



Credit Cards

“Comparing costs and benefits of buying on credit is key to making a good purchase decision.”

— Money Management Standards,
JumpStart Coalition Benchmarks

Teacher Background

Looking at statistics one might easily see that the United States is a nation of credit card holders. According to a 2006 report, the nation’s credit card debt was about \$665 billion on bank credit cards and about \$105 billion on other credit cards. The average debt was about \$9,300 per household holding at least one card.* Approximately four out of five college students have either their own credit card or access to their parent’s credit card.**

One man in the U.S. made the *Guinness Book of World Records* by acquiring 1,358 different credit cards.

Advantages

Credit cards offer consumers a myriad of advantages including the convenience of making purchases online, shopping now and paying over an extended period of time, and gaining access to goods and services in almost every country in the world. Many credit cards even offer the advantage of frequent flyer airline miles or a charitable contribution made in the name of the cardholder each time a purchase is made. A credit card purchase could help a college alumni association, an environmental organization, or a religious group. There are cards to meet the needs of everyone, including secured credit cards for those who have been rejected for a card without a security deposit.

Costs and Benefits

In this lesson students will analyze the costs and benefits of credit card purchases. They will complete a comparison shopping activity for credit cards that will prove that not all cards are created equal. They will be able to explain interest (APR) and describe how the longer people take to pay off balances, the more expensive the goods and services they purchased.

One activity in this lesson provides an opportunity for students to calculate the amount of interest and fees that cardholders could pay for an item. Students will understand that credit card purchases can be far more expensive than they thought.

*www.cardweb.com and the Federal Reserve

**<http://www.ucms.com/college-credit-card-statistics.htm>

Student Objectives

- Students will be able to compare and list the differences among four credit cards (i.e., fees, interest, credit limit).
- Students will be able to identify and provide examples of the costs and benefits of credit card use.
- Students will be able to analyze potential pitfalls of credit card use for college students and other young adults.
- Students will be able to calculate the annual percentage rate (APR) and fees on a credit card.

Materials Needed

- Student Handout 11-A, *To Market, To Market: Comparison Shopping for a Credit Card*
- Student Handout 11-B, *Calculating the Cost of Credit Card Purchases*
- OPTIONAL: Credit card marketing materials (especially those brochures and advertisements targeting college students and young adults).
- OPTIONAL: Credit card application forms, sample credit card bills, and disclosure statements



Connecting With the Internet

- www.bankrate.com
Bankrate.com. This site allows consumers to compare credit card rates. Online calculators also allow the user to calculate mortgage payments and earnings on certificates of deposit, estimate their credit scores, and determine how much money can be saved through refinancing.
- <http://www.ftc.gov/bcp/online/pubs/credit/choose.shtm>
Choosing and Using Credit Cards. The Federal Trade Commission (FTC) offers tips on shopping around for credit cards on this webpage.
- www.creditcardnation.com/cced.html
Credit Card Nation's 3-Step Credit Card Education Program introduces students to prudent credit card use.
- www.mastercard.com/us/personal/en/learningcenter/creditwise
Credit Wise. A website on establishing and building good credit for young adults developed by Mastercard.
- www.moneytalks.ucr.edu/english/newsletters/newsletters_home.html
Money Talks Teen Guides. The University of California Cooperative Extension's Money Talks guides offer guidance to young people about credit and credit cards.

- www.practicalmoneyskills.com/english/at_home/consumers/credit

Practical Money Skills for Life, a financial literacy program from Visa, has a Credit Cards section with worksheets, interactive statements, puzzles, and quizzes on credit card benefits, costs, choices, and pitfalls.

- www.studentcredit.com/learn.htm

StudentCredit.com. Students can visit this website to learn the basics of credit cards and how to manage them properly.



Focus Question

What are the pros and cons of using a credit card?

Procedures . . .

- 1 Ask students to imagine how it is possible to buy something they really want without using money they have today (i.e., it is all about credit). Distribute and/or post advertisements and brochures about credit cards. Have students go online and connect with some of the suggested websites, if computer access is available. Ask students to read and list what credit cards are offering to consumers. They will use this information later in the lesson to complete a “comparison shopping trip” for a credit card.

In small groups, have students discuss how credit card companies target or attract certain consumers (i.e., college students and young adults). Ask students to also describe any personal experience they have had with credit cards.

