



**Lesson Eight**

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Credit Cards

# credit cards lesson outline

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## overview

What is APR? What is a grace period? What are transaction fees?

These and other questions will be answered in this lesson, as students learn about credit cards, the different types of cards available (bank cards, store cards, and travel and entertainment cards) and the features of each.

As students start to shop for their first (or next) credit card, this lesson will make them aware of various costs and features. Included in this section is a discussion of the methods for calculating finance charges.

Various federal laws protect our rights as we apply for and use credit cards, such as procedures for disputes and protection from card theft and fraud. In this lesson, students will also be given an opportunity to analyze the information contained on a credit card statement.

To assist students with making wise decisions related to credit cards, several shopping tips are offered. Finally, once again, students are reminded of guidelines related to determining safe debt loads.

## goals

Develop skills to compare and evaluate the terms and conditions of various credit cards, the differences between credit cards, and the legal and financial responsibilities involved.

## lesson objectives

- List three types of credit card accounts, and explain the uses and payment methods of each
- Understand how to shop for a credit card
- Read and interpret a credit card statement
- Understand how to deal with billing errors
- Understand the long-term results of overextending your credit usage
- Determine safe personal debt loads



## presentation slides

- 8-A** applying for a credit card
- 8-B** calculating finance charges
- 8-C** examples of finance charges
- 8-D** comparing credit cards
- 8-E** what to do if you're denied credit
- 8-F** reading a credit card statement

**8-G** dealing with billing errors

**8-H** other credit card protections

**8-I** credit card dos and don'ts

**8-J** how much can you afford? (the 20-10 rule)

## student activities

**8-1** Shopping for Credit

- Discuss how costs and features can vary between credit cards, and have students apply their findings by making a decision about which kind of card they would use to purchase a popular electronic device.
- Using the form provided, ask teams of students to shop for three credit cards (two major credit cards and one from a local department store). When they've finished their research, ask them to answer a series of questions about their findings.
- When all the teams have finished their research and completed the questions, have each team explain to the class how they determined which credit card they would recommend for purchasing the electronic device (question 9). Have the class critique the logic each team used to arrive at their decision.

**8-2** What Does Your Statement Tell You?

- Students can take a close look at a credit card statement and see what kind of information it contains.
- Using the credit card statement provided, have students answer the questions attached to the statement.

**8-3** How Much Does It Really Cost?

- Have students calculate the total cost of items bought on credit and what the eventual cost of those items will be if only the minimum payment is made and interest charges accrue.
- Have students answer the questions. Discuss their answers. Was anyone surprised at their answers? Would they have made different choices about buying the items?
- This can be a good time to talk about values, needs versus wants, budgeting, and the pros and cons of using credit.

**8-4** How Deep Should They Go?

- Students determine safe debt loads for several consumers.
- Have students answer the questions and document how they arrived at each answer. When they're done, review the answers and the formulas used.




**8-5** Lesson Eight Quiz

**For more information, please refer to the Appendix.**

## credit cards target audiences

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Learning activities appropriate to varied target audiences for Lesson Eight

activity	 14-18	 19-25	 26 - ↑
	teenagers (14-18)	young adults (19-25)	adults (26+)
Web Activity	●	●	●
CD-ROM Activity	●	●	●
Student Activity 8-1	●	●	●
Student Activity 8-2	●	●	
Class Speaker	●	●	●
Written Presentation	●	●	
Student Activity 8-3	●	●	●
Student Activity 8-4	●	●	●
Lesson Eight Quiz 8-5	●	●	●

## types of credit card accounts

1. Bank card
  - Examples (Visa, MasterCard)
  - Best use of
  - Sample cost/method of payment
2. Store card
  - Examples (Macy's, Chevron)
  - Best use of
  - Sample cost/method of payment
3. Travel and entertainment card
  - Examples (American Express)
  - Best use of
  - Sample cost/method of payment



discussion

## shopping for a credit card

1. Determining the best use of a card as a personal money management device
  - Pay bill in full each month and avoid interest charges
  - Repay bill over time and pay interest charges
2. Costs and features of credit cards
  - Annual Percentage Rate (APR)
  - Grace period
  - Annual fee
  - Late payment fee
  - Over-limit fee
  - Balancing computation method for finance charge
  - Credit limit
  - How widely card is accepted
  - What services and features are available
3. Calculating finance charges (APR)
  - Average daily balance
  - Adjusted balance
  - Previous balance
  - Past due balance
  - Examples
4. Comparing the costs and features of credit cards



web activity:

