

# Financial Literacy Quiz

## WHAT'S YOUR SCORE?

Test your financial literacy. Why? Because without a good handle on personal finances, we make poor spending decisions, don't save for emergencies, max out several credit cards, pay higher interest rates, have our identities stolen, make poor investment choices, and underestimate our financial needs in retirement.

So take the quiz. It will help you determine what you know and what you don't know so you can take important steps toward improving your financial future.

### Quiz Questions

- 1 **A credit report is:**
  - (a) A list of your financial assets and liabilities
  - (b) Your monthly credit card statement
  - (c) A loan and bill payment history
  - (d) Your credit line with your financial institution
- 2 **In terms of credit, what does APR stand for?**
  - (a) Annual Percentage Rate
  - (b) Annual Penalty Rate
  - (c) Annual Payment Rate
  - (d) Annual Payoff Rate
- 3 **Who insures your stocks in the stock market?**
  - (a) The Federal Deposit Insurance Corporation
  - (b) The Securities and Exchange Commission
  - (c) The U.S. Department of the Treasury
  - (d) No one
- 4 **Federal law gives you three days to cancel the purchase of a new or used car from a dealer.**

True     False
- 5 **The type of car you own affects the price you pay for auto insurance.**

True     False
- 6 **A reverse mortgage is:**
  - (a) A rising debt loan
  - (b) Only available to someone 62 years of age or older
  - (c) Generally not tied to income
  - (d) All of the above
- 7 **How many days does a creditor have to acknowledge your written complaint about a billing error?**
  - (a) 30 days    (c) 90 days
  - (b) 60 days    (d) 120 days
- 8 **If your credit card was lost or stolen and used to charge items you didn't authorize, you are responsible for what amount?**
  - (a) Up to \$50
  - (b) Up to \$100
  - (c) Up to \$500
  - (d) All unauthorized charges
- 9 **Negative financial information (excluding bankruptcy) can stay on your credit report for:**
  - (a) 2 years    (c) 7 years
  - (b) 5 years    (d) 10 years
- 10 **What do "points" refer to in the home mortgage application process:**
  - (a) One point equals 1% of the purchase price, paid to the seller
  - (b) One point equals 1% of the purchase price, paid to the lender
  - (c) One point equals 1% of the loan amount, paid to the seller
  - (d) One point equals 1% of the loan amount, paid to the lender
- 11 **Each state has a law that lets pharmacists substitute less expensive generic drugs for many brand name products.**

True     False
- 12 **By using unit pricing at the grocery store, you can easily compare the cost of any brand and any package size.**

True     False
- 13 **The recommended gasoline for most cars is regular octane.**

True     False
- 14 **All telephone numbers that begin with an "8" are toll-free.**

True     False
- 15 **In financial transactions, a CD is a:**
  - (a) Certificate of Debt
  - (b) Certificate of Deposit
  - (c) Citizens Deposit
  - (d) Certificate of Collateral
- 16 **The "Rule of 72" tells you how long it will take to double your money.**

True     False

(Answers on page 2)

### A Note from the President

Sometime around the start of the new year, the Credit Union will be switching to a new data processor. We expect that this will enable us to improve operations and increase member services. Unfortunately, experience has taught us that these transitions are not always seamless. We will do our best to make sure that our membership is inconvenienced as little as possible. In the meantime, we ask our members, particularly those who use ATMs for cash, to make sure at yearend that they anticipate their cash needs prior to January 1, to avoid inconvenience from possible blackout periods while we change processors. We will provide updates as time goes on and our conversion schedule is determined.

*Jack DeWalle*

## \$6.3 BILLION BENEFIT TO MEMBERS

Credit union members benefit from higher levels of service and participation in the governance of their financial cooperatives. But members also benefit financially to the tune of about \$6.3 billion a year—that's \$76 per member or \$149 a year per member household, according to data from the Credit Union National Association (CUNA), the Bank Administration Institute, and the Federal Reserve.

That's the sum of the additional fees and loan interest and lower savings return that credit union members would have paid and earned had they conducted all their business with banks instead of credit unions in 2002. Those numbers break down this way:

- Lower fees = \$2 billion
- Lower interest paid on loans = \$2.3 billion
- Higher earnings on shares & deposits = \$2 billion

While bankers complain that credit unions don't pay federal income taxes, they conveniently ignore the fact that credit union members pay income taxes on the additional dividends that they earn on their higher-earning credit union savings accounts, according to CUNA Chief Economist Bill Hampel. "The additional federal income taxes credit union members paid in 2002 on their higher dividends and interest from credit unions amounted to about \$480 million."

Hampel also points out that even those that don't belong to a credit union benefit from the existence of credit unions. "Attractive pricing from credit unions pressures other financial institutions to provide attractive rates and services."

