

CREDIT AND CREDIT CARDS

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CREDIT AND CREDIT CARDS

Grades 9 and UP

Viewing Time: 22 Minutes

INTRODUCTION OF PROGRAM

This 22-minute program uses young actors and straight talk concerning wise use of credit and credit cards. Emphasis is placed on avoiding common errors and credit card abuses. After viewing this program and participating in its supplemental activities, your students will be better prepared to handle the flood of credit perils they will confront as young adults.

LINKS TO CURRICULUM STANDARDS

Credit and Credit Cards is based on the McREL Life Work Standard 3 (manages money effectively), level IV grade: 9-12, goals #3 (uses sound buying principles for purchasing goods and services) and #4 (understands credit and uses it effectively).

SUMMARY OF PROGRAM

This program is designed to provide young people with information and tools to enable them to use credit and credit cards effectively throughout their lives. Emphasis is placed on avoiding common mistakes in the use of credit. Credit and Credit Cards begins with basic descriptions of credit, interest, and credit card solicitations. The introduction goes on to point out some troubling statistics concerning young people and credit cards. Other segments include information that:

- Emphasizes that a bad credit history can have long-term financial ramifications.
- Encourages young people to avoid having too many credit cards.

- Demonstrates that it is important to take credit card company notices seriously.
- Points out that it is a mistake to view your credit line as spendable income.
- Encourages viewers to pay more than the minimum payment each month.
- Addresses whether it is wise to get cash advances with your credit card.
- Discusses credit card interest rates.
- Emphasizes that credit card fees can add up.

INSTRUCTIONAL NOTES

Before presenting these lessons to your students, we suggest that you preview the program, review the guide, and the accompanying Blackline Master activities in order to familiarize yourself with their content.

As you review the materials presented in this guide, you may find it necessary to make some changes, additions, or deletions to meet the specific needs of your class. We encourage you to do so; for only by tailoring this program to your class will they obtain the maximum instructional benefits afforded by the materials.

PRE-TEST AND POST-TEST

Pre-Test is an assessment tool intended to gauge student comprehension of the objectives prior to viewing the program. Remind your students that these are key concepts upon which they should focus while watching the program.

Post-Test is an assessment tool to be administered after viewing the program and completing additional activities. The results of this assessment can be compared to the results of the Pre-Test to determine the change in student comprehension before and after participation in this lesson.

STUDENT/AUDIENCE PREPARATION

Provide students with an opportunity to familiarize themselves with key vocabulary words prior to viewing the program. Duplicate and distribute **Blackline Master #4, Vocabulary List**, and, after studying it, allow time to work on **Blackline Master #5, Use the Correct Term**. This should help prepare students to view *Credit and Credit Cards*. In addition, **Blackline Master #1, Pre-Test**, can be presented to the class.

STUDENT OBJECTIVES

After viewing *Credit and Credit Cards* and completing the follow-up activities, students should be able to:

- ♦ Define what credit means.
- ♦ Explain the concept of interest.
- ♦ Give examples of how bad credit can have long-term financial ramifications.
- ♦ Describe potential problems with having too many credit cards.
- ♦ Explain why it is a mistake to view your credit line as spendable income.
- ♦ Describe why it is wise to pay more than the minimum payment amount on credit card bills.

- ♦ Explain why it is important to take credit card company notices seriously.
- ♦ Define credit card cash advances and list some of the problems that can occur when used.
- ♦ Explain why it is important to pay attention to the interest rate on credit cards.
- ♦ Identify some types of credit card fees.

DISCUSSION QUESTIONS

These questions appear on **Blackline Master #3, Discussion Questions**, which can be duplicated and distributed to the class. Following the program you may find it helpful to discuss the key concepts as a class. You may choose to use these questions to begin a discussion prior to viewing the program. Avoid answering questions directly; ask them higher-level questions allowing them to discover the answer as a group.

You may choose from the discussion questions for small groups to research and report back to the class, or for large group discussions. Feel free to add or delete questions to suit the needs of your class. Answers are included in the answer key of this guide.

DESCRIPTION OF BLACKLINE MASTERS

Blackline Master #1, Pre-Test, is an assessment tool intended to gauge student comprehension of the objectives prior to viewing *Credit and Credit Cards*.