Have students obtain current credit card rates at **bankrate.com** (or other websites).



slides 8-A, 8-B, 8-C, 8-D & 8-E

# credit cards teaching notes

## shopping for a credit card (continued)

5. Reading a credit application
  - Interpreting features and costs
  - Examples
6. Before signing
  - Know the details of the contract
  - Ask, if you are not sure
7. Shopping for a credit card
  - Compare costs and features
  - What did you find?
8. What to do if you're denied credit



discussion



student activity 8-1

## reading a credit card statement

1. What it looks like
2. How to read one



student activity 8-2



slide 8-F

## dealing with billing errors

1. Fair Credit Billing Act
2. Steps to take



slide 8-G

# credit cards teaching notes

## other credit card protections

1. Prompt credit reporting
  - Your account must be credited on the day your payment is received.
2. Refunds of credit balances
  - If requested, card issuer must send refund within seven business days of receiving your request.
3. Unauthorized charges
  - If you are the victim of identity theft or card fraud, you will typically not be held responsible for the charges under the card's zero-liability program.
4. Disputes about merchandise or services
  - In some circumstances, you have the right to dispute payment for merchandise or services.



discussion



slide 8-H

## how you can protect yourself

1. Keep records of:
  - Card number
  - Phone number to call if card is lost or stolen
  - Until bill arrives, receipts for purchases and returns
  - Receipts for merchandise ordered that has not yet arrived but appears on your bill
  - Record of telephone orders and confirmation numbers
2. Protect yourself against fraud
  - When using your card, keep your card in sight.
  - Never give card number over the phone if you did not initiate the call.
  - Report lost or stolen cards immediately.
  - Carefully read the bills before paying. Compare amount on receipts to amounts on bill. Don't always assume the bill is correct.
  - Keep receipts; shred when not needed.
  - Destroy unused credit card solicitations.
  - Shop only on secure websites.
  - Don't write down your PIN and carry it with your card.



discussion



class speaker:

Have a security person from a financial institution or a law enforcement official talk to class about credit card fraud and theft.

# credit cards teaching notes

## summary of credit card dos and don'ts

1. Shop around.
2. Look at various sources.
3. Read the contract carefully.
4. Don't rush into signing anything.
5. Once signed, get copy of contract.
6. Know the penalties for missed payments.
7. Figure out total price when paying with credit.
8. Pay bills in full or at least make the largest payments you comfortably can.
9. Don't be misled into thinking small payments will be easy.



discussion



slide 8-I

## advantages of using credit cards

1. Ability to obtain needed items
2. Use of card builds credit history
3. Quick source of funds in an emergency
4. No extra charge if bill is paid in full each month
5. Consumer protection



discussion

## disadvantages of using credit cards

1. Credit cards are loans that charge interest if not paid in full
2. Fees might be charged for late payments or going over spending limit
3. Can encourage impulse buying and unnecessary purchases
4. Need to establish creditworthiness before getting card



discussion



written presentation:

Have students create a newsletter, blog or website with suggestions for selecting and using a credit card. This presentation can include websites and links available to obtain card information.



# credit cards teaching notes

## how much does it really cost?

1. How to calculate the total cost of an item bought on credit and paid for over time with interest
2. Exercises



student activity 8-3



student activity 8-4

## determining maximum credit load

1. Explaining the 20-10 rule of limiting debt
2. Exercises



slide 8-J

## lesson eight quiz



quiz 8-5



# what does your statement tell you?

## answer key

A credit card statement provides information such as how and when you've used your credit card, how much you owe, how much interest you're paying to use the card, how much your minimum payment is, and how much credit you have left.

Knowing how to read your credit card statement can also help you catch unauthorized charges and/or billing errors.

So, it can pay to know how to read the statement!

### directions

Use the credit card statement below to answer these questions:

1. What is the date of the statement? *2/13/09*
2. What is the Annual Percentage Rate (APR)? *19.8%*
3. What is the corresponding periodic rate? *1.65%*
4. What is the new balance? *\$125.24*
5. What was the previous balance? *\$168.80*
6. How many charges were made during the billing cycle? *Five*
7. How many credits and payments were made during the billing cycle? *One*
8. Were there any charges for late payments? *No*  
If so, how much were the charges? *None*
9. What is the total amount of the credit line? *\$1,200*
10. What is the total amount of available credit? *\$1,074.76*
11. What is the total amount of charges made during the current billing period? *\$125.24*
12. Was there a finance charge for the current billing cycle? *No*  
If so, how much were the charges? *None*
13. What is the account number on the statement? *4125-239-412*
14. Where should the payment be sent? *Box 1234, Anytown, USA*
15. What is the periodic rate for cash advances? *0.54%*