- 2 Have students work in the same groups to discuss and list advantages and disadvantages of having a credit card. A composite list of advantages and disadvantages can be posted. A sample student list could include:

Advantages of Using Credit Cards

- Buy clothes now and enjoy while still paying for them.
- Establish a credit record.
- Obtain cash advances when broke.

- Rent sports equipment, get cell phone service, and other things that require a credit card.
- Have funds available for emergencies.
- Enjoy a sense of having money to spend (i.e., well being).
- Earn special credit card bonuses like airline frequent flyer mileage.
- Be able to act on the spur of the moment without money.
- Easily buy tickets to events (over the phone and via the Internet).

Disadvantages of Using Credit Cards

- Paying more for a product or service (if balance is not paid off in full).
- Paying large interest charges and fees.
- Being tempted to spend too much (i.e., living beyond one’s income).
- Suffering the stress of making payments.
- Paying off cards can become a huge financial burden.
- Paying for purchases continues long after they have been enjoyed.
- They can make it “too easy” to shop.
- Using one card to pay off another card (i.e., downward spiral).
- Minimum payments can mean years to pay off the balance on some accounts.
- Credit card companies may charge a fee just for having the card.

- 3 Discuss the trade-offs involved in credit card use and the responsibility of the card holder. Explain how the first responsibility for people considering the use of credit cards is to comparison shop (i.e., analyze fees, interest rates, credit limit, etc.).
- 4 Distribute Student Handout 11-A, *To Market to Market — Comparison Shopping for a Credit Card*. Students will complete the handout using the brochures and advertisements or by going online to various bank sites that offer credit cards. This can be assigned to a small group or individuals.
- 5 Read the directions on Student Handout 11-A and review terms on the comparison chart. Have the students report back their findings by posting their charts for review by others in the class. Ask what major differences they discovered from one credit card to another. Discuss the importance of reading the small print to determine the rate of interest, annual fees, and overlimit fees that are included.
- 6 Distribute Student Handout 11-B, *Calculating the Cost of Credit Card Purchases*. Ask students to calculate what this cardholder will have paid in interest and fees at the end of one year.
- 7 Organize students to review and check each other's calculations on the cost of credit card purchases (Student Handout 11-B). Review that there are costs and benefits to credit card transactions. The cost to the consumer illustrated on the handout is \$555.93 (cumulative interest and fees for one year). At the end of the year, the balance in that credit card account is approximately \$2,572. (See answer key for calculations below.)
- 8 Encourage students to make additional calculations. For example, after month 6, they could choose higher monthly payments and/or fewer purchases, and compare results.
- 9 Ask students to compare the total amount of purchases made during the year (\$1,380) to the cumulative interest and fees (\$555.93). Have students discuss the opportunity cost of not paying off the credit card every month. What other things could have been purchased with the \$555 paid in interest charges?
- 10 Summarize by having each student participate in reviewing the advantages and disadvantages of credit card use. Also emphasize the importance of consumers “shopping for credit cards” by analyzing interest rates, all fees, and credit limits.

Calculating the Cost of Credit Card Purchases
(Answer Key to Student Handout 11-B)

Month	Balance	Payments	Purchases	Interest & Fee	Interest & Fee (Cumulative)
1	\$3,000.00	\$200	\$115	\$49.00	\$ 94.00
2	\$3,009.00	\$200	\$115	\$45.14	\$139.14
3	\$2,969.14	\$200	\$115	\$44.54	\$183.68
4	\$2,928.68	\$200	\$115	\$43.93	\$227.61
5	\$2,887.61	\$200	\$115	\$43.31	\$270.92
6	\$2,845.92	\$200	\$115	\$42.69	\$313.61
7	\$2,803.61	\$200	\$115	\$42.05	\$355.66
8	\$2,760.66	\$200	\$115	\$41.41	\$397.07
9	\$2,717.07	\$200	\$115	\$40.76	\$437.83
10	\$2,672.83	\$200	\$115	\$40.09	\$477.92
11	\$2,627.92	\$200	\$115	\$39.42	\$517.34
12	\$2,572.34	\$200	\$115	\$35.59	\$555.93

CONNECTIONS TO THE CONTENT STANDARDS

NCEE Voluntary National Content Standards in Economics:
1, 2, and 7

Jump\$art Coalition
Personal Financial Management Guidelines:
IIa, IIc, IIIa, and IIIb





Extending the Lesson

Student Credit Card Debt

Students research and write reports on college student credit card debt. Ask students to consider the issues related to credit card companies providing cards to young adults (college students without the current income to repay the amount they charge). Credit Card Nation (www.creditcardnation.com) is a site where students can begin their research. Other websites to research are www.studentcredit.com and www.practicalmoneyskills.com. Students report their findings to the class.