Blackline Master #2, Post-Test, is an assessment tool to be administered after viewing the program and completing additional activities. The results of this assessment can be compared to the results of the Pre-Test to determine the change in student comprehension before and after participation in this lesson.

Blackline Master #3, Discussion Questions and Activities, has questions to encourage conversation. These questions may help identify student comprehension and areas of misunderstanding of credit and credit card use.

Blackline Master #4, Vocabulary List, is a list of relevant terms and definitions.

Blackline Master #5, Use The Correct Term, is an activity that can be completed by students after exposure to the vocabulary list.

ANSWER KEY

Blackline Master #1, Pre-Test

1. False
2. False
3. True
4. True
5. True
6. False
7. False
8. True
9. False
10. False

Blackline Master #2, Post-Test

- | | |
|-----------|-------|
| 1. True | 11. D |
| 2. False | 12. C |
| 3. True | 13. C |
| 4. False | 14. D |
| 5. False | 15. A |
| 6. False | 16. A |
| 7. True | 17. B |
| 8. False | 18. B |
| 9. True | 19. A |
| 10. False | 20. B |

21. Credit is when you borrow money from someone else and promise to pay them back later.

22. The term "purchase enabler" means using a credit card to buy things where you already have the money in the bank and you plan to pay the total amount of the bill. You may use the credit card instead of writing a check or paying with cash. Credit cards are helpful when traveling, purchasing items on the Internet, when renting cars or hotel rooms.

23. A "store" credit card can only be used at that one store. A "bank" credit card can be used virtually anywhere.

24. Just because the credit card company will let you spend more money, doesn't mean that you should. You have to pay the money back and most likely at a high interest rate. Often times the credit card company does not make its interest information easy to read. Situations like this are often referred to as a teaser, because the initial great deal is too good to pass up and then you are stuck paying an excessive amount on the money borrowed.

25. To reduce or eliminate the interest charge. The more that you can pay each month above the minimal amount, the more you will put towards paying off the loan.

26. Contact the credit card company and ask for some relief and/or assistance.

27. No. It just moves your balance from one credit card to another. This may give the illusion that you have less debt than you do, however, eventually you will find yourself in a credit nightmare.

28. Cash advances on your credit card are very expensive, usually they are at an interest rate of at least 18%. Often, there are fees to use the automatic teller machine (ATM). Also, interest charges kick-in right away.

29. Noelle has a much higher credit card balance, so even though her interest rate is lower than Will's, her total interest charge will be higher. The formula to compute interest is as follows:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

So one month's interest for Will and Noelle will be:

Will

$$\text{Interest} = \$2,000 \times .21 \times 1/12$$

$$\text{Interest} = \$35$$

Noelle

$$\text{Interest} = \$5,000 \times .13 \times 1/12$$

$$\text{Interest} = \$54.17$$

30. An annual fee is paid once a year for the privilege of having the card. A late fee is charged if your payment is received by the credit card company after the due date.

31. Nathan fails to recognize that Hi-Tech Electronics isn't going to let him simply walk away from his debt. They will try to collect, perhaps even turning the debt over to a collection agency. These are companies that specialize in collecting debts.

If Nathan doesn't pay the money back, his credit record will be damaged, and other stores will be unwilling to extend credit to him. That means no more purchases using a credit card. He will have to pay cash in the future.

32. Employers use a variety of methods to judge whether a potential employee will fit in. One such measure is your credit rating. Employers often conclude that a bad credit history indicates an unreliable person. In a competitive job market, employers would rather not take a chance on someone with a bad credit rating.

Blackline Master #3, Discussion Questions

1. Arguments in favor of carrying a balance can include:

- The credit card company will value you more highly as a customer because you will be paying interest on your balance.
- You will be able to buy things now that you can't afford to pay for now.
- You will be able to use the money you don't pay to the credit card company to buy other things, or to invest.
- Your current lifestyle will be enhanced (i.e., "life is short, live for today").
- A high sounding annual interest rate, say 18%, really isn't that bad when you think of each month ($18\%/12 = 1.5\%$) so, a \$500 purchase today is only costing you \$7.50 interest per month.

$$\text{Interest} = \$500 \times .18 \times 1/12$$

$$\text{Interest} = \$7.50$$

Arguments in favor of being a balance payer can include:

