



Lesson Three

Credit Cards



Before students use credit cards, it's important that they familiarise themselves with: the advantages and disadvantages of credit cards; card options and percentage rates; as well as the true cost of credit.

overview

What are interest rates? What are transaction fees?

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

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 analyse 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 uses
- Determine safe personal debt loads

student activities

3-1 Shopping for Credit

- Discuss how costs and features can vary between credit cards, and ask students to 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, ask each team to explain to the class how they determined which credit card they would recommend for purchasing the electronic device (question 9). Ask the class to critique the logic each team used to arrive at their decision.

3-2 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, ask students to answer the questions attached to the statement.

3-3 How Much Does It Really Cost?

- Ask students to 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.
- Ask students to 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.

3-4 How Deep Can They Go?

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

3-5 Lesson Three Quiz

types of credit card accounts

1. Bank card
 - Examples (Visa, MasterCard)
 - Best use of
 - Sample cost/method of payment
2. Store card
 - Examples
 - 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
 - Interest rate
 - Annual fee
 - Balancing computation method for finance charge
 - Credit limit
 - How widely card is accepted
 - What services and features are available
3. Calculating finance charges
 - 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 online.

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
3. Unauthorised 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.



student activity 8-2

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

credit cards teaching notes

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.

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

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

credit cards teaching notes

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 limits
3. Can encourage impulse buying and unnecessary purchases
4. Need to establish creditworthiness before getting card



discussion



written presentation:

Ask students to 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.

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

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 unauthorised charges and/or billing errors.

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

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 instalment 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?

$$\$45$$

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



what does your statement tell you?

answer key continued

4. George 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. George wants to buy new tyres for his car. The tyres will cost him \$40 each month on his credit card.

- (B) With his car payment and the new tyres, 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?

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

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

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

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

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

$$(C) 26\%$$

No - 26% is over safe debt load.



lesson three 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 If your credit card is lost or stolen, you should report it to your bank immediately.

case application

Jack uses his credit card for almost all purchases. He charges petrol 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.