The BIG Idea

- What are the risks of choosing and using credit cards?

AGENDA

Approx. 45 minutes

I. Warm Up: A Credit Card You Can't Pass Up? (10 minutes)

II. Credit Card Advantages and Disadvantages (15 minutes)

III. Choose a Credit Card (15 minutes)

IV. Wrap Up (5 minutes)

MATERIALS

❑ **STUDENT HANDBOOK PAGES:**

- Student Handbook page 158, Credit Card Offer
- Student Handbook page 159, Credit Card Notes
- Student Handbook page 160, Same Bike, Different Cost
- Student Handbook page 161, Choose a Credit Card

❑ **FACILITATOR PAGES:**

- Facilitator Resource 1, Same Bike, Different Cost
- Facilitator Resource 2, Credit Card Notes Answer Key

❑ Overhead projector

❑ Chart paper and markers

❑ Calculators (one per student)

OBJECTIVES

During this lesson, the student(s) will:

- Understand the advantages and disadvantages of credit cards.
- Understand how interest rates can increase your credit card balance.
- Understand common pitfalls of credit card offers and how to choose one wisely.

OVERVIEW

In this lesson, students read a scenario about a credit card offer and identify the most important things to consider when choosing a credit card. Next, they discuss the advantages and disadvantages of credit cards, and the costs associated with using them. To understand how interest can add up, they compare the final costs of the same item bought with two different credit cards and with two different monthly payments. Next, they discover some common pitfalls when selecting credit cards, and choose from one of two cards. Finally, they explain what they'll be looking for when it's time to select credit cards for themselves.

PREPARATION

- The following handouts can be made into overhead transparencies or copied onto chart paper:
  - **Facilitator Resource 2, Credit Card Notes Answer Key**
  - **Student Handbook page 158, Credit Card Offer**
  - **Student Handbook page 160, Same Bike, Different Cost**
  - **Student Handbook page 161, Choose a Credit Card**
- List the day's **BIG IDEA** and activities on the board.
- List the day's vocabulary words and definitions on the board.

VOCABULARY

Credit: Money you borrow, for example, from a bank, with the promise to pay it back at a later date or over time.

Finance charge: The amount of interest you owe on credit card charges that are not paid in full each month.

Interest: The amount you pay for the money you borrow, usually a percentage of the money you borrow.

Credit report: A record of all the money you've borrowed, including credit cards, and your payment history.

IMPLEMENTATION OPTIONS

In **Activity III**, you may wish to make completion of **Student Handbook page 158, Credit Card Notes**, into a contest, with small prizes awarded for correct answers.

ACTIVITY STEPS

I. Warm Up: A Credit Card You Can't Pass Up? (10 minutes)

1. As students enter the classroom, have them turn to **Student Handbook page 158, Credit Card Offer,** and complete it as a DO NOW. Give students a few minutes to read the scenario and answer the question.

2. Place the transparency of **Student Handbook page 158, Credit Card Offer,** on the overhead projector.

   SAY SOMETHING LIKE: Welcome, everybody. Let's take a look at the DO NOW activity. So, who thought this credit card offer was one you couldn't pass up? Who thinks they could find a better offer? [Take a few minutes to hear from students, and talk about what's appealing — and worrisome — about this offer. Some items to discuss if students don't mention them:
   - An introductory interest rate of 0% could change to a much higher rate.
   - A high credit limit may encourage you to charge things you can't afford to pay off.
   - When you pay only the minimum payment, you owe interest on the unpaid balance. You end up paying a lot more than the cost of what you originally charged.]

3. **SAY SOMETHING LIKE:** Today we're continuing the "Money Matters" unit we began last week. To review what we learned last class, who can explain what credit is? What is a credit rating? Why is it important? Today, we're going to talk about one of the most common ways we use credit, and one of the quickest ways to damage your credit rating: credit cards.

II. Credit Card Advantages and Disadvantages (15 minutes)

1. **SAY SOMETHING LIKE:** We're going to spend a lot of time talking about the risks of credit cards today. But they do have some advantages. Can anyone think of any? [Make a list on the board, such as:
   - They allow you to make purchases in an emergency when you don't have the cash.
   - They're safer and more convenient to carry than cash or checks.
   - They help you track your spending and keep a record of your purchases.
   - They're necessary to purchase things online.
   - If used responsibly, they allow you to establish a history of good credit, which will make getting loans for a car, college, or house cheaper down the road.]