- For most credit cards, being a balance payer means you avoid all interest charges.
- A good credit rating is achieved by showing that you have paid back borrowed funds.
- Being a balance payer means you are limiting your current spending to what you can afford to pay for now.
- By restricting spending, you are freeing-up funds to invest, to build a better future.
- By avoiding big debts now, your future lifestyle will be enhanced.
- Paying high interest rates is a bad idea, and so is thinking of them in terms of the monthly rate. The \$500 purchase at 18% interest that is repaid a year later really cost you \$590.

$$\text{Interest} = \$500 \times .18 \times 12/12$$

$$\text{Interest} = \$90$$

2. The following are examples of the types of points a newscast might make concerning young people and credit cards. Keep in mind that specific numbers will vary from one news source to another due to differences in timing or methods of computation.

- Eighty percent of people in their late teens and early twenties have credit cards, and 25% have four or more credit cards.
- Between 1993 and 1998 the number of young people who declared bankruptcy doubled.
- The average young person has a \$2,700 credit card balance.
- Average annual credit card rate = 15.97% (June, 2001)
- Colleges lose more students to credit card debt than to academic failure.

3. Problems or issues associated with having a bad credit rating include:

- Inability to get a loan (to buy a car or a home) or have credit granted to you from a lender.
- If a lender agrees to give you credit, the lender may charge an especially high interest rate due to your bad credit rating.
- Some landlords will refuse to rent an apartment to someone with a poor credit rating.
- Some employers will refuse to hire someone with a bad credit rating.
- Some financing deals (e.g. when buying a car) are only available to buyers with good credit ratings. Others must pay higher interest rates.

Blackline Master #5, Use the Correct Term

1. interest rate
2. minimum payment amount
3. credit rating
4. late fee
5. purchase enabler
6. balance payer
7. credit line
8. credit card solicitations
9. interest
10. balance transfer

INTERNET RESOURCES FOR STUDENTS AND TEACHERS

The following web sites are interesting and informative resources which students and teachers can use to conduct additional exploration and research about credit cards.

www.credit-land.com

This site's primary goal is to provide information to enable you to select a credit card that is best for your needs.

www.ftc.gov/bcp/online/pubs/credit/choose.htm

This Federal Trade Commission site explains the basics of how credit cards work, including terminology, fees, cardholder protections, and advice for dealing with your credit card company.

www.bankrate.com

This "all purpose" loan site deals not only with credit cards, but also other types of loans, such as auto and home loans. Includes some interesting calculators.

www.howstuffworks.com/credit-card.htm

This very comprehensive site explains how credit cards work and include a lot of information.

SCRIPT OF NARRATION

Coming to a theater near you: "We Know You Haven't Made Your Credit Card Payment." Imagine the suspense, the uncertainty, and the guilt. What will happen next? Who is calling and do you dare answer the phone? Who is leaving those notices in the mail? Is there any relief in sight? Where can you hide when they have your number and they know where you live? Live this nightmare through the eyes of Nicole as she bumbles her way by making poor choices until everything seems to be falling apart. This movie has not yet been rated. Don't divulge the surprise ending.

Credit is when you borrow money from someone else and promise to pay them back later. Usually interest is involved. That means you have to pay them back extra money because they gave you the money in the first place.

Lots of times credit card companies try to get people our age to open accounts. They do this by sending out what are called credit card solicitations. These are applications for the credit card sent through the mail. The companies make it easy to get cards.

Eighty percent of people in their late teens and early twenties have credit cards and twenty-five percent have four or more credit cards.

Bad use of credit can cause problems. Between the years 1993 and 1998, the number of young people who went broke doubled.

The average young person has a \$2,700 credit card balance. That's up almost 50% in two short years. The purpose of this video is to help you make careful intelligent choices when working with credit and using credit cards.

BAD CREDIT CAN HURT

People have to understand that what happens to your credit rating now can effect your life for years to come. Your credit history stays with you for seven years.

I never really thought about it when I was using my credit card. It was just so easy to pull it out and buy things with it instead of using cash.

So, then you go to buy a car or something and they pull up your credit rating. And then you can't buy that car because you haven't kept up with your credit card payments. Your credit line stinks and the car dealer doesn't want to risk setting you up with a loan.

It isn't just to buy a car, they do credit checks when you apply for a job, or rent an apartment, or buy a house.

