

KNOWLEDGE that STICKS!

the skinny on™

credit cards

how to master the
credit card game



Updated.
NEW Credit
Card Act

BY JIM RANDEL

"I love this book. It can literally save you a fortune!"

Gerri Detweiler / National Credit Card Expert

KEY TERMS

Allocation: how your payments are attributed to your balance.

Annual Percentage Rate (APR): the interest you are paying on your balance. Reminder: you can have different APRs. For example, if you have a low-interest introductory card and use that card to obtain cash from your credit card company, the APR on the cash advance will not be the same as the introductory rate APR.

Balance: that portion of your credit card bill you do not pay off monthly.

Balance Transfer Card: a card onto which you can transfer debt from another card or cards.

Compound Interest: the earning of interest on interest.

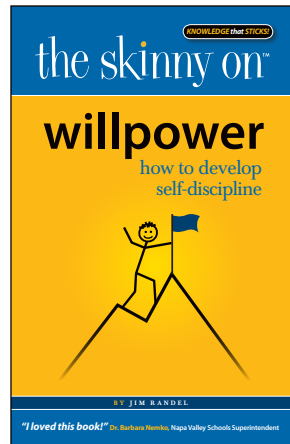
Cash Advance: money you can receive from your credit card company to use as you see fit.

Credit Limit or Line: the total amount you can charge against your card.

Daily Interest Rate: the APR divided by 365 days.

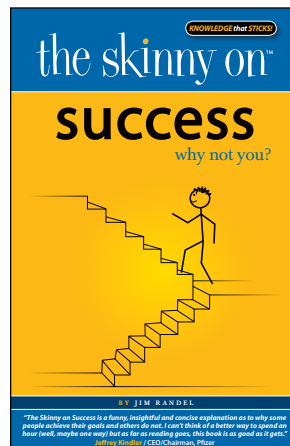
Deadbeat: someone who pays off their balance in full every month.

FICO: a credit score derived from the Fair Isaac Corporation algorithm.



“Don’t let the stick figures fool you ... Jim Randel will have you laughing and thinking at the same time. A very enjoyable read!”

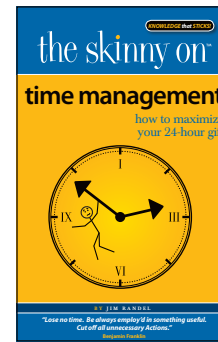
Ken Blanchard, author
The One Minute Manager®



“The Skinny on Success is a funny, insightful and concise explanation as to why some people achieve ... this book is as good as it gets.”

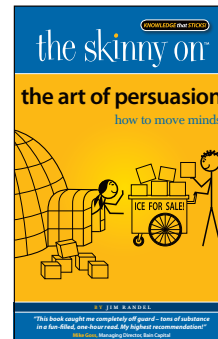
Jeffrey Kindler, CEO/Chmn, Pfizer

www.theskinnyon.com



“I loved it. Substantive, fun and funny. I give it my highest recommendation.”

Steve Pagliuca, Managing Partner
The Boston Celtics



“This book caught me completely off guard – tons of substance. My highest recommendation!”

Mike Goss, Managing Director,
Bain Capital



“I’ve tracked Jimmy’s incredible run of successful real estate investments for twenty years.”

Jeff Dunne, Vice Chairman,
CB Richard Ellis

Float: when your usage of the credit card company’s money is without charge.

Grace Period: the time you have between receiving and paying your bill.

Interest: the amount of money you are paying your credit card company on the money they loan you.

Late Fee: big, ugly expense for paying your bill late – even by one day.

Minimum payment: the payment you are required to make every month if you carry a balance on your credit card.

Prime Rate: a published rate that is theoretically the interest rate banks charge their best customers; it can change daily.

Over-the-Limit Fee: a fee you pay when your total charges exceed your Credit Limit.

Rebate or Reward Card: based on your usage, you get cash back or points to use for other purchases.

Revolver: a credit cardholder who carries a balance month after month.

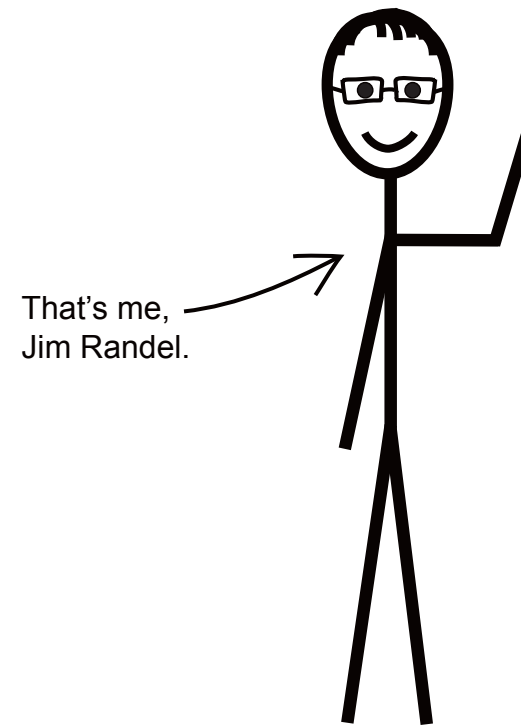
Usury: lending at interest rates above a legal ceiling.

ANSWERS TO QUIZ ON PANEL 194:

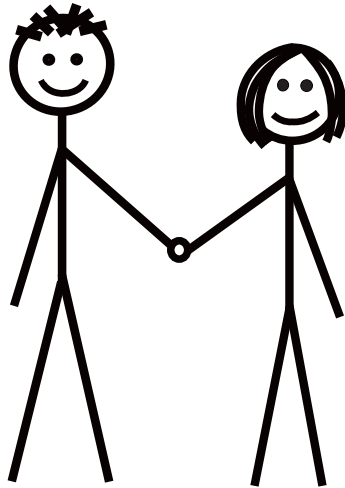
1) E, 2) H, 3) K, 4) N, 5) T, 6) P, 7) A, 8) O, 9) C, 10) M, 11) F, 12) Q, 13) D, 14) S, 15) R, 16) G, 17) B, 18) J, 19) I, 20) L

www.theskinnyon.com

"Our story begins ..."



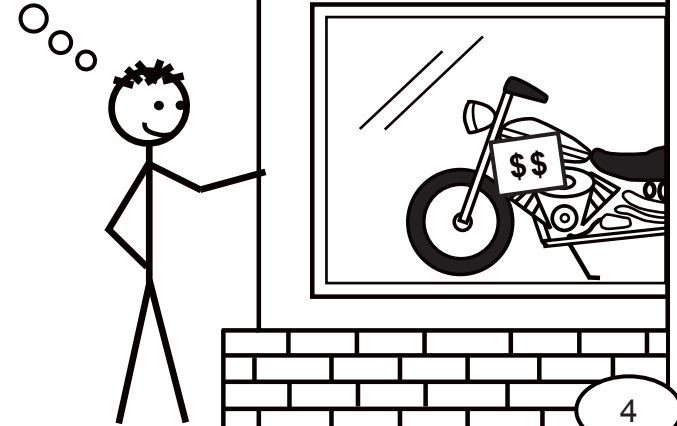
**MEET BILLY AND BETH. THEY ARE HAPPILY MARRIED ...
BUT HAVE VERY DIFFERENT ATTITUDES ABOUT MONEY.**



2

BILLY ... NOT SO MUCH.

*I really need a
new motorcycle.*



4

BETH IS CAREFUL.



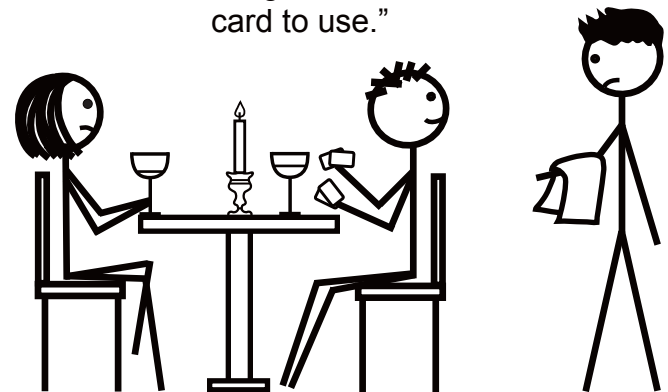
*What a great book
on budgeting!*



3

**BETWEEN THEM, THEY HAVE 13 CREDIT CARDS ...
BETH HAS THREE AND BILLY HAS TEN.**

"The bill looks fine. Just
give me a minute or two
to figure out which credit
card to use."



5

14% of U.S. cardholders have more than 10 credit cards.

80% of U.S. households have at least one credit card.

6

ONE MORNING

“Billy, we need to talk – we’re accumulating a lot of credit card debt.”



8

The numbers increase when we add in debit cards.
A quick PRIMER:

Credit card: used to borrow money. Issuing bank makes unsecured (no collateral) loan to cardholder.

Debit card: used to access your own money. Usually backed by a checking account.

Charge card: must be paid off in full every month. No extension of credit.

Prepaid card: specific amount stored on the card for the cardholder’s use.

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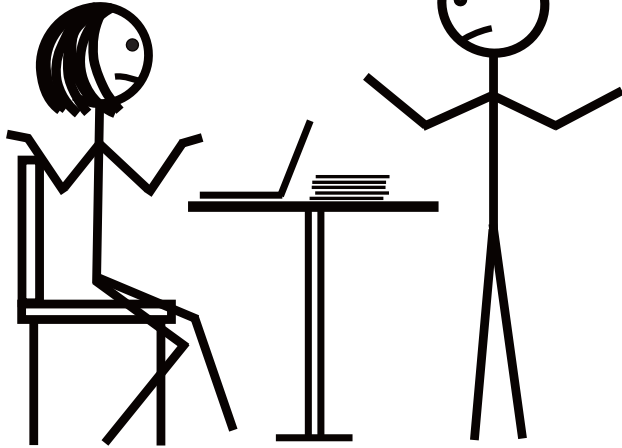
“Billy?”

“I’m sorry, Beth, I didn’t hear you.”



9

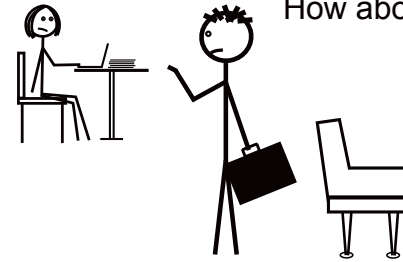
"We can't seem to keep up with our debt ... it's growing."



"Gee, Beth, we're pretty careful about what we spend."

10

"I'd like to, but I have to run to the office for a few hours. How about tomorrow?"



12

"Billy, please sit down and look at these bills with me."



I'd rather get mauled by a big dog.

11

That brief encounter reveals a lot about how people get into credit card trouble.

Billy just doesn't like to think about spending, budgets or debts. He believes that's what tomorrow is for.

Billy and Beth have very different "**financial blueprints.**"

What is a financial blueprint?

13

Author T. Harv Eker writes about “financial blueprints” in his book, *Secrets of the Millionaire Mind*. Eker’s book helps people understand how they think about money ... and why.

Much of how each of us relates to money and debt comes from our upbringing.

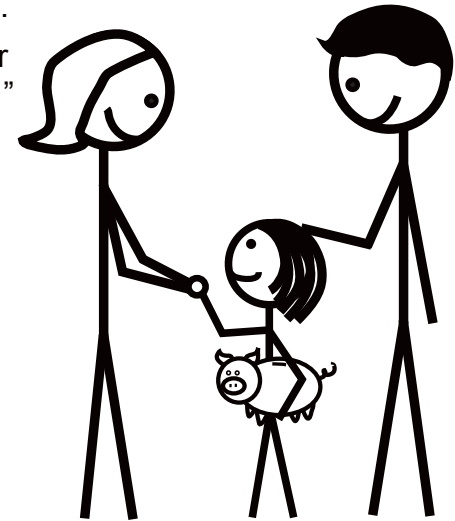
“Your financial blueprint consists primarily of the information or ‘programming’ you received in the past, and especially as a young child.”