2. **SAY SOMETHING LIKE**: OK, so we all know credit cards have some disadvantages. What are some risks involved in using credit cards? [Make a list on the board, such as:
   - It's easy to overspend because you're not using real money.
   - They can be expensive when you pay fees and interest.
   - If you're not careful, they can damage your credit rating.]

3. **SAY SOMETHING LIKE**: You might be surprised to hear that using credit cards can actually cost you a lot of money. This is an important point, so I want to say it again: **If you use a credit card, you could pay MORE money than if you used cash.**

   Let's look at two of the main credit card costs and some terms to know that are associated with each one:
   - **Fees:** Many credit cards charge fees for using the card. Some charge *annual fees* that must be paid every year. There are *late fees*, which must be paid any time you make a late payment. And if you use the card to get cash there are *cash advance* fees.
   - **Interest:** Any time you don't pay your charges in full, you'll pay interest, a certain percentage of the remaining charges. So if you owe $100, and you only pay $10, you'll owe interest on the remaining $90. Different cards have different interest rates, expressed as an *Annual Percentage Rate* or *APR* — the amount of interest you pay over a year. The higher the APR, the more money you pay. The amount of interest you owe will show up on your bill as a *finance charge*.

4. **SAY SOMETHING LIKE**: Let's take a closer look at how interest affects the money you owe. Turn to your **Student Handbook page 160, Same Bike, Different Cost.** [Display the page on an overhead projector.]

   This chart shows what you'd pay for a $300 bike using two different credit cards, one with 14% interest and one with 20% interest. It also shows how you can reduce the amount of interest you pay by making larger monthly payments. Take a few minutes to analyze this chart and answer the questions.

   [Give students a few minutes to complete the activity. Then review the answers with the class. In the end, make sure they understand two important points:
   - The higher the APR, the more money you'll pay in interest.
   - The higher your monthly payments, the less interest you'll pay – and the faster you'll pay off your credit card bill.]

5. **SAY SOMETHING LIKE**: Given what you just learned, which of the following purchases do you think would be an acceptable use of credit? Give each purchase a thumbs up for "go for it," a thumbs down for "skip it," or a flat hand for "debatable."
   - Buying a pair of jeans on sale
   - Buying groceries
   - Buying a luxury item, like a plasma TV

   [Discuss each example. Some ideas to think about:
   - The sale is only a bargain if you pay the bill right away. Otherwise, you'll lose your "savings" in the interest you pay.
   - Paying for groceries with a credit card is convenient, but interest will cost you a lot if you don't pay your credit card bill in full. Buying groceries on credit because you don't have money in the bank is a really bad idea, and a sure sign that you're living beyond your means. However, if it's an emergency, using your credit card to buy groceries might be OK.
   - It's better to save money and pay in cash to avoid hefty interest charges.]

III. Choose a Credit Card (15 minutes)

1. **SAY SOMETHING LIKE**: If you don't have one already, chances are that you'll be choosing a credit card in the next few years. Before you do, it's good to be aware of some common pitfalls.

   Instruct students to turn to **Student Handbook page 159, Credit Card Notes**. As you discuss each item, have students select notes from among the warnings in the box at the bottom of the page. NOTE: Some items will be used more than once.

   Here are a few:
   - **Introductory rate:** Many credit cards promise low introductory rates, which are basically low APRs. Some cards even offer a 0% introductory APR. What's the catch? The word *introductory*. The card might start out with a low APR, but the APR increases after a short period, such as six months. A low introductory rate also typically expires any time you make a late payment or take out a cash advance. The real catch is that the low, low APR can increase to a high, high APR — over 20%!
   - **Fixed vs. Variable APR:** A fixed APR means the interest rate stays the same. Like an introductory rate, a variable APR can — and almost always will — increase over time, with a late payment, or with the first cash advance. So a low variable APR rarely stays that way.
   - **Annual fee:** Some cards charge an annual fee that must be paid every year for

using the card. If your card has an annual fee, it must be paid even if you pay your bills in full and on time every month. Not all cards charge an annual fee.