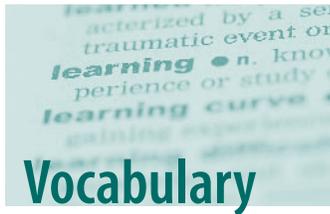
Secured Credit Cards

Secured credit cards are tied to the amount a person has in savings. The card is secured by the funds. Students compare rates and fees on various “secured” credit cards. They should outline the advantages and disadvantages of secured credit cards. Ask students to list reasons why a consumer might apply for a secured credit card.

Disclosure Statements

Students in small groups analyze credit card disclosure statements and report back to the class. They should identify and give examples why reading everything, including small print, is very important. By law, all credit card solicitations must include a disclosure statement that highlights the exact terms and conditions under which credit will be extended. Terms in the disclosure footnotes can also include the stipulation that the card-issuing bank reserves the right to change the account terms (including APR) at any time for any reason. When a credit card is signed, the law assumes that the consumer reads everything on the disclosure statement and that all terms and conditions are accepted.

The disclosure statement is often referred to as the “Schumer box,” after New York Senator Charles Schumer. As a congressman, he was responsible for the enactment of the Fair Credit and Charge Card Disclosure Act of 1988, which requires that all credit card solicitations provide terms and conditions in a clear and conspicuous manner and in the form of a table or box.

**annual fee**

A charge by some credit card companies for use of the card and services.

annual percentage rate (APR)

A rate that shows the total cost of credit annually. It includes a percentage of the principal as interest on a loan plus other costs (e.g., points on a mortgage loan, service charges).

consumer debt

Debt that has been incurred primarily for the purchase of consumer goods.

credit card

A plastic card with a magnetic stripe on one side that can be used to purchase goods and services. The issuing company records the purchases, bills the purchaser, receives payment, and subsequently settles the purchaser's debts with the providers of goods and services. Some credit cards offer cash advances to its holders.

credit rating

A formal evaluation of an individual's or business' credit history and capability of repaying obligations by a credit reporting agency. The credit rating is based on the number of outstanding debts and whether debts are being repaid in a timely manner.

disclosure statement

For credit cards, the reporting of the exact terms and conditions under which credit will be extended prior to applicant signing up for the card.

due date

On a credit card account, the date by which the minimum payment must be received every month, without incurring a late fee or other penalty.

finance charge

The cost of credit, including interest paid by a customer or a consumer for a consumer loan or credit. Under the Truth in Lending Act, the finance charge must be disclosed to the customer in writing. It may include other charges associated with credit transactions such as cash advance fees.

grace period

The time allowed for payment of a debt or loan without penalty.

installment plan

A sum of money due as one of several equal payments for a purchase spread over an agreed period of time.

minimum payment

On a credit card account or loan, a fixed percentage of the balance due which must be paid each month.

overlimit fee

A fee that is added to a credit account when the amount owed exceeds the limit on the account.

reloadable card

An electronic, stored value card that permits a user to increase the value on the card (e.g., prepaid credit card, store cash card). A **nonreloadable card** has a fixed value stored on it (e.g., disposable phone card).

revolving credit

System of retail credit (e.g., department store or bank credit cards) in which buyers make periodic payments on purchases and service charges. The service charge is based on the outstanding balance; if the buyer pays the entire balance on time, no service charge accrues.

secured credit card

A credit card that is secured against loss by other assets (often by money placed in a savings account with the credit card company).

To Market, To Market

Comparison Shopping for a Credit Card



Directions:

Read credit card brochures and disclosure statements, make phone calls, or go online to compare credit card offers. A good rule is always to *compare* four or more credit cards before applying for one.

☛ Read all the small print on brochures or disclosure statements before you complete the chart.