Your credit rating is way more important than you might think. Bad credit can hurt big time.

HOW MANY CREDIT CARDS?

There's no need to have more than one credit card. Most people actually have more than one, and many have four or more credit cards. That's not a good idea for a lot of reasons.

First of all it's hard enough to keep track of what you're spending on one card. With more than one credit card it is easy to loose track of your monthly spending. Having more than one card encourages over spending or needless spending and certainly complicates the process of keeping track of things.

When you use cash you know exactly what you're spending. You reach into your pocket and the money is either there or not.

When interviewed most people say they use a credit card for emergencies or as a convenience. That's fine, as long as you are keeping a mental picture of what you're spending. The best way to treat a credit card is as a purchase enabler. That means you have the money in the bank and you are using the credit card to make the purchases now instead of writing a check or using cash. Then when the credit card bill arrives in the mail you pay the full amount to avoid all interest charges.

Many stores offer store credit cards to their customers. These cards are only used for purchases made at that store. Usually the stores encourage you to sign up for the card with a special deal such as 10 or 15% off your purchases for that day. That sounds good but having too many of these store cards can harm your credit rating.

How is having a bunch of store credit cards harmful?

Every time you open a new credit card there is what's called an

"inquiry" made into your credit history. Too many inquiries can hurt because it looks like something is wrong with your credit rating. A lender might think that something is wrong when too many inquiries are made in a certain period of time.

VIEWING CREDIT LINE AS SPENDABLE INCOME

Many people look at their credit line as spendable income. That is, they consider the amount that a credit card company is willing to advance them as money they can spend. But it isn't money you have earned and you are borrowing it and it will cost you to use it. It must be paid back.

Look at what I got in the mail. It's a check from my credit card company for one thousand dollars. I can deposit it in my checking account right away. Do you know what I could do with a thousand bucks?

Wait a minute you're not thinking about this correctly. The credit card company is willing to give you a \$1,000 credit line but you have to pay that back and with interest. Just because they say you can spend that much doesn't mean you should. When you use a credit card you're borrowing money from a company and they hope that you will be paying them back over years so that they can gain a lot of interest charges.

I don't care about that. This kind of money means a great party and tons of fun.

Having a high credit line may sound good, but, it doesn't mean you should think of this as spendable income. You haven't earned that money. The credit card company wants you to use their card to make purchases so that they can charge interest on the loan they have extended to you.

I'm starving, but I don't have any money.

Yeh, I don't have any money on me and it looks kind of expensive.

Yeh, I wish I had cash you guys, I'm totally broke. But you know what, I got my credit card, I'll pay, I'll pay.

Are you sure?

Yeh, its just a credit card. Let's go. I'm starving.

Don't make unnecessary or spur of the moment purchases to impress people. It may be fun to treat your friends to a dinner but if your budget can't afford it, it could turn into a big mistake.

DON'T PAY THE MINIMUM

Your credit card bill has a minimum payment amount. A lot of people think that's all you have to pay each month. However, if you're paying just the minimum payment on a large balance you could be paying that amount for years and credit card companies don't mind that they are going to be earning a lot of interest over that time.

Paying the minimum amount isn't a good idea. For example, if you had a \$2,700 account balance and you just paid the minimum of \$54 a month it would take you 28 years to pay off that debt. Instead, if you paid a \$100, not that much more, you'd pay off that debt in less than three years.

Why would it take so long for the balance to be paid off?

Good question. Well the minimum charge is really mostly the interest fee for that month based on the amount of a person's credit card balance. So, if you only pay that, it isn't subtracting very much from the actual balance. You still owe almost \$2,700. It's a better idea to pay as much as you can.

It's a good idea before you take on debt to have a plan or schedule for paying it off.

One excellent strategy for being a wise user of credit cards is to be a "balance payer." That means you are paying off the full balance every month and avoiding interest charges.

PITFALLS AND BLUNDERS

If your credit card is lost or stolen you need to contact the credit card company immediately. Don't put it off, drop everything you are doing, because these people work fast. If you contact the company as soon as possible the law says you are only responsible for the first fifty dollars of any credit card misuse. In reality, most card companies will waive the fifty dollars. So, take a piece of paper or an index card and record the credit card number and the card company's phone number and place that information in a very safe place in your home so if you need to contact the company you have everything handy and ready.