- **Rewards:** Many cards offer rewards or a "point" for every dollar spent. These points can be redeemed for airline tickets or products. These offers can be enticing, but sometimes you may end up paying more in fees and interest than you would have paid buying the "reward" on your own.
- **High credit limit:** The credit limit is the maximum amount of debt you can carry on your card. While a high credit limit may sound tempting, this is a dangerous way to accumulate debt. After all, the more money you owe, the more interest you pay. So a large credit card debt can grow so fast that you can't afford to keep up. And if you happen to go over your credit limit, you'll have to pay additional fees.
- **Low minimum payments:** The minimum payment is the least amount of money you can pay each month to avoid late fees. A minimum payment may be around $20. However, you will still be charged interest on the remaining balance, or the amount you still owe. So if you owe $100 and make a minimum payment of $20, you will still owe interest on the $80 that remains. The problem with low minimum payments is that the less you pay each month, the more interest you'll owe in the long run – and the bigger your credit card bill will be.
- **Cash advance:** Many credit cards allow you to get a cash advance, or instant cash, from a bank ATM. The interest rates for cash advances are typically higher than the rate for normal credit card purchases. Also, cash advances come with extra fees and can increase a variable or introductory APR.

2. When finished, use display **Facilitator Resource 2, Credit Card Notes Answer Key**, to review students' answers.

3. **SAY SOMETHING LIKE**: So, as you can see, there are a lot of ways credit cards can cost you money. And what may sound appealing in a credit card offer could mean higher bills and financial trouble in the long run.

4. **SAY SOMETHING LIKE**: Now it's your turn to choose a credit card. Turn to your **Student Handbook page 161, Choose a Credit Card.** [Display the page on an overhead projector.] Take a few minutes to review this chart and choose the one you think is best for you. Then identify and explain your choice on the back of the page.

   Give students a few minutes to complete the activity. Then review their choices with the class.

5. **SAY SOMETHING LIKE**: Unfortunately, when you start shopping around for a credit card, credit card companies aren't going to present you with charts like the one you just saw. Instead, you'll have to read through the fine print of a credit card contract to find this information.

IV. Wrap Up (5 minutes)

1. **SAY SOMETHING LIKE**: Now that you've learned about how to choose and use credit cards wisely, let's go back to the scenario from the beginning of class. Look back at the DO NOW activity, **Student Handbook page 158, Credit Card Offer**. The sales-person has just handed you the flyer. What questions do you have for the salesperson before you make your decision? What would be a deal-breaker?

   Give students a few minutes to respond, then take a few answers.

2. **SAY SOMETHING LIKE**: Today we found out how easy it is to get into financial trouble with credit cards. And as I mentioned in the beginning of the lesson, credit card prob-lems are a sure-fire way to damage your credit rating. And as you learned last week, that credit rating is important any time you apply for a loan, from a home mortgage to a car loan. Next week, we'll talk about buying a car.

Same Bike, Different Cost Answer Key

You and your roommate are buying bikes to get around campus. You each choose a bike that's $300. Neither of you has the money to pay up front, so you both decide to use your credit cards. Your credit card has a 14% APR (annual percentage rate) and your friend's card has a 20% APR.

Take a look at the chart below to figure out what each of you will pay for your $300 bike, based on the monthly payments you make. Review the chart, then answer the questions below.

	Your Card (14% APR)		Your Roommate's Card (20% APR)	
Monthly payments	**Number of monthly payments**	**Total Interest**	**Number of monthly payments**	**Total Interest**
Minimum payment ($20/month)	17	$33.00	18	$51.00
$50/month	7	$15.00	7	$22.00
$100/month	4	$11.00	4	$16.00

1. Both you and your roommate make the minimum monthly payment of $20. Who will pay for the bike first? (Compare number of monthly payments.) ___________**You**_________________

2. How much more will your roommate end up paying for the bike? (Each of you will pay $300 for the bike, plus interest. To find out the difference in the amount paid, subtract interest you pay from interest your roommate pays.) _____________**$18 more**______________________

3. You decide to pay $50 a month instead of $20. How much faster will you pay for your bike than if you made the minimum payment? (Subtract number of monthly payments at $50 from number of monthly payments at $20.) _____________**10 months**_______________________

4. If you make monthly payments of $50, how much less will you pay in interest? (Subtract total interest at $50 from total interest at $20.) ___________**$18 less**___________

Credit Card Notes Answer Key

Credit card companies make money from the interest they get by lending you money. By enticing you with special offers and low introductory rates, credit card companies hope that you will choose them over their competitors. It's important to be a savvy consumer when shopping for a credit card.

As your class discusses the following common credit card terms, choose the appropriate warning from the box below and write its number on the line beside each bullet. The first one has been done for you. (NOTE: You'll use some items more than once.)

Introductory Rate:

- __1__
- __6__

Variable Rate:

- __1__
- __6__

Annual Fee:

- __3__

Rewards:

- __4__

High Credit Limit:

- __5__

Low Minimum Payments:

- __5__

Cash Advance:

- __2__

WARNING!!!

