



# #9673

## CHARGE IT! CREDIT CARD SECRETS

LEARNING SEED COMPANY, 2002

Grade Levels: 9-13+

24 minutes

2 Instructional Graphics Enclosed

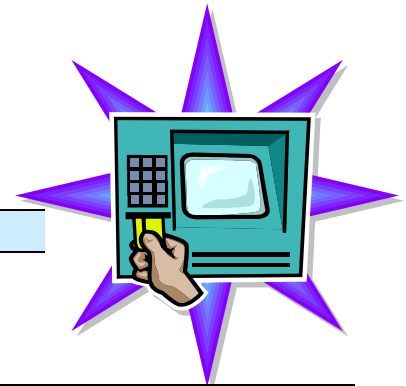
### DESCRIPTION

Presents basic information about credit cards: shopping for one, using a card responsibly, reading the statement, and protecting user rights. Covers interest rates, annual fees, debit cards, and other pertinent facts a fully-informed user needs to know.

### ACADEMIC STANDARDS

#### Subject Area: Life Skills - Life Work

- ★ Standard: Manages money effectively
  - Benchmark: Understands credit and uses it effectively (See Instructional Goals #1 and 2.)



### INSTRUCTIONAL GOALS

1. To introduce the use of credit cards.
2. To examine various pros and cons in using credit cards.

### VOCABULARY

- |                |                         |
|----------------|-------------------------|
| 1. annual fee  | 10. grace period        |
| 2. annual rate | 11. interest rate       |
| 3. APR         | 12. limited value cards |
| 4. ATM         | 13. merchandise         |
| 5. card issuer | 14. plastic             |
| 6. charge card | 15. rebate              |
| 7. convenient  | 16. revolving           |
| 8. credit card | 17. stop payment        |
| 9. debit card  |                         |

### BEFORE SHOWING

1. List potential benefits and pitfalls of using credit cards.
2. Survey the school community to see how many people use credit cards, debit cards, charge cards, and limited value debit cards. What advice would users give to teens?

## DURING SHOWING

1. View the video more than once, with one showing uninterrupted.
2. Pause to discuss on-screen math problems.

## AFTER SHOWING

### ► Discussion Items and Questions

1. How can you find a credit card best suited to your needs?
2. How do credit cards work?
3. What protection is offered to users of credit cards?
4. What is the difference between a convenience user (Kevin), an average user (Samantha), and a revolving user (Jason)?
5. What are the following credit card traps and how can you avoid them?
  - a. late fees
  - b. over-the-limit fees
  - c. hidden transaction fees
  - d. penalty APR increases
  - e. declining grace periods
  - f. introductory APRs
  - g. low minimum payments
  - h. cash advances
  - i. ATMs
6. How many credit cards should you have?
7. Why do people so often go into debt using credit cards?
8. What is the difference between a debit card and a credit card?
9. Who can obtain a credit card?

### ► Applications and Activities

1. Solve the following credit card problems.
  - a. You take a VCR to be repaired. After paying \$89 on your credit card, the same problem reappears. You return to the repair shop and they tell you it will cost an additional \$90 to fix.
  - b. Your monthly credit card shows a charge for a \$180 meal at La Fancy. You have never eaten there. You refuse to pay but the charge appears again next month with interest added.
  - c. You are offered a "Card Guard" insurance option for \$.60/month per \$100 charged. It will protect you against lost and stolen cards. It will also pay any outstanding credit card balance should you die.
  - d. Your bank offers you National Card Checks. You can use these just like regular checks and there is no charge to sign up. A few personalized checks are provided in the mailing.
2. Choose a credit card. (See Instructional Graphics.)
  - a. What features are most important to you? Why?
  - b. Why is this the best card for you?



3. Read a credit card statement. (See Instructional Graphics.)
  - a. Is this credit card holder a convenience user, a revolver, or an average user?
  - b. What advice would you give this person as to how to improve their credit card use? What is this person doing well?
  - c. How long would it take to pay off the debt, paying only the minimum payment and assuming no additional charges?