T. Harv Eker

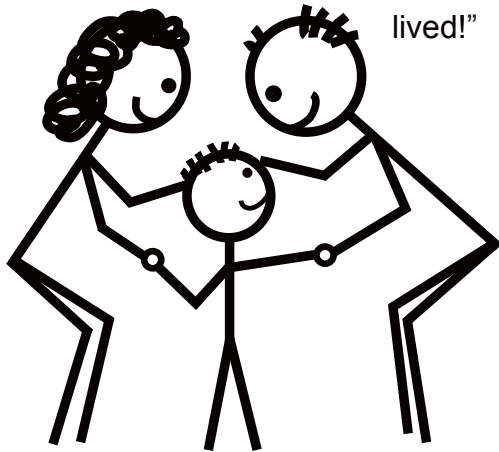
LITTLE BETH

“A penny saved is a penny earned.
Neither a debtor
nor a lender be.”



LITTLE BILLY

“Carpe diem,
my son. Life
is meant to be
lived!”



**Have you had enough
of the platitudes?**

We have obviously oversimplified the way children learn about money. It is not just what children **hear** from their parents.

More likely, it is what a young person sees and experiences ... those influences in his or her young life that impacted views about earning, spending and saving.

The point is that as adults we need to reflect upon how we think about money ... about debt ... about our own earning power and need for security. In doing so, by bringing awareness to the subject, we improve our ability to manage our finances.

18

Our study of successful people has taught us something:

Many successful adults grew up in households with money troubles.

The pain and stress of the struggle often provided a strong drive for financial security.

19

One of the best-known advisors on financial matters is Suze Orman. I have never met her, but she seems sincere in her desire to help people get on top of their money issues.

Here is an excerpt from her book, *The 9 Steps to Financial Freedom* (Three Rivers Press, 2006):

“When I was very young, I had already learned that the reason my parents seemed so unhappy wasn’t that they didn’t love each other; it was that they never had quite enough money even to pay the bills. In our house, money meant tension, worry, and sorrow.”

Ms. Orman’s financial blueprint was formed at an early age. Money needs caused stress. So, as an adult, Ms. Orman has done what she can to provide for her own financial security, and that of the people who follow her teachings.



Suze Orman

20

Before we go any further, take a few moments to reflect on your own “financial blueprint.”

Who or what has influenced your own views about money? About debt?

How do you feel about savings? Will you ever feel comfortable that you have enough?

Do you believe that more money will make you happier?

There are, of course, no right or wrong answers to these questions. But thinking about them may help you understand how you use (or abuse) your credit cards.

21

“Knowledge is power.”

Sir Francis Bacon

“Self-knowledge is SUPER power.”

Anonymous

22

Unless you are fabulously wealthy, you need to live within your means. Those who live beyond their means often bridge the gap between inflow and outflow with credit card debt.

Credit cards are so darn easy to use. They have what one commentator called an anesthesia-like effect because they numb you to what is really happening when you use them: **you are borrowing money!**

Credit card use is abstract in that there is a gap between when you use the card and when you have to pay the piper. That is why people spend much more when they use credit cards than when they have to use cash or a check.

“The more abstracted spending becomes, the larger the houses of credit card CEOs.”

Anonymous

23

One interesting study of credit card use was done with college students.

As students walked out of a college bookstore, they were asked how much they had spent. Those who used cash or a check were very accurate in their recollection.

But those who had used a credit card were way off!

Here’s the point: Credit cards are thin and easy to use (you don’t even have to sign a receipt for charges under \$25). The design is deliberate. Just don’t let their ease of use disconnect you from the expenditure.

24

Every financial advisor in America advocates making a budget to help you with live within your means.

A budget is simply a tracking of all the money you anticipate receiving (don't forget income taxes) in a given period, and all the expenditures you anticipate incurring. By taking the time to make a budget, you can identify exactly how much you can spend for various items without going into debt.

If you want to learn more about budgeting, we suggest visiting mint.com, geezeeo.com, or pearbudget.com, or reading about budgeting (Chapter 1) in *The Wall Street Journal Personal Finance Workbook*, Jeff Updyke (Three Rivers Press, 2006).

25

Even big earners have to cut back at times.

"I try to do the right thing with money. Save a dollar here and there, clip some coupons. Buy ten gold chains instead of twenty. Four summer houses instead of eight."

LL Cool J

27

"For a lot of people, budget is a four-letter word because they often picture a budget as something that restricts them – something that says: you can't have this, you can't buy that, or you can't do this. Well, that is the wrong way to look at a budget. A budget is really a part of your personal prosperity plan. ... Without a budget – without a clear sense of exactly how many dollars are coming in the door and how many dollars are really going out each month – you're doomed to constantly live paycheck to paycheck."

ZERO DEBT for College Grads, Lynnette Khalfani (Kaplan, 2007)

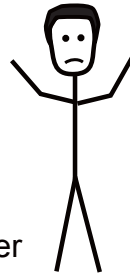
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And now back to our story...

28

Billy realizes that he cannot put Beth off forever. He knows that she is getting upset with him.

“Statistics show that the number one cause of all relationship breakups is money. The biggest reason behind fights people have about money is not the money itself, but the mismatch of their ‘financial blueprints.’”



T. Harv Eker

THEY GO THROUGH THEIR CREDIT CARD BILLS.



And so, Billy and Beth have a candid discussion.

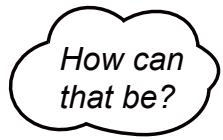


Beth speaks to her fears about never having enough money,



and Billy reveals how buying things makes him feel successful.

“Billy, I’ve added up our credit card bills. We owe \$25,000!”



Billy and Beth realize that they need a better understanding of how credit cards work.



33

Beth agrees to do the homework.

Beth finds that there are many books written about credit cards.

She feels overwhelmed!

And that, of course, is the exact reason why we've written:

The Skinny on Credit Cards

34

A FEW DAYS LATER ...

"Hey Beth, how's the reading going?"

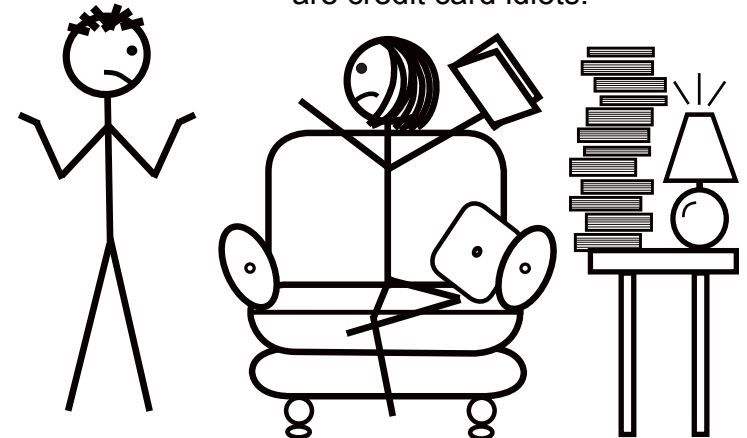
"Billy, we've done some dumb stuff."



35

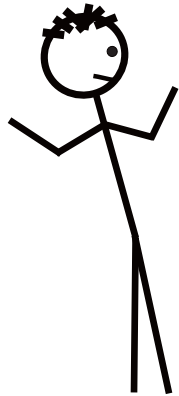
"What do you mean Beth?"

"We have not used our cards very well.... We are credit card idiots!"

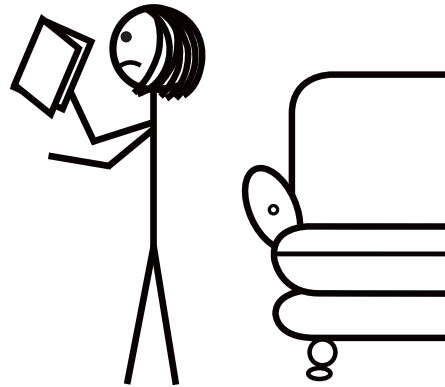


36

"But, Beth, I went to an Ivy League college – I must be very smart."



"I don't know what they taught you there, Billy, but according to what I'm reading, you are a financial blockhead!"



37

Although Billy graduated from Harvard, he didn't learn much about real-world topics ... like credit cards. Unfortunately, very few U.S. high schools or colleges teach even basic financial principles.

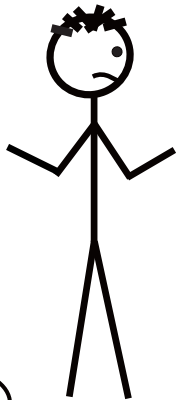


"Tens of thousands of students ... learn the hard way the pitfalls of misusing their credit cards – that colorful and friendly plastic which was irresponsibly pitched to them on registration day with offers of free candy, T-shirts, and beer mugs."

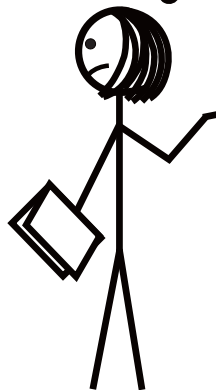
Forever in Your Debt, Harvey Z. Warren (Booksurge, 2007)

39

"Blockhead, Beth?"



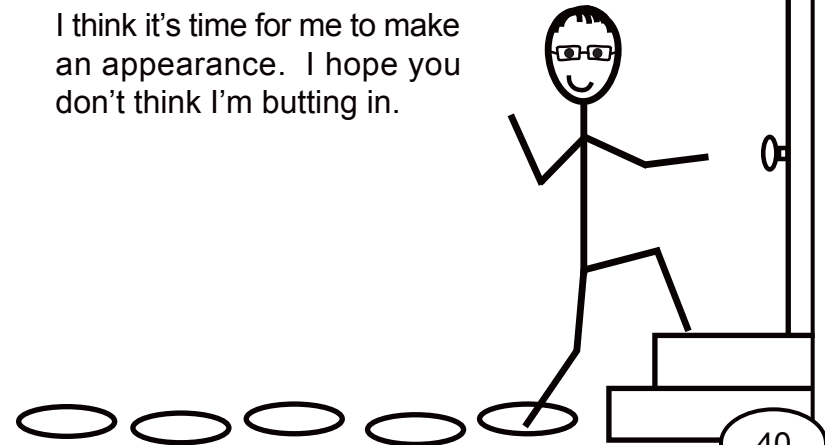
"Well, Billy, we've made some pretty basic mistakes."