# what does your statement tell you?

*answer key*

<b>ACCOUNT NUMBER</b>				<b>NAME</b>				<b>STATEMENT DUE</b>				<b>PAYMENT DUE DATE</b>			
4125-239-412				John Doe				2/13/09				3/09/09			
<b>CREDIT LINE</b>				<b>CREDIT AVAILABLE</b>				<b>NEW BALANCE</b>				<b>MINIMUM PAYMENT DUE</b>			
\$1200.00				\$1074.76				\$125.24				\$20.00			
<b>REFERENCE</b>	<b>SOLD</b>	<b>POSTED</b>	<b>ACTIVITY SINCE LAST STATEMENT</b>								<b>AMOUNT</b>				
463GE7382		1/25	PAYMENT THANK YOU								-168.80				
32F349ER3	1/12	1/15	RECORD RECYCLER ANYTOWN, USA								14.83				
89102DIS2	1/13	1/15	BEEFORAMA REST ANYTOWN, USA								30.55				
NX34FJD32	1/18	1/18	GREAT ESCAPES BIG CITY, USA								27.50				
84RT3292A	1/20	1/21	DINO-GEL GASOLINE ANYTOWN, USA								12.26				
973DWS321	2/09	2/09	SHIRTS 'N SUCH TINYVILLE, USA								40.10				
Previous balance			(+)	168.80			Current Amount Due			125.24					
Purchases			(+)	125.24			Amount Past Due								
Cash Advances			(+)				Amount Over Credit Line								
Payments			(-)	168.80			Minimum Payment Due			20.00					
Credits			(-)												
FINANCE CHARGES			(+)												
Late Charges			(+)												
NEW BALANCE			(=)	125.24											
<b>FINANCE CHARGE SUMMARY</b>				<b>PURCHASES</b>				<b>ADVANCES</b>				<b>For Customer Service, Call:</b>			
Periodic Rate				1.65%				0.54%				<b>1-800-xxx-xxxx</b>			
Annual Percentage Rate				19.80%				6.48%				<b>For Lost of Stolen Card, Call:</b>			
<b>Numbers</b>												<b>1-800-xxx-xxxx</b>			
												<b>24-Hour Telephone</b>			
<b>Please make check or money order payable to Your First Bank. Include account number on front.</b>															



# how much does it really cost?

## answer key

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### directions

Use the Cost of Credit calculator at [practicalmoneyskills.com](http://practicalmoneyskills.com) to answer the following questions.

### questions

**José wants to buy a stereo for \$650 and pay for it using a credit card that has an Annual Percentage Rate of 19.85%.**

**If José pays the minimum monthly payment of \$21.45:**

1. How long will it take him to pay for the stereo? *43 months*
2. What is the total amount José will pay for the stereo? *\$909.54*
3. What is José's total cost of using credit? *\$259.54*

**If José makes monthly payments of \$60:**

4. How many months will it take for José to pay off the stereo? *13 months*
5. What is the total amount José will pay for the stereo? *\$722.20*
6. What is José's total cost of using credit? *\$72.20*

**Patty took a cash advance of \$1,500. Her new credit card charges an Annual Percentage Rate of 21%. The transaction fee for cash advances is 3% of the cash advance, with a maximum fee of \$35. This fee is added to the total cash advance, and accrues interest.**

**If Patty makes monthly payments of \$65:**

7. How long will it take Patty to pay for the cash advance? *31 months\**
8. What is the total amount Patty will end up paying for the cash advance? *\$1,997.70*
9. What is the total finance charge Patty will pay? *\$462.70*

**If Patty pays the cash advance back at a rate of \$130 per month:**

10. How long will it take Patty to pay for the cash advance? *14 months\**
11. What is the total amount Patty will end up paying for the cash advance? *\$1,734.50*
12. What is the total finance charge Patty will pay? *\$199.50*

*\*Based on a total advance of \$1,535 (\$1,500 + \$35 transaction fee).*

# how much does it really cost? answer key

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**Marie just used her new credit card to buy a bike for \$400. Her budget allows her to pay no more than \$25 each month on her credit card. Marie has decided not to use the credit card again until the bike is paid off. The credit card she used has an Annual Percentage Rate of 21%.**