Credit Card (Name of Company)	Sponsoring Organization	Annual Fee	Credit Limit (if listed)	APR	Minimum Payment	Grace Period
<i>Examples:</i> Citibank Visa Capital One Mastercard	<i>Examples:</i> National Wildlife Federation Working Assets United Airlines					
1.						
2.						
3.						
4.						

List other types of terms and conditions you discovered while “shopping for a credit card.”

Calculating the Cost of Credit Card Purchases



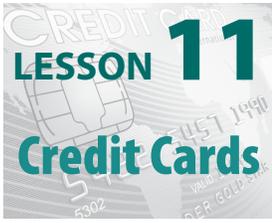
Directions:

- 1 Use the interest rate of 18% and an annual fee of \$49 to complete this chart. In month 1, there was a balance due of \$3,000. The borrower will make a monthly payment of \$200 and keep new purchases of goods and services at \$115 per month for the year.
- 2 Calculate the interest for each month (balance x 1.5%). To obtain the balance for the next month, *subtract* the payment from the balance and *add* cost of new purchases plus monthly interest and fee. For example: $\$3,000 - \$200 = \$2800 + \$115 + \$94 = \$3,009$. (NOTE: The annual fee of \$49 is paid once each year.)

Interest rate: 18% (APR); 1.5% monthly

Annual fee: \$49

Month	Balance	Payments	Purchases	Interest & Fee	Interest & Fee (Cumulative)
1	\$3,000	\$200	\$115	\$49 \$45	\$94
2	\$3,009	\$200	\$115	\$45.14	\$139.14
3	\$2,969.14				
4					
5					
6					
7					
8					
9					
10					
11					
12					



2010 Teacher Background UPDATE

The Credit Card Accountability, Responsibility, and Disclosure (CARD) Act

New rules under the CARD Act impact interest rates, fees, promotional terms, billing, and payments. The rules also require credit card issuers to make disclosures that are clearly defined and written in plain language for consumers. Under the law there are also new rules on how credit cards can be issued and marketed to youth and young adults.

Complete information on the provisions of the law (HR 267) can be downloaded at www.federalreserve.gov/creditcard. As part of Lesson 11, teachers might want to discuss some of the following provisions.

The Legislation

The Credit Card Accountability, Responsibility, and Disclosure (CARD) Act was signed into law by President Barack Obama on May 22, 2009.

Payments

Consumers will have more time to pay their bills because the companies must mail the statements 21 days before the due date and not 14 days, which had become customary. A payment above the minimum must now be applied to the debt that carries the highest rate. Also consumers must be given the same billing due date each month, including provisions that if this date is a holiday the amount is due on the next business day.

The Plain Language of Disclosures

Under the law credit card issuers must provide consumers clear provisions of all terms before opening an account and on the billing statements once an account is open. All billing statements must inform consumers what it would take to pay off the balance if they only made a minimum payment or how much they should pay each month to pay off the balance in three years. The statements must also provide a warning about the fees or penalties of making a

late payment. A section of a sample credit card statement that reflects some of these changes as mandated by the CARD Act may be found on page 103-B.

Youth and Young Adults

Young people under 21 can no longer open credit card accounts unless they are able to demonstrate that they are able to make the payments or have an adult co-signer. Young people who obtain a credit card with a co-signer must also obtain written permission from that person if they are asking for an increase in their credit.

Costs and Benefits

The full enactment of the CARD Act of 2009 goes into effect by August 22, 2010. A project for students could be to research and analyze how the age provisions of the CARD Act are impacting youth and young adults.

Sample from Credit Card Statement

Payment Information

New Balance \$1,764.53
Minimum Payment Due \$53.00
Payment Due Date 4/20/12

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this credit card and each month you pay...	You will pay off the balance shown on this statement in about ...	And you will end up paying an estimated total of ...
Only the minimum payment	10 years	\$3,284
\$62	3 years	\$2,232 (Savings=\$1,052)

If you would like information about credit counseling services, call 1-800-XXX-XXXX.

Source: www.federalreserve.gov/creditcard

For more information:

www.federalreserve.gov/consumerinfo

The Board of Governors of the Federal Reserve System has information on the new credit card rules.

The entire CARD Act (HR 267) can be downloaded at: <http://www.govtrack.us/congress/billtext.xpd?bill=h111-627>