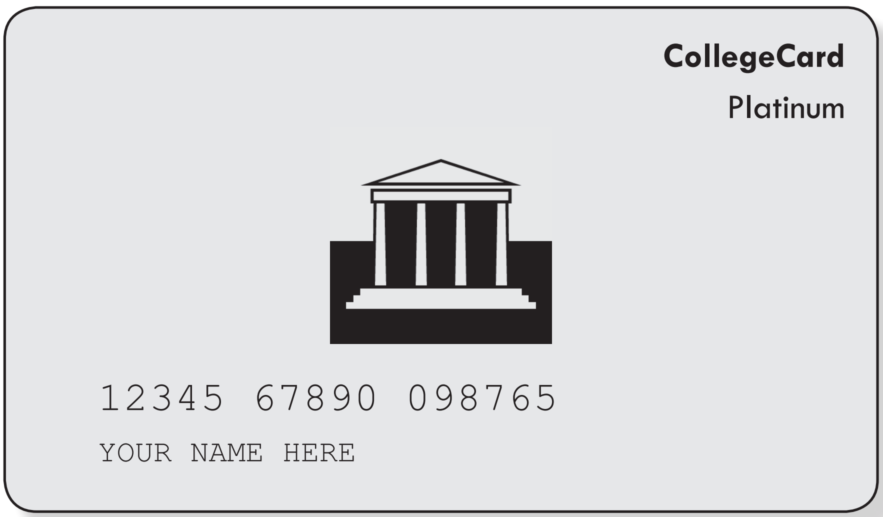
Here are some reasons to be wary of credit card offers that sound too good to be true.

1. Low annual percentage rate (APR) can change to a higher rate.
2. You may be charged a higher interest rate for this service.
3. You'll be charged even if you make all payments on time, or don't use the card.
4. Is this a good deal? Not if you're paying big $ in interests and fees!
5. This can be a dangerous way to accumulate debt that takes years to pay off.
6. A late payment or cash advance can cause the interest rate to change.

Credit Card Offer

You're a freshman in college. It's your first week of classes and you stop by the student union for a snack on your way to the library. At the union, you notice a group of students gathered around a booth. You take a closer look and find that the booth is promoting a new credit card with your school's logo. The salesperson hands you this flyer.

SHOW YOUR SCHOOL PRIDE!



Put a little school spirit in your wallet with a CollegeCard credit card — it's the only card with the State U emblem! Plus, earn points for State U apparel.

Amazing Features

- ☐ School logo on your card.
- ☐ Rewards: Earn a point for every dollar you spend.
  Redeem points for school sweatshirts, hats, and other cool stuff!
- ☐ No annual fee.
- ☐ 0% introductory rate.
- ☐ $5,000 credit limit.
- ☐ Low, low minimum payment.

What do you think? Put a star next to the "amazing features" that look appealing. Put a question mark next to the ones that might make you skeptical.
(Explain your responses on the back.)

Credit Card Notes

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- _______

Variable Rate:

- _______
- _______

Annual Fee:

- _______

Rewards:

- _______

High Credit Limit:

- _______

Low Minimum Payments:

- _______

Cash Advance:

- _______

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1. Both you and your roommate make the minimum monthly payment of $20. Who will pay for the bike first? (Compare number of monthly payments.) ______________________________

2. How much more will your roommate end up paying for the bike? (Each of you will pay $300 for the bike, plus interest. To find out the difference in the amount paid, subtract interest you pay from interest your roommate pays.) ______________________________

3. You decide to pay $50 a month instead of $20. How much faster will you pay for your bike than if you made the minimum payment? (Subtract number of monthly payments at $50 from number of monthly payments at $20.) ______________________________

4. If you make monthly payments of $50, how much less will you pay in interest? (Subtract total interest at $50 from total interest at $20.) ______________________________

Choose a Credit Card

You're a freshman in college. Between tuition, books, and living expenses, you're on a tight budget. You've been paying bills with cash and checks, but you'd like to get a credit card to help consolidate your bills. You're choosing between the two cards below.

	CARD A	CARD B
Initial APR	0%	10%
APR	21% (after three months, first cash advance, or first late payment)	11%
Annual Fee	$50	None
Credit Limit	$10,000	$2,000
Minimum Payment	$15	$25
Rewards	Earn one point for every dollar you spend. 25,000 points can be redeemed for an airline ticket (within the continental U.S., some restrictions apply).	None

Which card would you choose? ______________________________

List three reasons for your choice:

- ______________________________
- ______________________________
- ______________________________