## Quiz Answers

- (C) A credit report is a loan and bill payment history. It is kept by a credit bureau and used by financial institutions and other potential creditors to determine how likely it is that you will repay a future debt. Information in your credit report can affect your ability to get a job, a loan, a credit card, or insurance.
- (A) It stands for Annual Percentage Rate. The APR is a measure of the cost of credit, expressed as a yearly interest rate. Usually, the lower the APR, the better for you.
- (D) No one. Your investments in the stock market are not insured. Know the risks before investing in the stock market.
- False. The law does not require dealers to give buyers a three-day right to cancel. The right to return the car in a few days for a refund exists only if the dealer grants this privilege to buyers, but it is discretionary. Dealers may describe the right to cancel as a "cooling off" period, a money-back guarantee, or a "no questions asked" return policy. Before you purchase a new or used car from a dealer, ask about the dealer's return policy, get it in writing, and read it carefully.
- True. Your premium is based in part on the car's sticker price, the cost to repair it, its overall safety record, and the likelihood of theft. Many insurers offer discounts for features that enhance safety or prevent theft. These include air bags, antilock brakes, daytime running lights, and antitheft devices. Some states require insurers to give discounts for cars equipped with air bags or antilock brakes.
- (D) All of the above. Reverse mortgages allow consumers over age 62 to convert the equity in their homes to cash while retaining ownership. With a reverse mortgage, you receive money from the lender and generally don't have to pay it back for as long as you live in your home. In return, the lender holds some—if not most or all—of your home's equity.
- (A) The creditor has 30 days. The creditor must acknowledge your complaint in writing within 30 days after receiving it, unless the problem has already been resolved. The creditor must resolve the dispute within two billing cycles (but not more than 90 days) after receiving your letter.
- (A) You are responsible for up to \$50. Your maximum liability under federal law for unauthorized use of your credit card is \$50. If you report the loss or theft before your credit cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is \$50 per card. If the loss or theft involves your credit card number, but not the card itself, you're not responsible for unauthorized use.
- (C) 7 years. Accurate negative information generally can stay on your report for seven years; bankruptcy information may be reported for 10 years.
- (D) Points are fees you pay the lender for the loan. One point equals 1% of the loan amount. Points usually are paid in cash at closing. In some cases, you may borrow the money you need to pay points, but doing so will increase the loan amount and your total costs.
- True. Each state has a law that lets pharmacists substitute less expensive generic drugs for many brand-name products and, depending on your prescription needs, your savings could be significant.
- True. Unit pricing is a tool for comparing prices. While the package price tells you how much you pay for a food item, the unit price tells you the price of each "unit" in a package. A unit can be an ounce, a pound, a quart, a square foot, or an individual piece in a package. For example, the unit price shows you the cost of each ounce in a can of soup. The package price just tells you the price of the whole can. Unit pricing helps you compare costs of different brands and various sizes without doing arithmetic. But remember, compare only similar items.
- True. In most cases, manufacturers recommend using a regular octane gasoline, and using a higher octane gasoline than your owner's manual recommends offers absolutely no benefit. Unless your engine is knocking, buying higher octane gasoline is a waste of money. Premium gas costs 15 cents to 20 cents more a gallon than regular. That can add up to \$100 or more a year in extra costs. Studies indicate that altogether, drivers may be spending hundreds of millions of dollars each year for higher octane gas than their cars need.
- False. To date, only numbers that begin with 800, 888, 877, or 866 are free. And even then, there are some exceptions: Companies that provide audio entertainment or information services may charge for calls to 800, 888, and other toll-free numbers, but only if they follow the Federal Trade Commission's Pay-Per-Call Rule. In addition, some area codes begin with an "8." For example, the area code 809 serves the Dominican Republic. If you dial this area code, you'll be charged international long distance rates.
- (B) In financial transactions, a CD is a Certificate of Deposit. A CD in this case is a type of savings account that earns a fixed interest rate over a specified period of time. At a credit union it is called a share certificate of deposit, which earns dividends.
- True. The "Rule of 72" tell you how long it will take to double your money. To use the "Rule of 72," divide 72 by the interest rate you're getting. For example, if you deposit \$3,000 into an account with a 2% interest rate, divide 72 by two. The answer—36—tells you that you will double your money in 36 years; in 36 years, you will have \$6,000.

## Certificates of Deposit

Certificate	APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
6 month	1.10	1.10
9 month	1.20	1.20
12 month	1.35	1.35
30 month	2.00	2.02
60 month	3.00	3.04

## Money Market Account Rates

APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
1.00	1.00

## Share Account Rates

APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
0.50	0.50

Rates are subject to change in response to market conditions.

## Auto Dealer 'EXTRAS' COST LESS at the Credit Union

Pay attention to what auto dealerships are charging for GAP (guaranteed asset protection) insurance. GAP insurance covers the difference between what a consumer owes a lender and what an auto insurer will pay if a car is totaled or stolen shortly after it's purchased. Rohm and Haas Employees Federal Credit Union offers this product, often at a substantially lower cost.

## Investor challenges in a changing Market

With all the ups and downs in the financial markets, it's hard for investors to know what to do and when. How do investors typically respond to change?

- **React to what happens.** Unfortunately, some investors react in ways that are counter to their best interests. When the stock market declines, some people sell stocks. When the market moves sharply higher, people fear they may miss out on a good thing and buy stocks. A "buy high, sell low" strategy won't improve a portfolio.
- **Anticipate and act.** The ideal strategy for successful investing of attempting to get in at the lows and out at the peaks is a good one ... if you happen to know in advance where interest rates are headed, what unemployment will be in the future, and who will win the next election. Changes in markets and the economy are nearly impossible to anticipate.
- **Sit on the sidelines.** Some investors avoid the pain associated with market volatility and sit tight with cash in their pockets. This strategy provides small long-term returns after inflation.

So what's an investor to do? Know where you want to be and when, and implement a plan to get there based on goals and tolerance for short-term volatility. **Diversify, and then stick with your plan.**

## Loan Interest Rebates

The Board of Directors declared an interest refund on all real estate secured loans paid up to date at the end of September—the refund reduces the effective rate to 6% for the third quarter of 2004.



Look for other information related to your credit union's services on our web page: <http://www.rhcu.com>