**If Marie pays \$25 each month on her credit card:**

- 13.** How long will it take Marie to pay for the bike? *19 months*
- 14.** What is the total amount Marie will end up paying for the bike? *\$473.39\**
- 15.** How much interest will Marie pay for using her credit card to buy the bike? *\$73.39\**

**If Marie pays the minimum payment of \$14 each month:**

- 16.** How long will it take Marie to pay for the bike? *40 months*
- 17.** What is the total amount Marie will end up paying for the bike? *\$559.36*
- 18.** How much interest will Marie pay for using her credit card to buy the bike? *\$159.36*

**Gary has just used his credit card to buy a new watch. He got the watch on sale for \$235. The regular price was \$290. He used a credit card that has an Annual Percentage Rate of 20%.**

**If Gary makes the minimum monthly payment each month of \$10:**

- 19.** How much will Gary end up paying for his new watch? *\$300.70\**
- 20.** How long will it take Gary to pay for his watch? *31 months*
- 21.** What is the total amount of interest Gary will end up paying? *\$65.70\**

**If Gary pays \$25 each month, instead of the minimum monthly payment of \$10 each month:**

- 22.** How much will Gary end up paying for his new watch? *\$257.71\**
- 23.** How long will it take Gary to pay for his watch? *11 months*
- 24.** What is the total amount of interest Gary will end up paying? *\$22.71\**

*\* Note: These answers are due to approximate rounding.*



# how deep should they go?

## answer key

### directions

Read each of the following scenarios and determine if the purchase can be made and how the decision will affect the credit load.

Write your answers in the blanks provided. Use the space below each problem to show how you arrived at your answer. (Use the other side of this paper if you need more room.)

1. Nancy and Thomas have a combined monthly net income of \$1,200.

What is the most they can afford to pay for installment and credit card debt?

$$\$120.00$$

$$\$1,200 \times 10\% = \$120$$

2. Jessie has a monthly net income of \$800. His fixed monthly expenses consist of \$150 for rent. He currently pays \$80 each month for a credit card bill, and now he wants to buy a car.

What does Jessie have left in his budget for a car payment to stay within his safe debt load?

$$\$0$$

$$\$800 \times 10\% = \$80$$

$$\$80 - \$80 = \$0$$

3. Carla has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card. What is the largest monthly payment she can commit to making?

$$\$45$$

$$\$450 \times 10\% = \$45$$

4. Jorge has a monthly net income of \$640. His fixed monthly expense consists of a rent payment of \$120. (A) Right now, how much can he afford to borrow to stay within his safe debt load?

He also has a car payment of \$125 per month. Jorge wants to buy new tires for his car. The tires will cost him \$40 each month on his credit card.

(B) With his car payment and the new tires, will he still be within his safe debt load?

(C) What percentage of his net income, after rent, will he now have committed to debt payments?

$$(A) \$640 \times 12 = \$7,680$$

$$\$7,680 \times 20\% = \$1,536$$

$$(B) \$640 \times 10\% = \$64$$

$$\$125 + \$40 = \$165$$

$$\$165 / \$640 = 26\%$$

*No - 26% is over safe debt load.*

$$(C) 26\%$$



# lesson eight quiz: credit cards

## answer key

### true-false

1. t A proprietary credit card is usually accepted by one type of store or company.
2. f The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
3. f The annual fee for a credit card is set by the government.
4. t APR measures the interest rate charged by a credit card.
5. t If someone uses your lost or stolen credit card, you are liable for no more than \$50.

### multiple choice

6. A A credit card issued through a credit union would be an example of a \_\_\_\_\_ card.  
**A.** bank  
**B.** travel and entertainment  
**C.** store  
**D.** proprietary
7. B The grace period refers to the time:  
**A.** taken to process a credit card application  
**B.** for paying an account without an interest charge  
**C.** allowed to notify a creditor of a billing error  
**D.** used for calculating interest
8. C Comparing the APR among several credit cards allows you to obtain the:  
**A.** lowest grace period  
**B.** lowest annual fee  
**C.** lowest interest rate  
**D.** least expensive method of calculating interest
9. B If a billing error occurs on a credit statement, a consumer has \_\_\_\_ days to notify the creditor.  
**A.** 30  
**B.** 60  
**C.** 90  
**D.** 120

### case application

Jack uses his credit card for almost all purchases. He charges gas purchases, clothing, food, and other living expenses. What is your opinion of this money management habit? *If Jack pays off his balances each month, his use of credit cards may be a convenient money management technique that provides complete records of all of his spending. However, if this habit results in overspending and paying more, due to interest, Jack needs to assess his financial activities.*