>
</tr>
<tr>
<td>• Cash Advance</td>
</tr>
<tr>
<td>• Foreign Transaction</td>
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<tr>
<td>Penalty Fees</td>
</tr>
<tr>
<td>• Late Payment</td>
</tr>
<tr>
<td>• Over-the-Credit Limit</td>
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<tr>
<td>• Returned Payment</td>
</tr>
<tr>
<td>Other Fees</td>
</tr>
<tr>
<td>• Required Account Protection Plan</td>
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How We Will Calculate Your Balance: We use a method called 'average daily balance (including new purchases).’ See your account agreement for more details.

Billing Rights: Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.
Disclosure example
Billing statement, page 1

Understanding the New Credit Card Rules
Disclosure example Billing statement, page 2
New Protections and Disclosures: Debit Cards

- Must opt-in for overdraft protection for ATM and point-of-sale withdrawals
  - Exceptions (e.g., checks, scheduled payments)
  - Other options to avoid overdrafts include linking to your savings account or opening an overdraft line of credit
New Protections and Disclosures: Gift Cards

- New policies cover stored gift cards for specific stores AND “universal” gift cards with MC, Visa, AmEx or Discover
  - All fees must be clearly disclosed on the card/packaging
  - Dormancy, inactivity, and usage/service fees are limited
  - Fees incurred by purchaser rather than recipient
- Expiration date is 5-years minimum
- Use of card after expiration possible
  - Can request a replacement card for any unspent balance at no charge if card expires before balance is used
Banking & Credit Resources: For the Public

• Bank On Save Up website
  o  www.bankonsaveupkc.org

• Federal Deposit Insurance Corporation website
  o  www.fdic.gov

• National Credit Union Association website
  o  www.ncua.gov

• Federal Reserve Consumer Help website
  o  www.federalreserveconsumerhelp.gov

• Federal Reserve Board of Governors credit website
  o  www.federalreserve.gov/creditcard

• Federal Trade Commission website
  o  www.ftc.gov

• Credit Counseling website
  o  www.nfcc.org

• Federal Reserve Education website
  o  www.federalreserveeducation.org
Banking & Credit Resources: For the Classroom

- **Personal Finance 101: Personal Finance Chats** (online simulations and forms)
- **Econ Ed Mobile Learning Application** (mobile app.)
- **Building Wealth** (booklet and lesson plans)
- **Cards, Cars and Currency** (curriculum series)
- **Katrina’s Classroom** (DVD-based curriculum series)
- **Banking Basics** (booklet)
- **Professor Finance and Fed Boy Meet the Catastrophe Clan** (role play lesson)

Federal Reserve Education website
- [www.federalreserveeducation.org](http://www.federalreserveeducation.org)
Questions?

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