



Money Matters Case Study: Understanding Credit Card Offers Scenario A

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Try the Bank

Tom is 2 years out of college making \$42,000 per year. He has some debt—\$20,000 in college loans, a \$15,000 car loan and credit card debt totaling about \$10,000, with interest at 17% APR. He is becoming worried about his debt level and wants to consolidate his credit card debt and take out a lower interest loan to pay it off.

The credit card debt has been accumulating slowly even though Tom has held the same job for two years. He acquired all of his car and credit card debt since graduation. When he finished college Tom also had credit card debt of comparable size, but his parents generously paid it off, considering it part of his college expenses. His parents, however, are not particularly well off and Tom does not wish to approach them a second time for help.

Tom's girlfriend Sally has some money in the bank and he is considering asking her for a loan. Sally does not know about Tom's previous credit card balance, which his parents paid, and he has no intention of telling her about it.

Your analysis should include:

1. What options does Tom have to improve his financial situation? (This is a research question that you can explore using the Internet.)
2. If Tom were to ask Sally for a loan, what would be a fair rate of interest to offer?
3. What will each of these options cost him on a monthly basis? In the long run total? (The spreadsheet included with the credit card module will help with this question.)
4. What issues should Tom be addressing besides reducing interest on his credit card loan?
5. What are the pluses and minuses of borrowing money from Sally?

Based on your understanding of these issues and any other relevant considerations, what is Tom's best strategy at this point, and why? Prepare a written statement outlining your advice to Tom, along with justification of it.