You will probably receive an unbelievable number of credit card solicitations in the mail over the next few years. One thing that a lot of people don't know is that this is one of the major causes of identity theft for people in our age group. You need to tear these things up into tiny, tiny pieces so that people can't get your information.

Are you overwhelmed by monthly credit card payments?
Do you find yourself in constant debt?

Do you dread bill-paying time?

Are you constantly juggling your bills in a feeble attempt to stay afloat?

Is a trip to the mailbox a nightmare of fear?

Then you need Consolipay. That's right Consolipay combines all of your credit card payments into one huge payment. You save on effort and time by writing just one big check to cover all your credit card bills. Consolipay may be just the solution you need. No more spending hours writing out check after check for all those credit card bills. Just five minutes a month can cover all those expenses plus a little for us. Consolipay, another fine service brought to you by the people who gave us ConsoliDATE, the ultimate dating service. ConsoliDATE gives

you a movie, dinner, and dancing all in one quick two hour block. ConsoliDATE consolidates all the best parts of a typical date into one joyful block of time.

Seriously, you don't want to let your credit card debts get so out of control that consolidating them in this way sounds like a good idea. To consolidate your loans means that the consolidating company will pay off all your debts. You then make one payment to the consolidating company each month however the interest rates are still very high so it will still take a while to pay it off.

For example, let's say you're in the hole for about \$10,000. And you consolidated it into a three-year loan at 18% interest. Your monthly payment would be about \$360 per month.

TAKE NOTICES SERIOUSLY

Some people take a head in the sand approach to their credit card problems. They ignore first notices, second notices, or they just throw the bills away.

Credit problems aren't going to just magically disappear because you ignore them. In fact ignoring notices and avoiding talking to the company will only make matters worse. If you find that you are over your head and can't make even the minimum payments talk to the credit card company and ask for some help and relief. Ask them to lower the interest rate or ask for some assistance in setting up a payment schedule that fits your budget. Remember, ignoring things will only make the situation worse. Work with the company in order to maintain a good credit rating.

The idea is to keep in mind that your credit rating is important for the rest of your life. So during these first few years of having access to credit cards it is important that you make every effort to establish a good credit rating.

I thought a balance transfer would solve my problem. I was

having trouble with my credit card company. I had just moved into my first apartment and saw some awesome furniture I couldn't resist it, it was perfect for my new place. So I charged it to my card. After receiving two or three late payment notices I transferred the balance to my other credit card and used that credit card to pay off the first card. Well it took care of the first company and bought me some time. But it turned out to be a big mistake. My first company dropped me and then the second card company started with the notices and phone calls that I was trying to avoid. I guess it really didn't solve any problems it actually just complicated things. I suppose my first mistake was to ignore the notices.

One vicious cycle that people can get themselves into is balance transfers. That's when you pay off the balance on one credit card by transferring it to another credit card. People fall into this trap with what are called teaser rates. The new credit card has a low introductory rate of six percent or eight percent. But the trap is that usually that rate goes away in just a few months and then you're back to paying 18 or 19 percent. So don't think that by transferring that balance to another credit card you are paying off that balance. You're not, you're just moving it to another category.

ATM CASH ADVANCES

You can use your credit card to obtain cash advances. It can be used at banks, ATM machines, or even grocery stores. The thing is that your credit card company is willing to advance you the money but the interest rate on cash advances is often higher than the interest rate on purchases and even worse, there is no grace period. Things purchased with a credit card usually have a grace period. That means when you make a purchase and pay the entire amount when the next bill is due, you avoid all interest charges. But cash advances are different. Interest starts immediately and there is no way to avoid it. So, though you end up with cash in hand, the truth is that it is very expensive. Here's an example. You use your credit card to obtain a one hundred dollar cash advance. There's a three dollar fee for

using the ATM machine and the interest rate is 21.9%. If you wait a year to pay it off that \$100 cash advance it will have cost you \$125. Does that seem like a good economic plan?

INTEREST RATES

It's a good idea to know the interest rate on your credit card. It will definitely vary from one card company to another. However, most people don't pay attention to that rate and if asked wouldn't be able to tell us what that rate is on a specific card.

When you first sign up for a card you should be asking what the interest rate is and whether that rate will change over a period of time. A lot of times the rate might start out small and then within just a few months it will balloon up to a much higher rate.