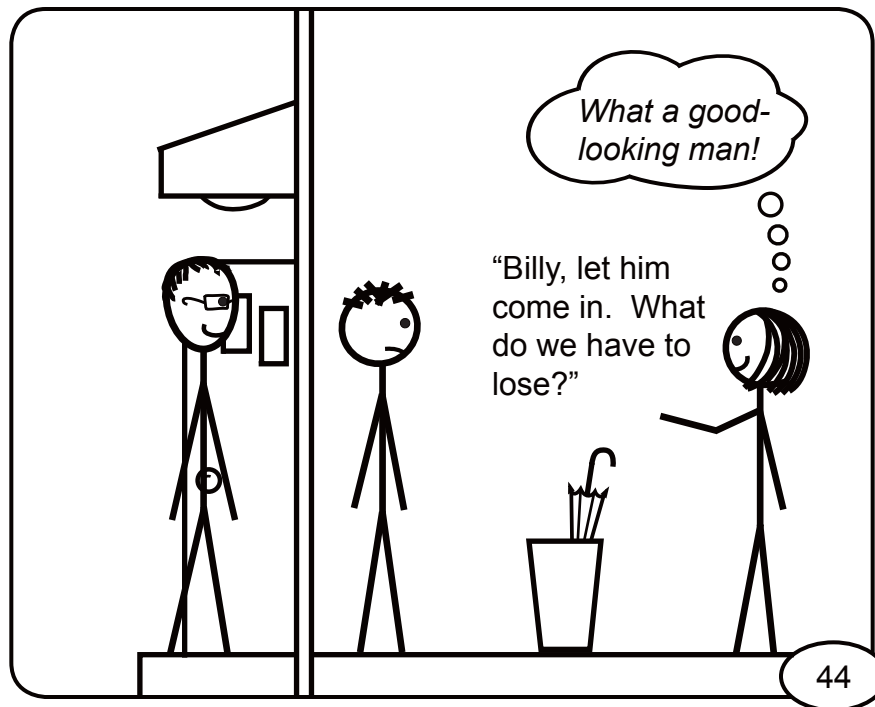
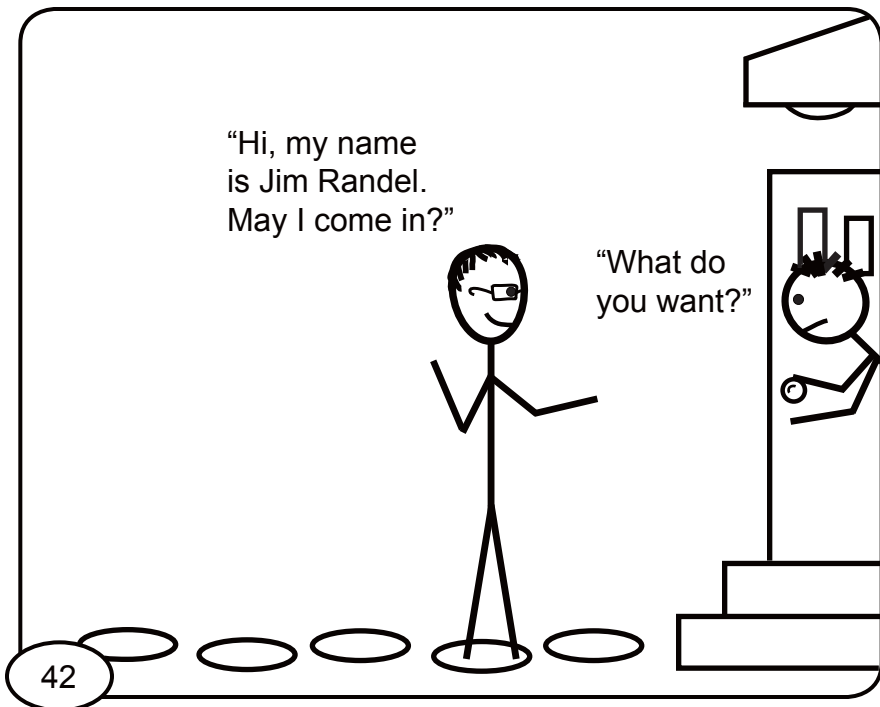
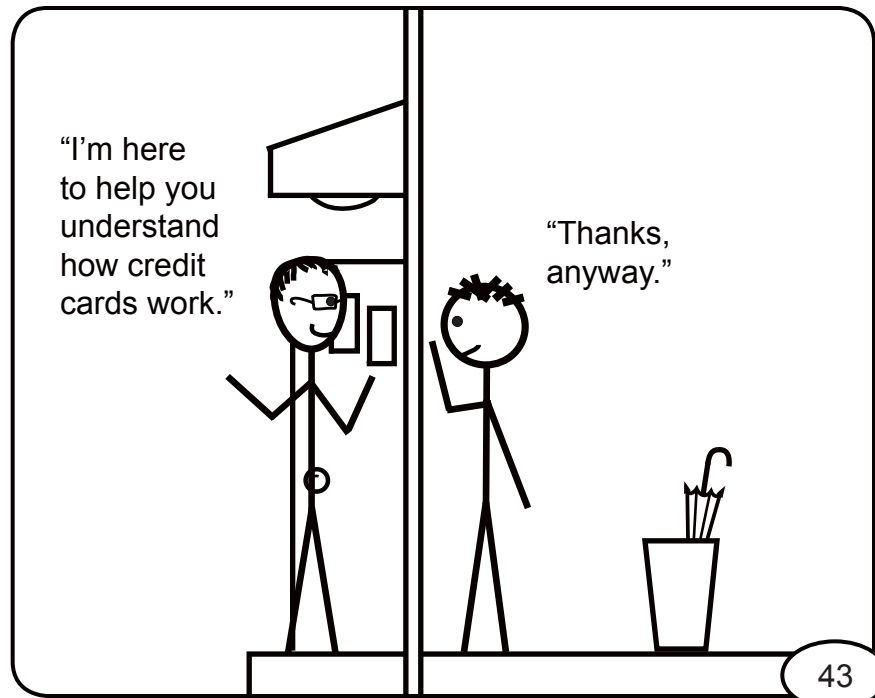
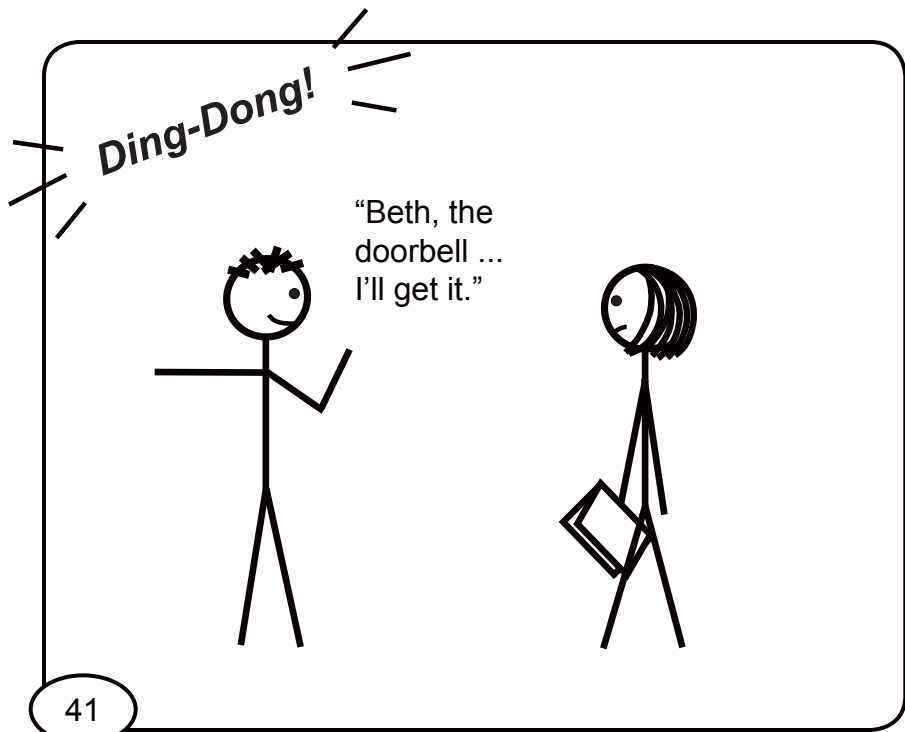
I'd use "dimwit" but that might hurt his feelings.

38

I think it's time for me to make an appearance. I hope you don't think I'm butting in.

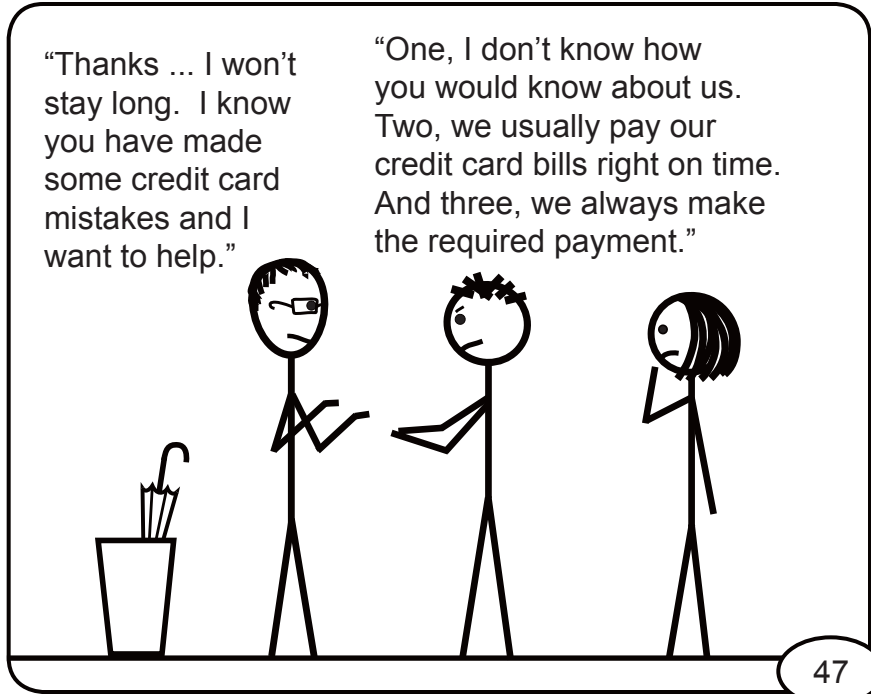


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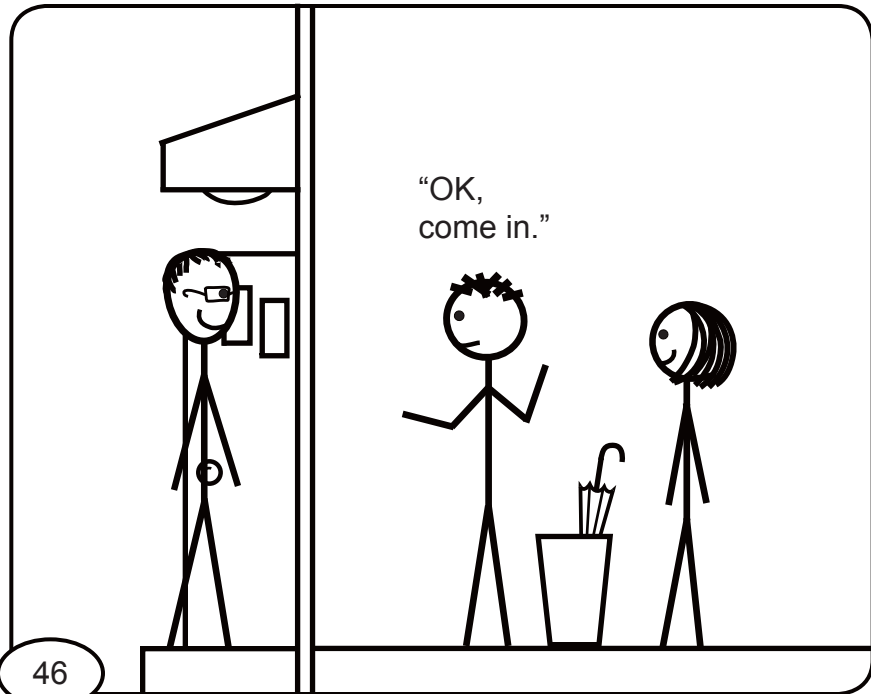