## RELATED RESOURCES



- [Buy Now, Pay Later: Credit Card Basics #9672](#)
- [Financial Management for Young Adults: Getting Your Start #9151](#)



### World Wide Web

The following Web sites complement the contents of this guide; they were selected by professionals who have experience in teaching deaf and hard of hearing students. Every effort was made to select accurate, educationally relevant, and "kid safe" sites. However, teachers should preview them before use. The U.S. Department of Education, the National Association of the Deaf, and the Captioned Media Program do not endorse the sites and are not responsible for their content.

### • BANK RATE.COM

<http://www.bankrate.com/brm/default.asp>

A free consumer information source for comparing rates and news on credit cards, banks, debit cards, checking, and ATMs, plus a variety of other financial information.



## The Truth About Credit

A project of the state PIRGs

### • TRUTH ABOUT CREDIT

<http://www.truthaboutcredit.org/>

A non-profit site on wise credit card usage. Includes a credit calculator and specific information for college students.

### • CONSUMER JUNGLE

<http://www.consumerjungle.org/>

Lively on-line lessons for students about credit cards, car shopping, on-line shopping, independent living, and buying phones or pagers. Lesson plans are available for teachers on the same topics and also tips for parents.



## INSTRUCTIONAL GRAPHICS

- PICK A CARD
- HOW TO READ A CREDIT CARD STATEMENT

## Pick A Card

**Directions:** Below are charts from actual credit card applications. Which of these cards would you choose? Base your decision either on your current credit card use or on how you plan to use a card in the future.

### Bank A

|  |  |
|--|--|
| <b>Annual Percentage Rate for Purchases</b>  | 17.8%  |
| <b>Method of Computing the Balance for Purchases</b>   | 3 cycle average daily balance (including new Purchases).   |
| <b>Annual Fees</b>   | \$40 Per Year  |
| <b>Grace Period for Repayment of Balances for Purchases</b>                                      | A 25 day grace period is granted on new Purchases when the entire Purchase Balance and Cash Minimum Payment is paid in full by the Payment Due Date. This amount is indicated on the monthly statement.      |
| <b>Transaction Fee for Cash Advances, and Fees for Paying Late or Exceeding the Credit Limit</b> | Transaction Fee for Cash Advances – 2% of the amount of the Advance (\$10.00 Maximum, \$1.00 Minimum). Late Payment Fee – \$10.00, if the amount due is \$2.00 or more. Over-the-Credit Limit Fee – \$10.00. |
| <b>Minimum Finance Charge</b>  | \$.50 for Purchases if a finance charge is imposed.  |

### Bank B

|  |  |
|--|--|
| <b>Annual Percentage Rate for Purchases</b>          | 19.8%  |
| <b>Annual Fee</b>                                    | \$20   |
| <b>Grace Period for Purchases</b>                    | 20-25 days   |
| <b>Minimum Finance Charge</b>                        | 50¢  |
| <b>Method of Computing the Balance for Purchases</b> | Average Daily Balance (including new purchases)  |
| <b>Late Fee on Purchases and Cash Advances</b>       | \$10   |
| <b>Cash Advance Transaction Fee</b>                  | At a financial institution, 2% of amount of advance but not less than \$2 or more than \$10. At an Automated Teller Machine, \$1.75. |

## Pick A Card

### Bank C

| Annual Percentage Rate for Purchases  | Variable Rate Information | Grace Period for Repayment of the Balance for Purchases  | Method of Computing the Balance for Purchases   | Annual Membership Fee | Minimum Finance Charge | Transaction Fee for Purchases |
|---|---------------------------|--|---|-----------------------|------------------------|-------------------------------|
| 17.5%   | None                      | 30 days on average   | Average Daily Balance (including new purchases) | \$50*                 | \$.50                  | None                          |
| <b>Transaction Fee for Cash Advances and Fees for Paying Late or Exceeding the Credit Limit</b> |                           | Transaction Fee for Cash Advances: 2% of Each Cash Advance, \$.50 minimum.<br>Late Payment Fee: \$10 or \$15 depending on the number of payments that are past due on your account. This fee is not imposed in certain states.<br>Over the Credit Limit Fee: None. |   |                       |                        |                               |

\*The annual membership fee is \$50 except for the first year your account is open when this fee is \$25.00. Billing of this fee is done automatically on your statement.

The Annual Percentage Rate for Cash Advances is 19.8%.