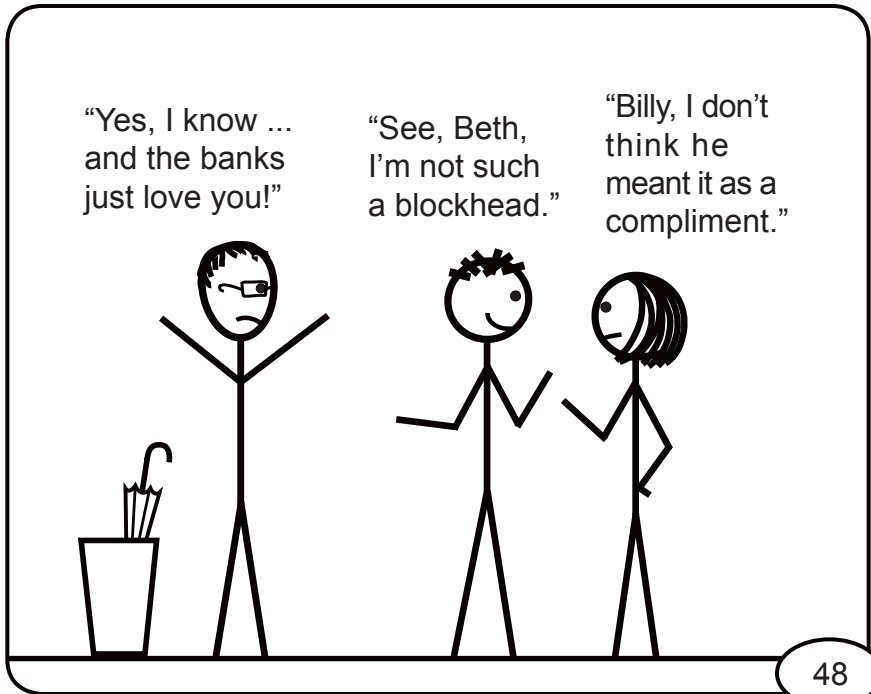
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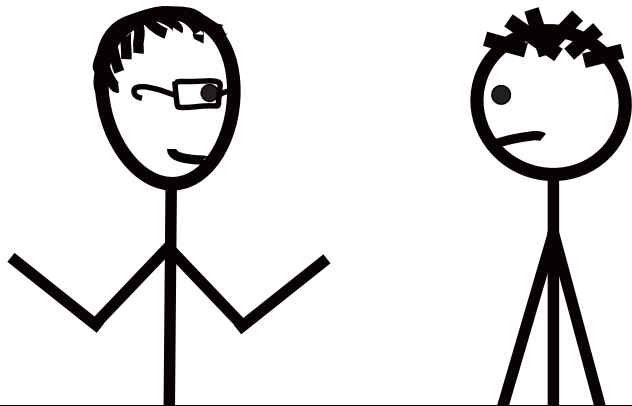


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48

"Billy, you are a credit card company's dream ... you occasionally pay late, earning them profitable late fees, and you always carry a balance, earning them lots of interest. In credit card lingo, you are a 'revolver' – you keep rolling over your debt and never pay it down."



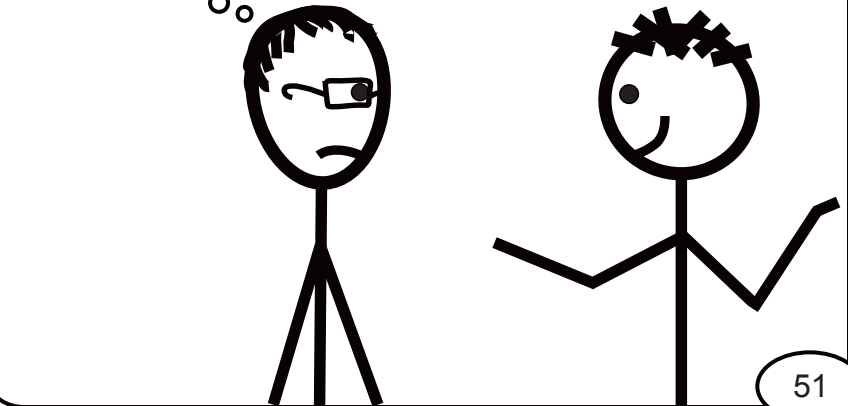
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To credit card companies, someone who pays off his or her balance in full every month is a "deadbeat."

50

This guy went to Harvard??

"Eventually we will pay it down ... if we keep making our monthly payments, we will pay it down."

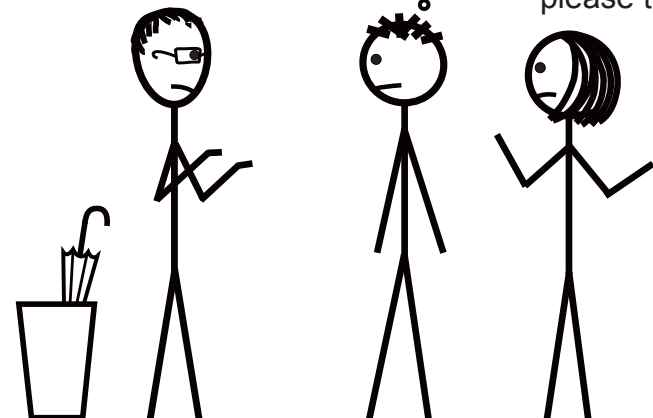


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"Yes, eventually you will ... but do you want to know *how far* out eventually is?"

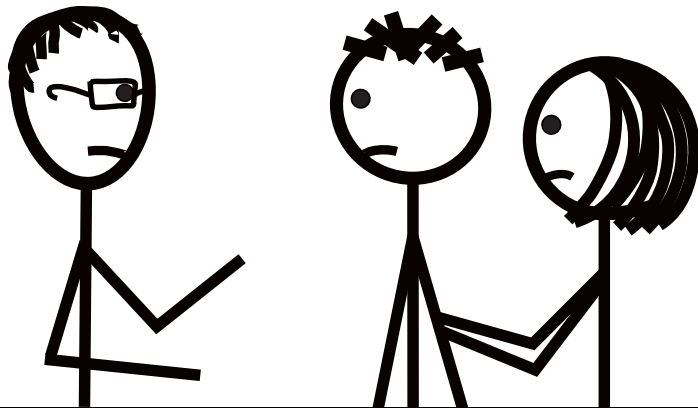
Uh-oh!

"Yes, Jim, please tell us."



52

"Well, *if you never use your credit cards again*, with \$25,000 of debt, an interest rate of 15% and fixed payments of \$500 every month, it will take you 79 months to pay off your debt!"



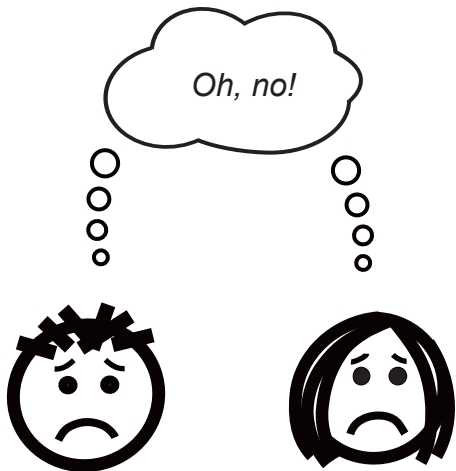
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The median* amount of credit card debt in U.S. households with at least one credit card is \$7,066. If a household with that level of debt stopped using their card(s) this minute, assuming an interest rate of 15% and a minimum monthly payment of \$150 (2% of their present balance), it would take them 6 years to pay off their debt. During that period, they would pay the credit card company \$3,655 in interest (more than half of what they presently owe)!

***median: half have more, half have less.**

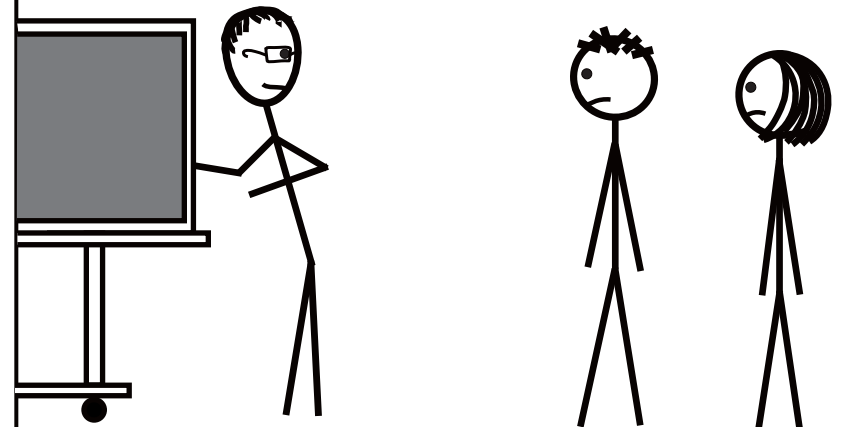
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Oh, no!

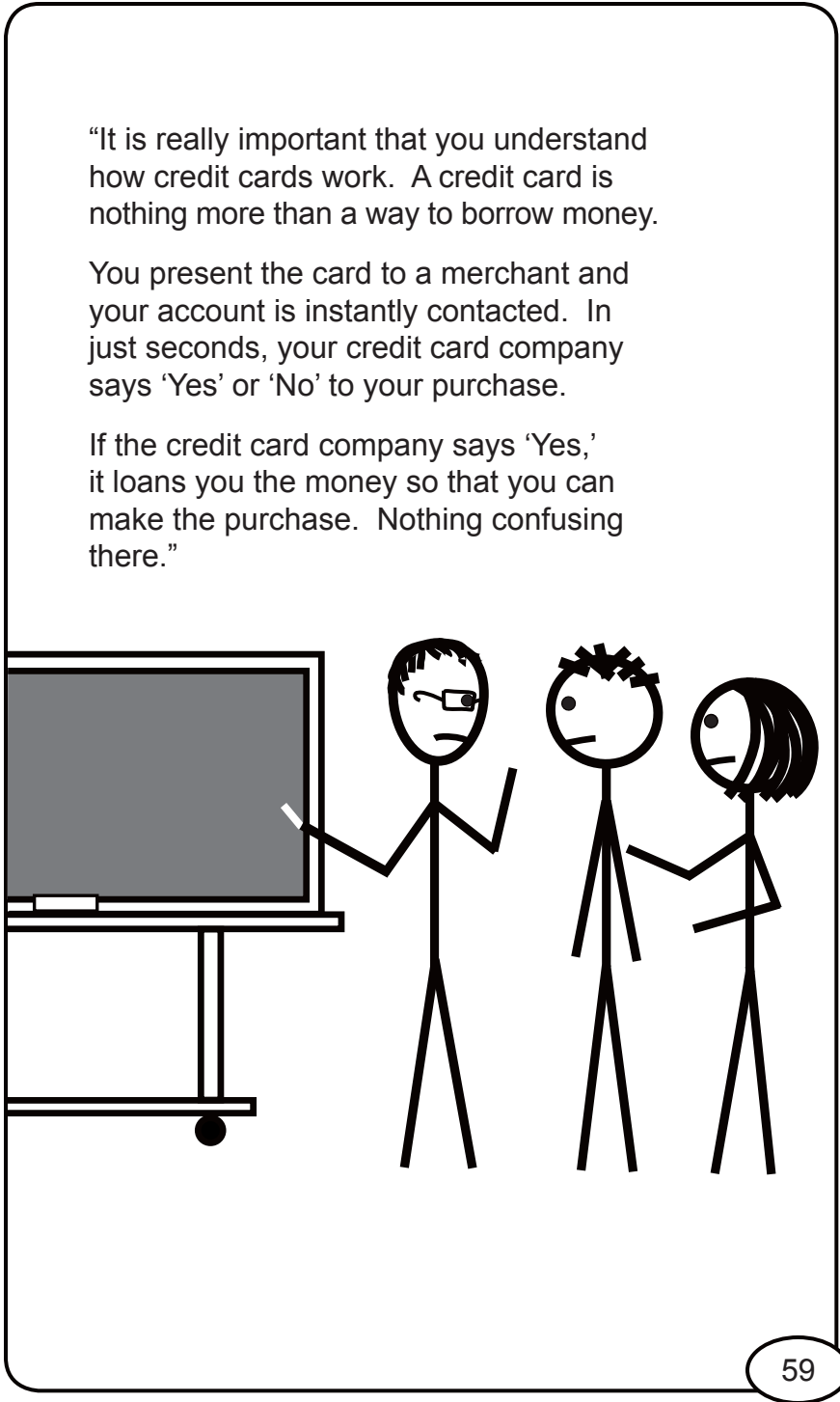
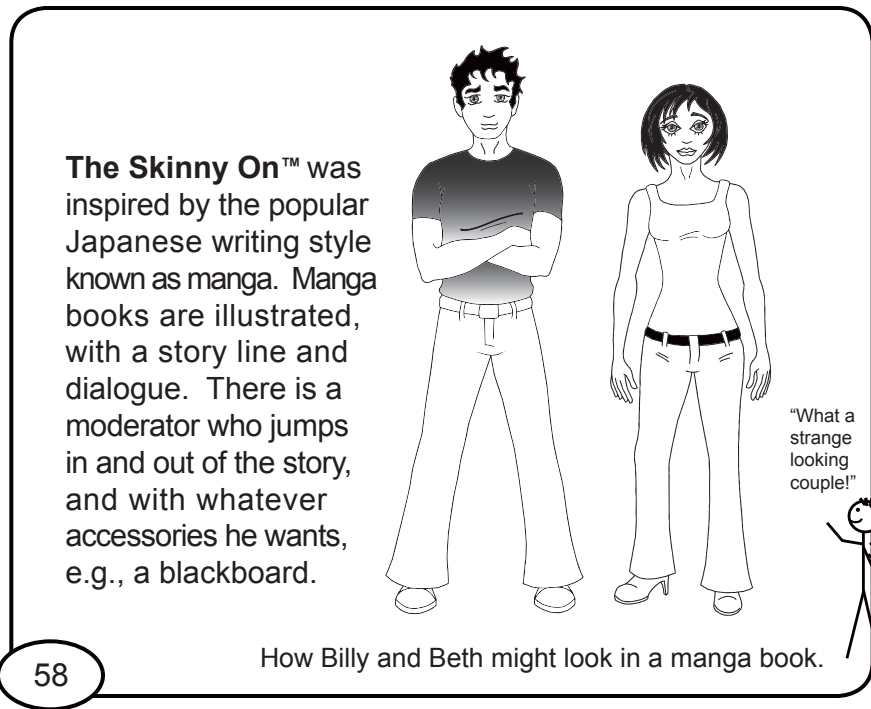
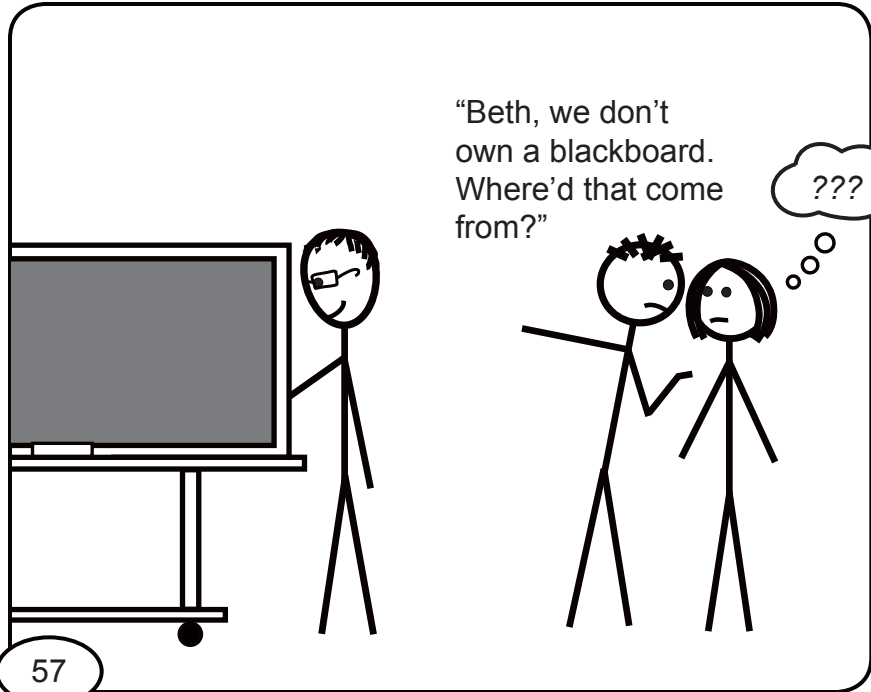


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"I know this is confusing ... In fact, the credit card companies like it that way.... Here, this may help."



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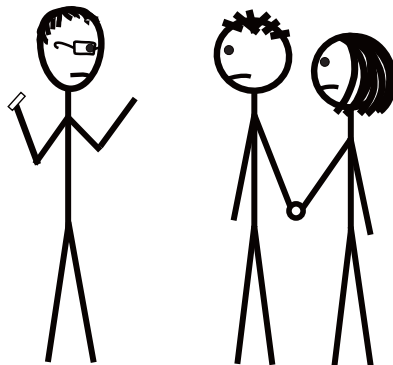
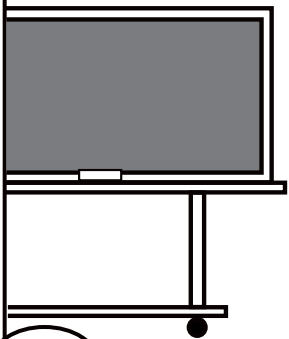


“The confusing part is what happens once money is loaned to you.

Let’s start with the basics:

- #1: You will have time between the date when you use your card (and get a loan), and the date when you receive a bill.
- #2: If you pay the bill (loan) in full when it is due (the ‘due date’), you owe no interest.
- #3: If you don’t pay the bill in full, you will pay interest on that portion of the bill you do not pay off.
- #4: The rate or amount of interest you pay is very important.
- #5: Every month you are required to pay the ‘minimum payment.’
- #6: If you don’t pay the minimum payment by the due date, bad things happen.
- #7: There are additional fees when you use your card for anything other than purchases.

I need to spend just one minute on each of these points.”



- #1: The credit card companies send you a bill once a month. This bill lists all your charges. You should have about three weeks (“**grace period**”) from the date you receive your bill to the date when your payment must be received (“**due date**”).

If you are going to be away from your usual address for an extended period, call your credit card company and ask them to e-mail or forward your bill to you. Not receiving the bill is no excuse.

You must be sure the card company **receives** your payment by the **due date**.

Explore paying your bill online.

- #2: If you can pay 100% of your bill, do that. Then you will not pay any interest to the credit card company. About one-third of all U.S. cardholders pay their bill in full every month.

The term “**float**” is used to describe the period between the date you use your card and the date when payment is due. If you pay your bill in full every month, this float is a real convenience.



#3: If you don't pay your bill in full when it is due, the portion you don't pay is called your "**balance**." The credit card companies make money by charging you interest on your balance.

For example, let's say you charge \$500 to your credit card during the month of June. On July 1 you get a bill and your due date is July 22. You pay (on time) \$100 of your bill. Your **balance** is \$400, on which amount your credit card company charges you interest.

If you carry a **balance**, your credit card company starts charging you interest on any new expenditures from the day you make them.

63

#4: The rate or amount of interest you pay is a big deal. If you are carrying a balance, you want to know the **Annual Percentage Rate (APR)** you are being charged for the right to use the credit card company's money (i.e., the loan).

The average APR in the U.S. today is about 15%.

Note that you can be charged different APRs for different ways you use your card, such as cash advances.

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#5: The credit card company wants you to pay some portion of your bill every month – but it is a very small portion (usually about 2% of the amount of your bill). The amount they want you to pay is called the "**minimum payment**."

Paying just the **minimum payment** every month is a prescription for trouble, which we will discuss a little later in this book. Billy and Beth will need almost seven years to pay off their credit card balance if they cut up their cards right now, and pay \$500/month (presently their minimum payment) every month.

65

#6: Credit card companies have no sense of humor when they do not receive your payment on time.

If you are late with a payment (the credit card company receives it after the due date), you will be hit with a "**late fee**," usually about \$35 - \$40. Sometimes you can get these fees waived (reversed) if you complain to your card company.

In addition, if you are late, your APR will most likely spike upward to what is called a "**default rate**." A default rate is the APR charged on your balance when you have made mistakes. You won't like the default rate, as it is much higher than the APR you were being charged.

66

#7: The credit card companies are ingenious when it comes to finding ways to charge you.

One of the most profitable fees for the card companies is the over-the-limit fee. This is the fee they can charge you if your purchases exceed the maximum borrowing power you have (your credit limit). However, you cannot be charged over-the-limit fees unless you have opted in (chosen) to have your purchases honored when they exceed your limit. Depending upon how far you exceed your limit, your card company will decide whether to honor the charge; if it does, it will hit you with an over-the-limit fee.

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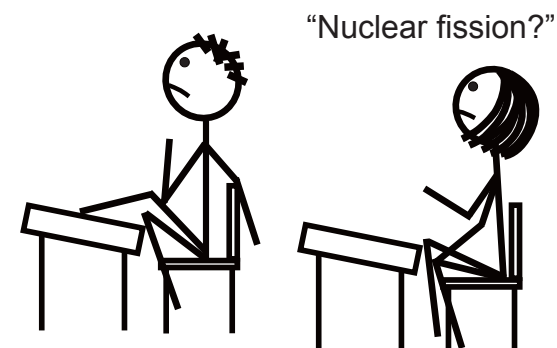
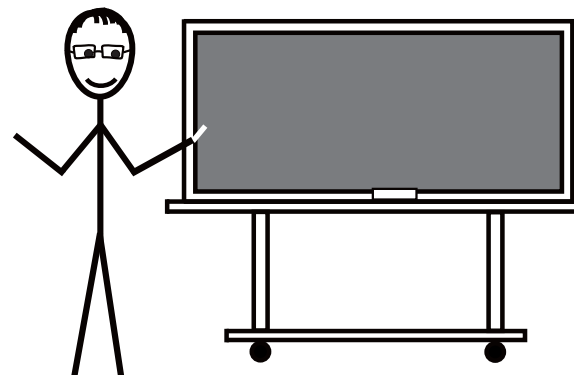
Back to Billy, Beth and Jim

68

“Now that you understand the basics, I can explain why it will take you about seven years to pay off your credit card debt.

First, let me ask you a question:

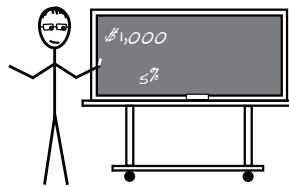
Do either of you know what Albert Einstein called the most powerful force in the universe?”



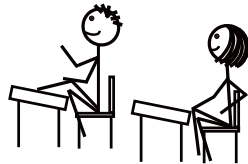
69

“Good guess, Beth, but no. It is something called ‘**compound interest.**’ Compound interest is the **earning of interest on interest.** Let me give you an example.

If you invest \$1,000 in a savings account that is earning you 5% in interest, by the end of one year, you will have earned \$50 in interest. OK, now how much in interest will your account earn in the next year?”



“\$50 ... that’s easy.”

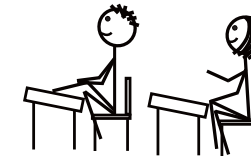
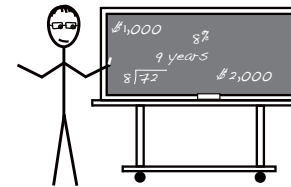


70

“Now here’s a short trick to help you understand compound interest. It’s called ‘**The Rule of 72.**’

If you want to know how fast your money will double in any particular investment with a fixed rate of return, divide the return into the number 72. The result is the number of years it will take your money to double.

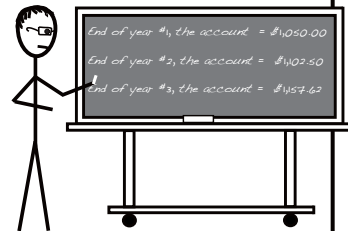
So, for example, if you invest \$1,000 in an account earning 8%, then in 9 years ... 72 divided by 8 ... your account will be worth \$2,000.”



“That’s cool.”

72

“Sorry, Billy, no ... you’re wrong. The interest in the second year will be \$52.50 **because 5% interest would also be earned on the \$50 of interest you earned in the first year.**



Then, in the third year, the interest earned on the account would be \$55.12.

Here is the math:

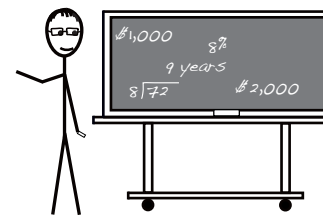
End of year #1, the account = \$1,050.00
End of year #2, the account = \$1,102.50
End of year #3, the account = \$1,157.62

And so on. And in about 11 more years, your \$1,000 investment will total \$2,000.”

71

“Unfortunately, the power of compound interest can also work against you. That is why the credit card companies make so much money.