### Bank D

| Annual Percentage Rate for Purchases | Grace Period for Repayment of the Balance for Purchases | Method of Computing the Balance for Purchases   | Annual Fee | Minimum Finance Charge |
|--------------------------------------|---|---|------------|------------------------|
| 19.8%                                | 20 to 25 days   | Average Daily Balance (including new purchases) | \$20       | 50¢                    |

Transaction Fee for Cash Advances: At a financial institution and by check, 2% of amount of advance but not less than \$2 or more than \$10. At an automated teller machine, \$1.75. Late Payment Fee: \$10.

### Bank E

| Annual Percentage Rate for Purchases | Grace Period for Repayment of the Balance for Purchases | Method of Computing the Balance for Purchases   | Annual Fee | Minimum Finance Charge |
|--------------------------------------|---|---|------------|------------------------|
| 19.8%                                | 20 to 25 days   | Average Daily Balance (including new purchases) | \$25       | 50¢                    |

Transaction Fee for Cash Advances: At a financial institution and by check, 2% of amount of advance but not less than \$2 or more than \$10. At an automated teller machine, \$1.75. Late Payment Fee: \$10.

### Bank F

| Annual Percentage Rate (APR)   | Variable Rate Index and Spread  | Annual Membership Fee                       | Grace Period For Purchases   | Minimum Finance Charge | Balance Calculation Method                       | Cash Advance Fee | Transaction Fee | Late Fee | Over-The-Limit-Fee |
|--|---|---|--|------------------------|--|------------------|-----------------|----------|--------------------|
| 14.9% for average outstanding balances over \$4,000; 16.9% for lower balances, as of 8/1/89. | The APR may increase, and will be determined by adding 8% to the 90-day Treasury Bill rate for balances up to \$4,000, and 6% to the 90-day Treasury Bill rate for balances of \$4,000 or more, rounded up to the next .9%. | \$0 the first 6 months, then \$25 per year. | Finance charges will not accrue on new purchases if you pay your entire balance by the payment due date shown on your monthly statement. | None                   | Average Daily Balance (Including new purchases.) | None             | None            | \$15*    | \$15*              |

\*Except in Colorado, Idaho, Indiana, Iowa, Kansas, Maine, Oklahoma, South Carolina, Utah and Wyoming, where fees are waived.