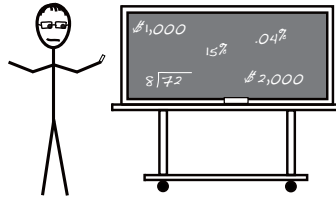
Let’s say you owe a credit card company \$1,000 and they are earning 15% interest (the APR) on this balance. Do either of you want to guess how long it will take before you owe them \$2,000?”



“Well, Jim, I am thinking that the Rule of 72 works in this example, too. So, I would guess about 5 years ... 72 divided by 15 = 4.8.”

73

“Great analysis, Beth, but unfortunately, wrong. It’s actually much quicker than that.* You see The Rule of 72 assumes that interest is being added on interest **at the end of every year**. But the credit card companies are smarter than that. They compound interest on interest **every day**. That is why they are required by law to tell you your **average daily interest rate**. In your case, 15% APR, the daily interest rate is .04% (.0004).”

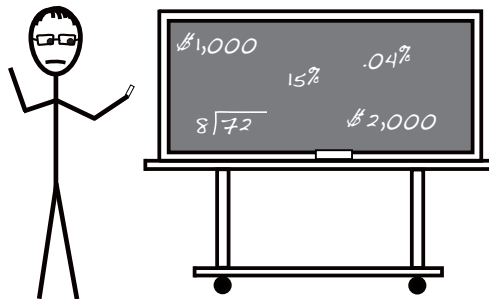


* The math is actually very complicated. Go to theskinnyon.com for the answer.

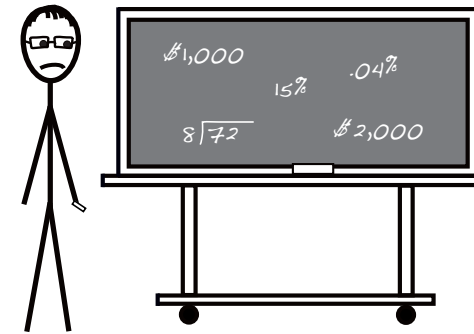
74

“I don’t want to spend any more time on the math, but here is the point:

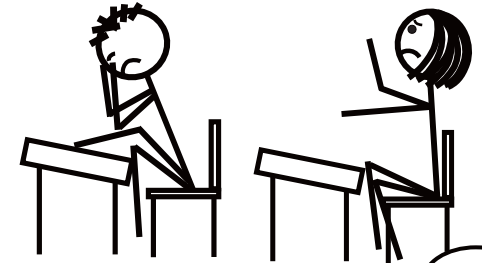
Every day you owe your credit card company money, they are earning interest **not just** on the amounts you charged **but also** on the interest they have earned on your balance. In other words, the interest you owe them is compounding ... getting larger and larger every day.”



75



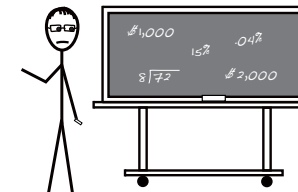
“Jim, maybe you should stop saying that ... Billy gets very tense when money is discussed.”



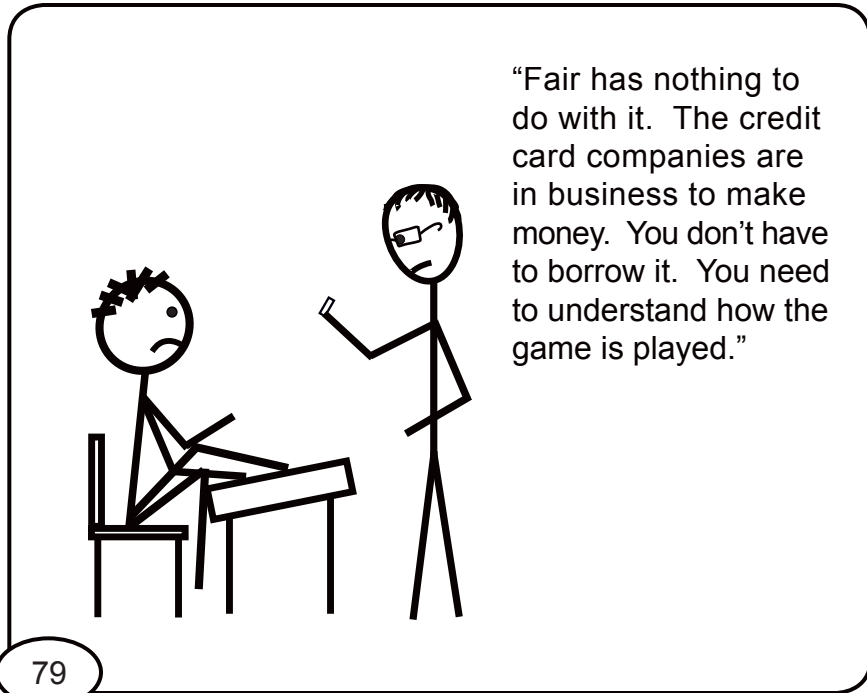
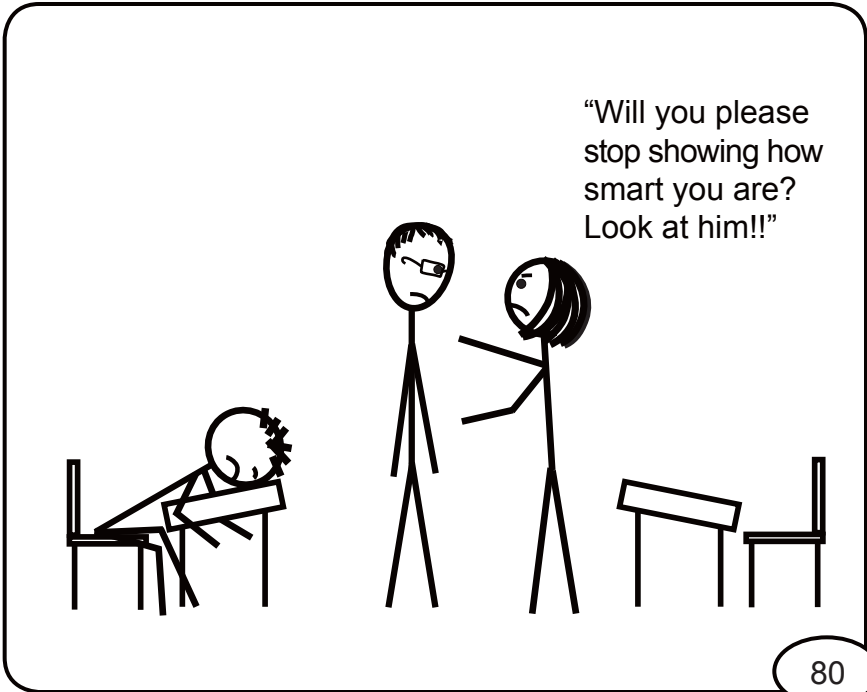
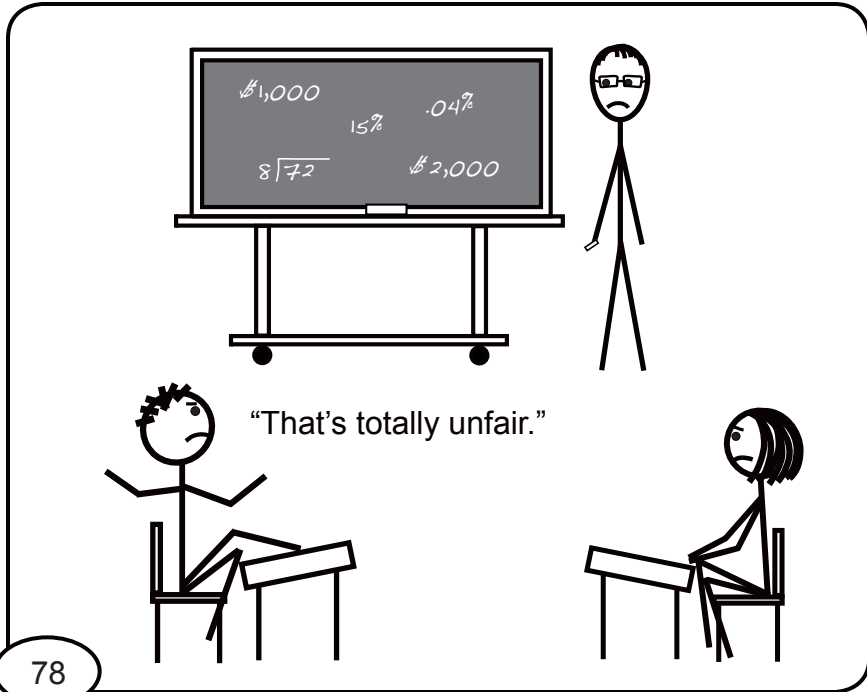
76

“I’m sorry, Beth, but there is one more point that I need to make.

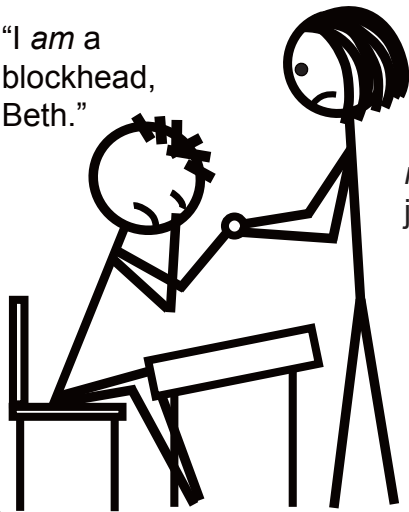
When you carry a balance on your credit cards, there is no longer an interest-free period between the date of a purchase and the date your payment is due. In other words, you start paying interest **the day** a new purchase is made. I’m sorry to say, Billy, that you are already paying interest on that new motorcycle jacket you bought this morning.”



77



"I am a blockhead, Beth."



"Billy, did you *really* need that motorcycle jacket?!"

82

Billy should not be too hard on himself.

Yes, he made some poor decisions. He did not control his spending. He did not budget.

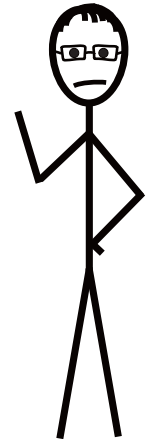
But now he needs to move forward and take positive steps in an all-out effort to resolve his and Beth's difficulties.

83

Life is a series of steps and missteps.

As one who has studied successful people for many years, I have learned that they do not dwell on their missteps. They acknowledge their mistakes, resolve never to repeat them, and then immediately start making plans to remedy their situation.

Billy now needs to learn what his and Beth's options are to get on top of their credit card debt.



84

Billy and Beth, now very attuned to the risks of credit cards, have an additional concern:

85

THEIR 21-YEAR-OLD SON, JAKE.



JAKE IS A SENIOR IN COLLEGE.

86

“Credit card issuers love the college bunch, because they turn out to be one of the most profitable groups of customers for the credit card industry.”

DEBT CURES, Kevin Trudeau
(Equity Press, 2008)

88

NOTE: AS OF FEBRUARY 22, 2010, CREDIT CARDS CANNOT BE ISSUED TO ANYONE UNDER THE AGE OF 21 UNLESS (1) THE CREDIT CARD AGREEMENT IS CO-SIGNED BY SOMEONE OLDER, OR (2) THE INDIVIDUAL RECEIVING THE CARD CAN ESTABLISH THAT HE/SHE HAS THE INCOME TO PAY EXPECTED DEBTS.

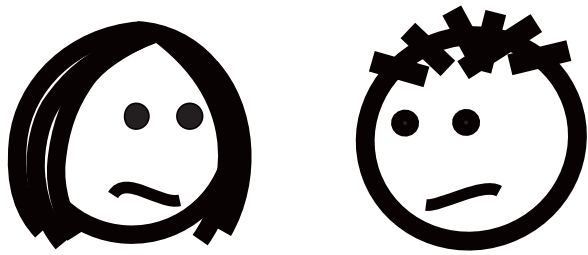
THIS NEW LAW WAS THE RESULT OF THE UNITED STATES CONGRESS BECOMING FRUSTRATED WITH CREDIT CARD COMPANIES FOISTING CARDS ON YOUNG ADULTS NOT READY FOR THEM.

87

You might be interested to know that 31% of high school seniors have use of a credit card – either their own or as an authorized signer on a parent’s card.

89

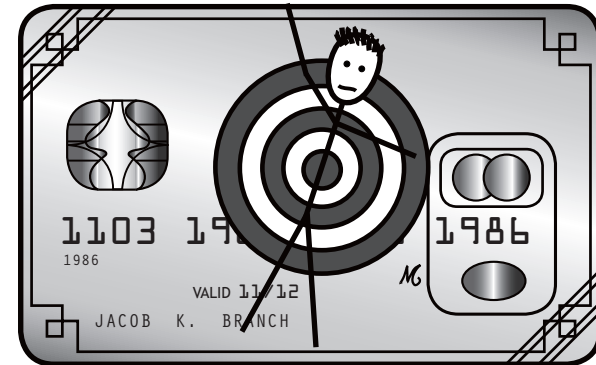
BILLY AND BETH WORRY THAT JAKE IS NAIVE WHEN IT COMES TO FINANCIAL MATTERS ... AND THAT HE MAY BE VULNERABLE TO SLICK CREDIT CARD MARKETERS.



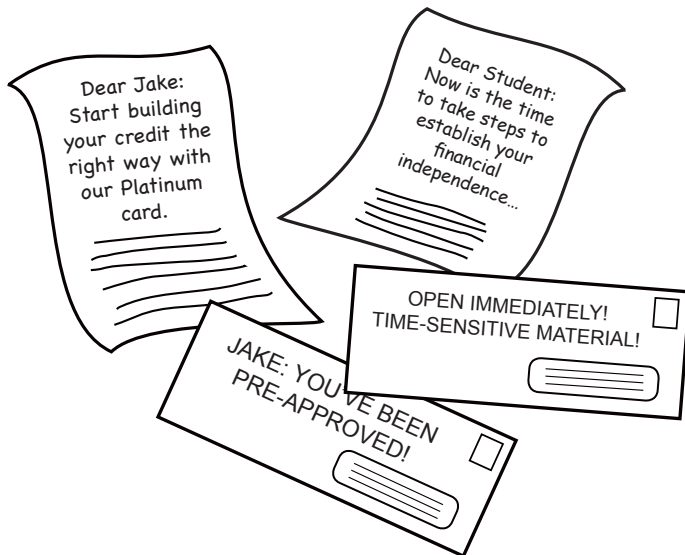
90

BILLY AND BETH MAY BE RIGHT TO BE WORRIED ABOUT JAKE.

Many young adults are anxious to be free of their parents' financial oversight.



92



91

Of course, it's not just young adults who are vulnerable to credit card marketing. All of us, whatever our age, are susceptible to the genius of the credit card marketing gurus.

The card companies spend hundreds of millions of dollars a year **not just** to get you to select their card over others **but also** to induce you to use it (over and over again). Many commentators are critical of card marketers who push people to take on debt.

*"What has changed is the marketing of credit, the notion that credit is not a tool but a lifestyle. The financial industry spends vast sums of money **spreading the myth that debt is good** ... that wealth is spending, not saving, and that there will always be more credit...."*

Maxed Out: Hard Times in the Age of Easy Credit
James Scurlock (Scribner, 2007)

93



"Those who go a-borrowing,
also go a-sorrowing."

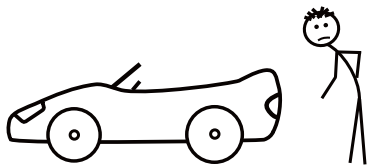
Ben Franklin

The great American thinker and leader Benjamin Franklin would probably agree with those who call credit cards "financial junk food."

94

HERE'S AN AD I'D LIKE TO SEE:

① CAR LOANS



② MORTGAGES



③ CREDIT CARD BILLS

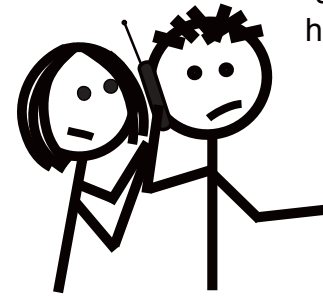


④ FINANCIAL FREEDOM:

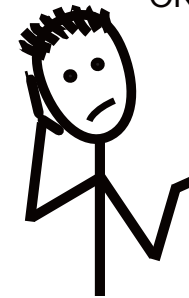


PRICELESS

95



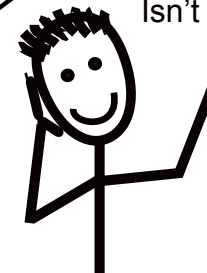
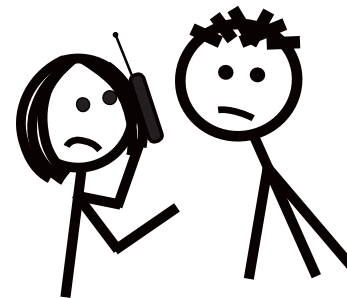
"Jake, we need to
have a talk with you."



"Is everything
OK?"

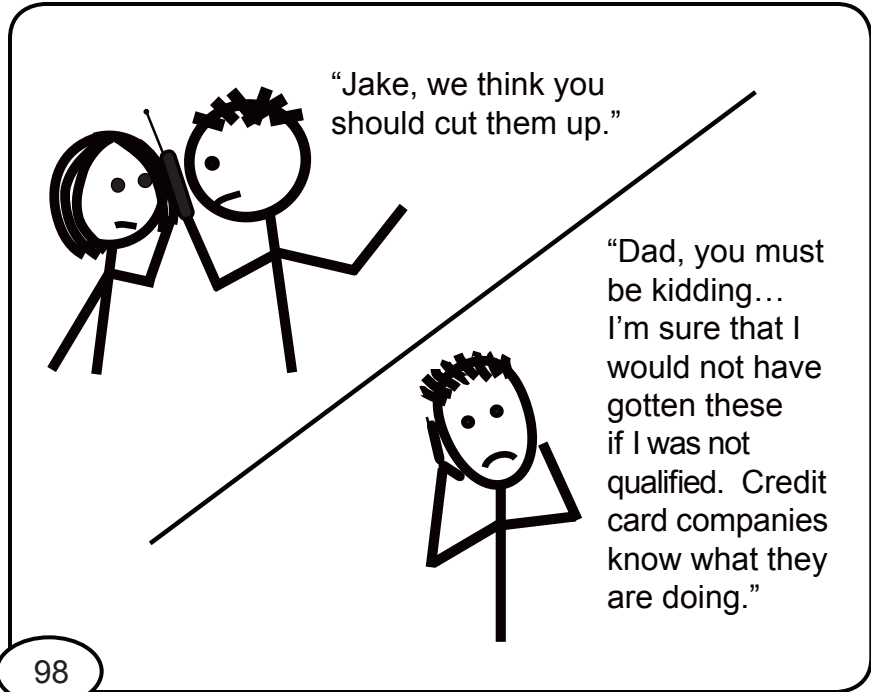
96

"Yes, yes ... everything is OK...
we are just worried that you might
have gotten a credit card."



"Yes, I have two.
Isn't that great?"

97



Jake is wrong in assuming that if a credit card company is willing to give him a credit card, someone determined that he could pay back any debt he incurred.

99

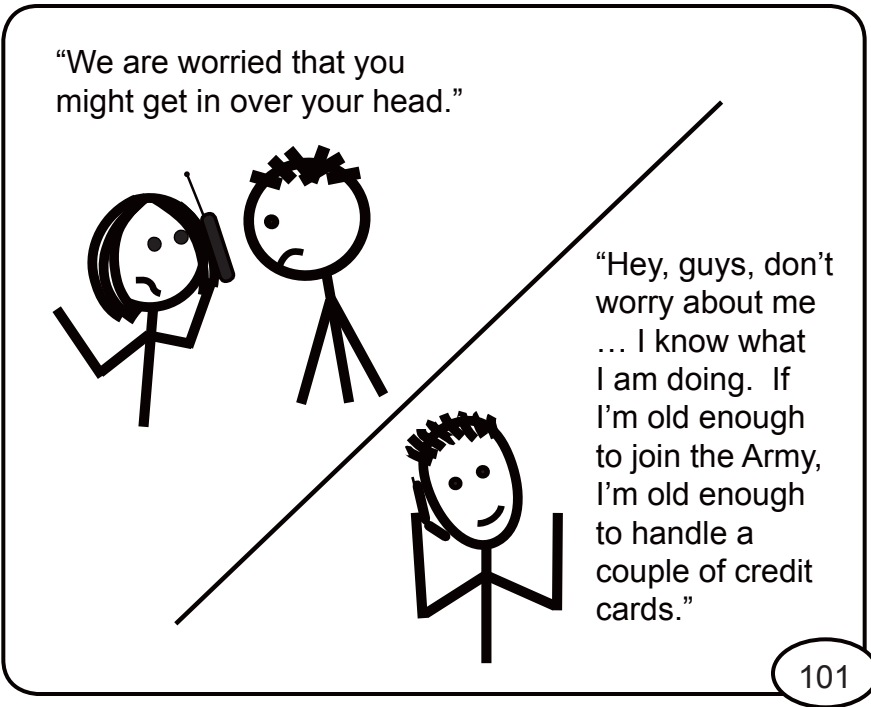
“In the world of credit card marketing ... it is easier and cheaper to mail credit cards by the tens of millions and clean up a financial disaster with a few customers, than to do the hard and labor-intensive work of genuinely qualifying all of the customers.”

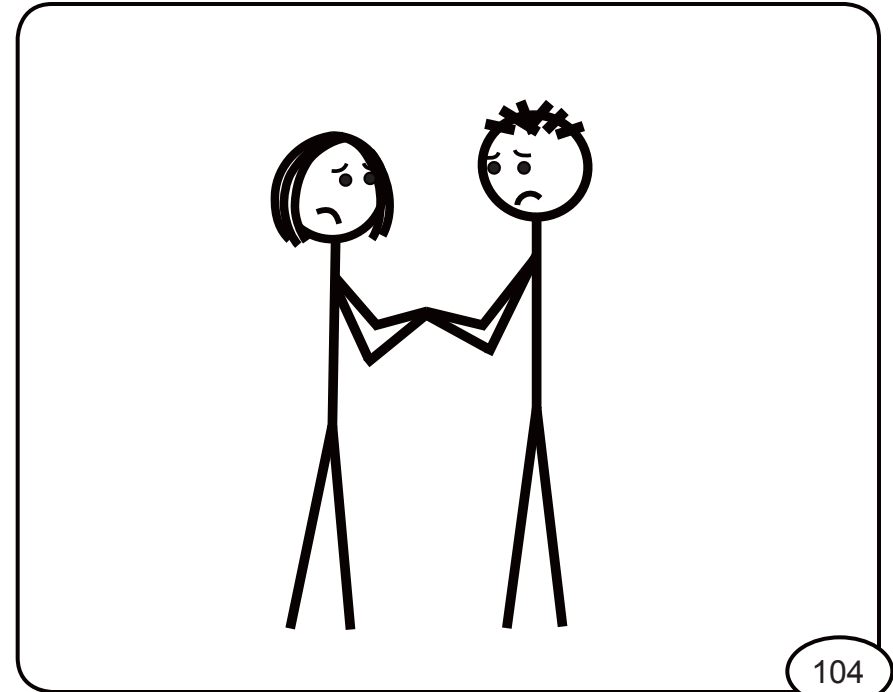
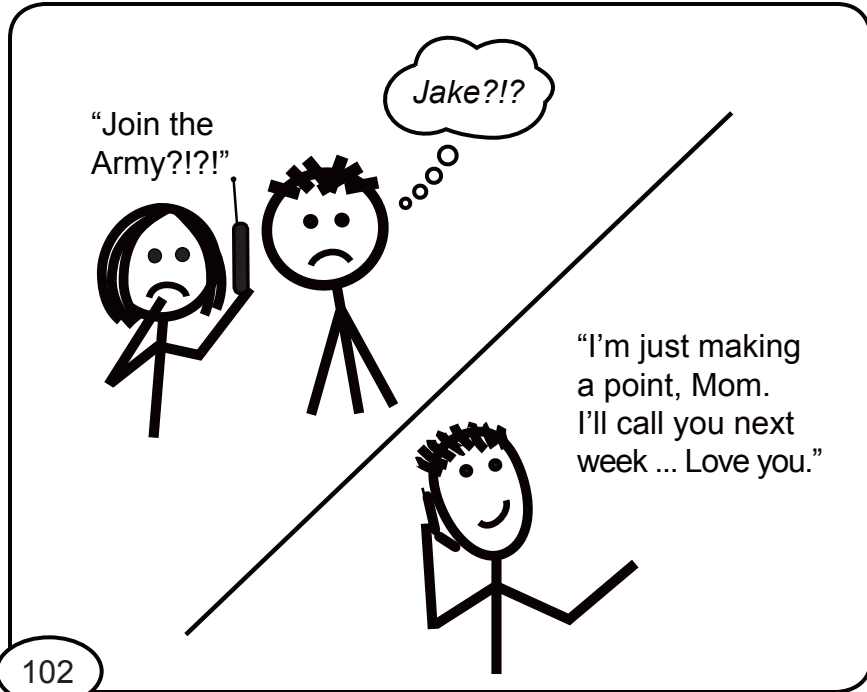
Forever in Your Debt

Or, as one credit card executive told me (in confidence):

“We figure that the great percentage of young adults will find a way to pay us. It is too expensive to carefully prequalify all applicants, so we just extend lots and lots of cards.”