## How to Read a Credit Card Statement

| Type of Balance            | Previous Balance                  | Average Daily Balance          | Monthly Periodic Rate(%)     | Nominal Annual Percent- age Rate | Annual Percent- age Rate | Finance Charge At Periodic Rate | Trans- action Fees                 | New Balance                  | Amount Due    |
|----------------------------|-----------------------------------|--------------------------------|------------------------------|----------------------------------|--------------------------|---------------------------------|------------------------------------|------------------------------|---------------|
| 1<br>PURCHASES<br>CASH ADV | 2<br>1,241.28<br>0.00             | 3<br>1,519.10<br>0.00          | 1.400<br>1.400               | 16.800<br>16.800                 | 16.800<br>16.80          | 21.26<br>0.00                   | 0.00<br>0.00                       | 1,486.21<br>0.00             | 52.00<br>0.00 |
| Account Summary            | 2<br>Previous Balance<br>1,241.28 | 5<br>+ Charges<br>1,454.95     | 6<br>- Payments<br>1,231.28  | Credit*                          | 0.00                     | 7<br>+ Finance Charge<br>21.26  | 8<br>= New Balance<br>1,486.21     | Minimum Amount Due*<br>52.00 |               |
| Account Number             | 10<br>4319-5100-1234-5678         | 11<br>Credit Limit<br>7,000.00 | Available Credit<br>5,513.79 | Past Due Amount                  |                          | 12<br>Billing Date<br>05-21-90  | 13<br>Payment Due Date<br>06-15-90 |                              |               |
| Account Details            |                                   |                                |                              |                                  |                          |                                 |                                    |                              |               |
| Transaction Date           | Posting Date                      | Reference Number               | C                            | Transaction Description          |                          |                                 |                                    | Transaction Amount           |               |
| 041990                     | 042190                            | M11510026343                   |                              | STRICTLY GOLF INC                | PALATINE                 | IL                              |                                    | 74.89                        |               |
| 041090                     | 042490                            | M00402638793                   |                              | SELFRIDGES OXFORD ST             | LONDON W1                | GBR                             |                                    | 72.54                        |               |
| 042090                     | 042490                            | M26802890110                   |                              | DUNHAMS SPORTS00000028           | MILWAUKEE                | WI                              |                                    | 60.33                        |               |
| 042290                     | 042590                            | M63566307720                   |                              | PINE MEADOWS                     | MUNDELEIN                | IL                              |                                    | 78.84                        |               |
| 042690                     | 042890                            | M00117064320                   |                              | L L BEAN MC MAIL ORDER           | FREEPORT                 | ME                              |                                    | 83.00                        |               |
| 042790                     | 050190                            | M51170020001                   |                              | BOOKS ON TAPE                    | COSTA MESA               | CA                              |                                    | 56.85                        |               |
| 042590                     | 050190                            | M00000019972                   |                              | GOLF MANAGEMENT SVCS             | PEWAUKEE                 | WI                              |                                    | 33.45                        |               |
| 042890                     | 050190                            | M37325200005                   |                              | OFFICE SQR 80025208              | PALATINE                 | IL                              |                                    | 28.22                        |               |
| 050190                     | 050290                            | M03508000060                   |                              | BARBARA S BOOKSTORE              | CHICAGO                  | IL                              |                                    | 47.65                        |               |
| 050390                     | 050390                            | 12109137                       |                              | PAYMENT THANK YOU                |                          | 123                             |                                    | -1,231.28                    |               |
| 043090                     | 050890                            | M90257108823                   |                              | ALPINE AUTOMOTIVE                | LAKE ZURICH              | IL                              |                                    | 480.50                       |               |
| 050190                     | 051090                            | M00412909467                   |                              | BUDGET RENT A CAR                | ARLINGTON HTS            | IL                              |                                    | 177.14                       |               |
| 050990                     | 051290                            | M92232137600                   |                              | HABERKAMPS FLOWERS               | ARLINGTON HTS            | IL                              |                                    | 24.95                        |               |
| 050990                     | 051590                            | M98158000160                   |                              | NORTHWEST METAL CRAFT            | ARLINGTON HTS            | IL                              |                                    | 100.00                       |               |
| 051290                     | 051590                            | M20701090513                   |                              | B DALTON BOOK00001099            | VERNON HILLS             | IL                              |                                    | 56.34                        |               |
| 051290                     | 051590                            | M00807073328                   |                              | WALDEN BOOK 5040                 | VERNON HILLS             | IL                              |                                    | 48.35                        |               |
| 051290                     | 051590                            | M02338000490                   |                              | ROSE RECORDS                     | VERNON HILLS             | IL                              |                                    | 31.93                        |               |

- Type of Balance:** Numbers to the right of the word "PURCHASES" refer to goods purchased. Numbers to the right of the words "CASH ADV" refer to cash advances; none on this statement.
- Previous Balance:** This shows the amount due on the previous monthly billing. Here it was \$1,241.28.
- Average Daily Balance:** Daily average used to compute finance charges. Not all banks use a "daily average" to compute interest.
- Percentage Rates:** The interest rate on amounts not paid before the due date (#9). The Monthly Periodic Rate is simply the annual rate divided by twelve. This bank charges the same 16.8% interest on purchases as it does on cash advances. Some banks charge more for cash advances.
- Charges:** Amount charged to card in past month. New charges.
- Payments:** Amount paid during the month. On this statement, \$1,231.28 was paid. Note that the previous balance was \$1,241.28, so the bill was not paid in full. A balance of \$10 is still owed.
- Finance Charges:** Because payments (#6) were \$10 less than the previous balance (#2), finance charges apply to ALL the new charges (#8) of \$1,454.95. The finance charge for the month is \$21.26. It was computed by multiplying the monthly rate (1.4%) by the average daily balance shown in #3.
- New Balance:** The sum of #5 and #7. This is the amount that should be paid by the payment due date (#9) to avoid further finance charges.
- Payment** Pay by this date to avoid finance charges. The grace period here is at least 25 days.
- Account Number:** Do not give the number out except to make a purchase.
- Credit Limit:** How much the bank will let you charge. A credit limit of \$7,000 is higher than average.
- Transaction Date:** The date an item was purchased or a payment received by the bank.
- Posting Date:** The date the bank received the charge slip from the merchant. Usually only a few days after the transaction date.
- Reference Number:** Unique number applied to each purchase or payment.