100



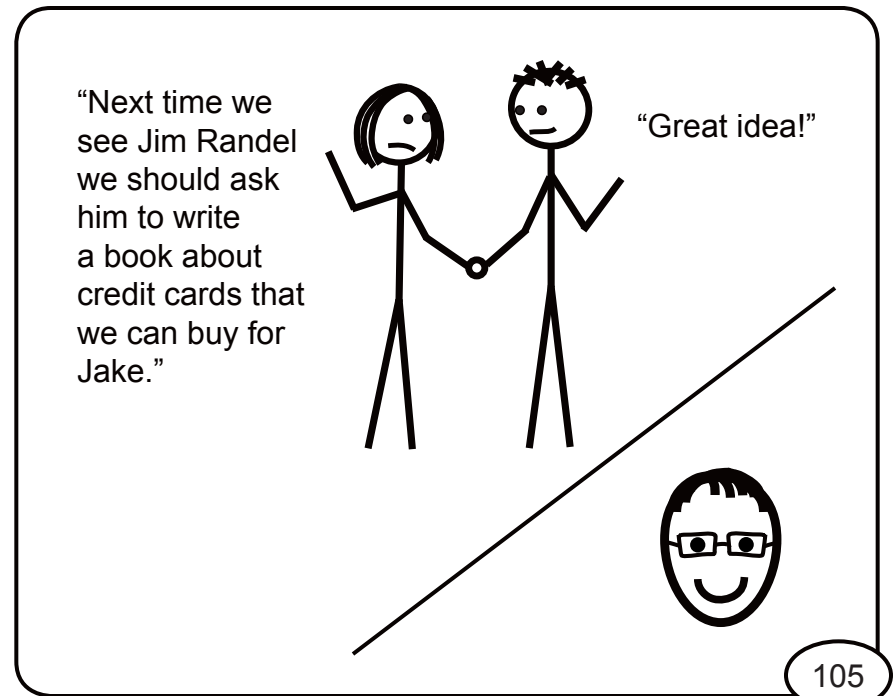


Jake has a point. He is old enough to join the Army (in fact, he could have enlisted at age 18). He **should be able** to handle a couple of credit cards.

The problem is that we, as a country, have done a poor job preparing our young people for a very smart and well-armed credit card industry.

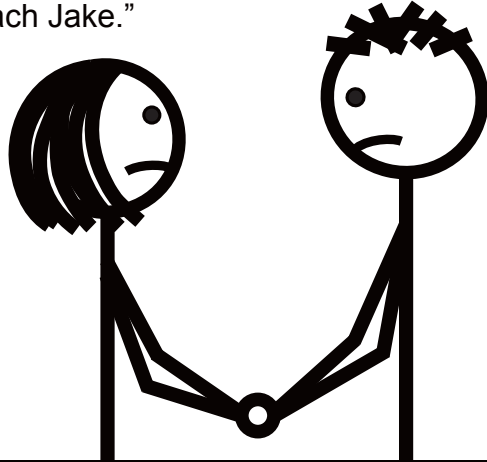
Billy and Beth now realize that it was their responsibility to teach Jake basic financial principles. They hope it's not too late.

103



“In the meantime, let’s learn all we can about credit cards ... both for ourselves and for what we can teach Jake.”

“Definitely! And, by the way, Beth, I’m sorry for getting us into this mess.”



106

Fortunately for Billy and Beth, there are steps they can take to pay down their debt more quickly. My job is to help them understand their options.



108

Hey, good for Billy and Beth. They are now moving forward – taking responsibility for their mistakes and starting the process of learning, looking for solutions to their problem.

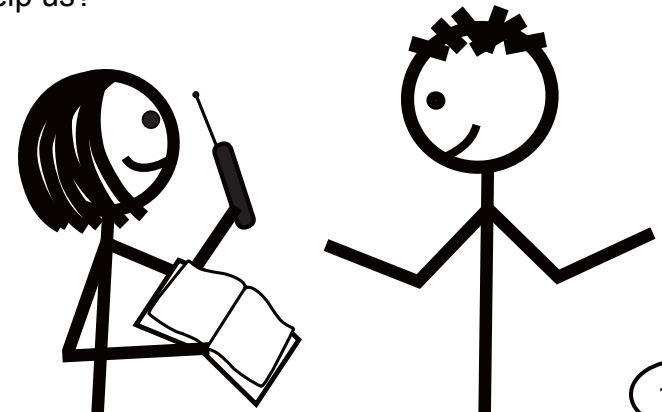
As we go down that path with them, let’s review exactly where they are:

Billy and Beth are in debt to credit card companies in a total amount of \$25,000. For the past year, they paid just the minimum payment (\$500/mo.) and were late one time. Assuming they cut up their cards right now and continue to pay \$500 every month, it will take them almost 7 years to get out of debt.

107

“Billy, there’s only so much reading I can do ... Would you object if I call that Jim Randel guy and see if he will help us?”

“I don’t mind, Beth.”

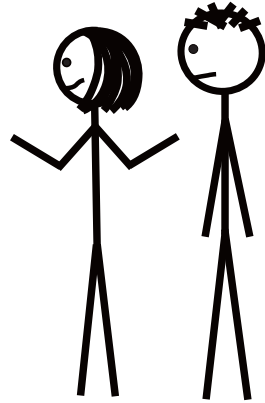


109

"Hey guys, thanks for inviting me over. I brought a bottle of wine."

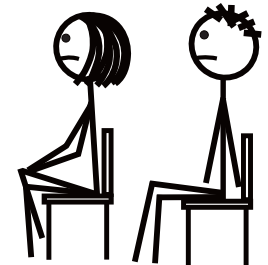
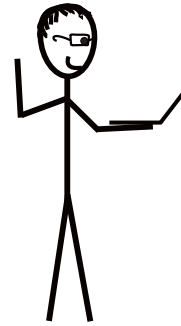


"Gee, Jim, thanks, but I hope you didn't think it was a dinner invite. We need your help to learn more about credit cards."



110

"Fortunately, I always carry a PowerPoint® presentation with me."

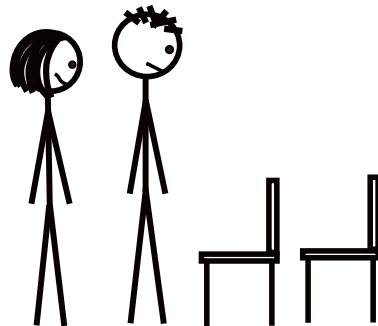


112

Gosh, I'm so hungry!



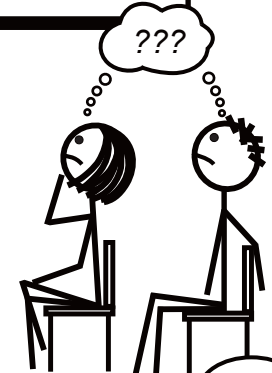
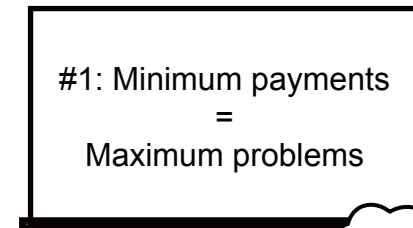
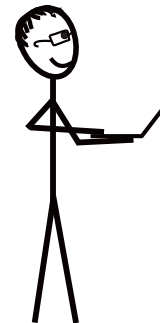
"Oh, my misunderstanding, Beth. No worries ... I'm happy to help.... Why don't you guys sit down?"



111

"We need to discuss how to reduce your credit card debt, and I have a three-point plan.... Number 1: Minimum payments equal maximum problems."

#1: Minimum payments
=
Maximum problems



113



I stole that phrase from author Harvey Z. Warren (actually, he told me I could use it) because it explains so well how people get into debt ... and can't get out.

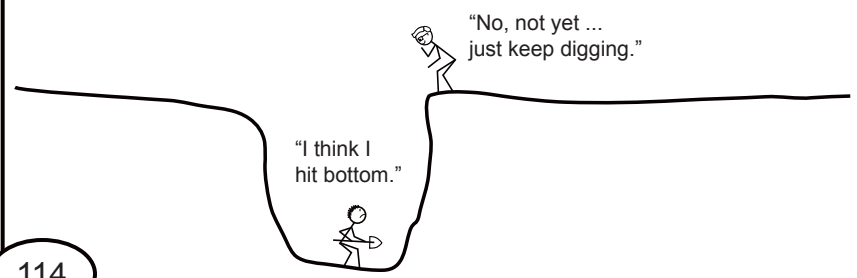
About twenty-five years ago, credit card companies were requiring monthly minimum payments that were about 5% of card balances. Then along came a smart credit card consultant named Andrew Kahr, who convinced his clients to lower minimum payments.

Kahr was very shrewd. He knew that the less people were required to pay every month, the more they would use their card, and the longer it would take them to reduce their debt. In both situations, his card company clients were earning more interest.

Kahr also understood psychology. He knew that people who were making the "required" payment would believe that they were acting prudently.

Given the size of some people's balances, there were times when a minimum payment was not even covering interest due the card company. Card companies are now required to bill an amount that at least covers interest due.

The reality is that by inducing people to pay just the 2% minimum, credit card companies were helping people dig themselves into deeper and deeper holes.

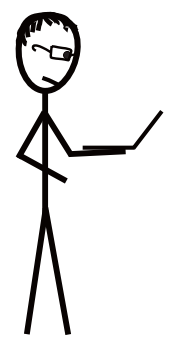


To see a rare interview of Andrew Kahr (the guy is kind of secretive) and an excellent video about credit cards – a PBS special called “The Secret Life of Credit Cards” – go to:

<http://www.pbs.org/wgbh/pages/frontline/shows/credit/view/>

“Let me ask a question: Do you think you can pay an extra \$250 a month toward your credit card balance?”

#1: Minimum payments
=
Maximum problems



“Jim, we're pretty tight right now.”





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**James Roberts / Professor of Marketing
& Entrepreneurship, Baylor University**

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Curtis Arnold, National Credit Card Expert and Author

learn how to:

- escape from credit card debt
- select the right credit card
- improve your credit score
- protect yourself against fraud
- lower your interest rate (APR)
- teach your kids about debt
- identify credit company tricks
- avoid paying fees



about the author: Jim Randel is an attorney and entrepreneur who has studied topics of financial literacy and personal achievement for thirty years.

learn more at:
theskinnyon.com