You can find the percentage rate on your monthly bill. Here it is at the bottom of the bill. For this card it is at 19.99%. Notice that the cash advance rate is at 21.99%.

When you sign up for a credit card be sure to read the fine print, you might be surprised by what you find. For instance, in many cases that great low interest rate that attracted you to the credit card in the first place can suddenly change to something much higher over night if your even one day late paying your bill. So pay your bills on time. I mark my calendar to show when I need to mail my payments.

I was having a terrible time making payments on my credit card and at over 21% it seemed that everything was going to interest. I finally talked to my credit card company and they agreed to lower my interest rate to help me out. I now have a payment plan established with the company to pay off my balance within the next three years. I could have shopped around when I was first looking at credit cards because interest rates do vary. In fact they can vary quite a bit. A friend of mine was paying 11% when I was at 22%.

That interest rate makes a big difference. Let's say you bought a bike for about five hundred dollars and you want to pay for it over a three year period. At 11% you'll pay about ninety dollars. But at 22% you will pay \$180. So your \$500 bike really cost six hundred eighty bucks.

Actually there's a way for that \$500.00 bike to really only cost you \$500.00. That's to be a balance payer, which means to pay the full amount on the credit card bill each month.

Remember, when you use a credit card you are using someone else's money. You are expected to pay that money back with interest. The only way to avoid any interest rates is to pay the full amount on the credit card bill each month. Otherwise the interest kicks in.

Credit can be a good thing. It can be a way that people get something they need right now when they don't have the money. It can be considered a tool.

Is a hammer a good thing or a bad thing? Well it's a good thing if you hammer a nail into a piece of wood, but a bad thing if you hit your hand with the hammer.

Credit cards can be very useful. Some transactions are impossible without a credit card. It is very difficult to rent a car, a hotel room, or to make internet purchases without a credit card.

There are credit cards and there are debit cards. When you use a credit card you are borrowing money from a company. When you use a debit card you are using money that is already in your checking account at a bank. So when you use a debit card you are using a piece of plastic as if you are writing a check, taking money from your checking account.

FEES CAN HURT

Be sure to pay attention to any annual fee your credit card company might be charging you. Most cards out there don't charge an annual fee, they make their money through high interest

rates. But some do charge an annual fee especially if they are giving you a low interest rate such as seven percent or nine percent. If your credit card company is offering you a low interest rate be sure to check their annual fee.

You have to pay your bills on time. If you don't you get hit with a late fee and that hurts. Twenty or thirty dollars just for being a few days late.

REVIEW

Hopefully by now we have convinced you to be a smart user of credit cards.

Use your credit card don't be used by it.

Pay on time to avoid all late fees.

Try to find a card with no annual fees.

And by all means avoid cash advances.

It's really smart to be a balance payer. Pay the full amount of your credit card bill each month. That way you avoid all interest charges.

Over 20% of students carry a balance of at least \$10,000. If someone like that wanted to pay that off over two years it would cost them \$500.00 a month.

It's smart to pay attention to the interest rate on your credit card. Shop around. If all else fails then ask the credit card company to reduce the rate their charging you. You'll be surprised at how often they'll agree.

Take any of those notices then send you seriously, and above all don't take a head in the sand approach to your credit problems.

Any notice the company sends you isn't going to go away because you ignore them or throw them away. It is important to remember that you are trying to establish a strong sound credit history so that you will have good credit for the rest of your life.

CREDIT AND CREDIT CARDS**PRE-TEST**

Directions: Answer the following either true or false.

1. Most credit cards charge you interest even if you pay your balance in full each month.
 - A. True
 - B. False
2. Credit card companies don't like to give credit cards to people in their late teens and early twenties.
 - A. True
 - B. False
3. Your credit rating may be checked when you try to rent an apartment.
 - A. True
 - B. False
4. A "store credit card" is a credit card that can only be used at one company's stores.
 - A. True
 - B. False
5. Your "credit line" is the maximum balance the credit card company will allow you to have.
 - A. True
 - B. False
6. It's not a good idea to pay your balance in full each month because this will upset the credit card company.
 - A. True
 - B. False
7. All credit cards have an annual fee that you must pay to the credit card company.
 - A. True
 - B. False
8. Credit card companies can charge you a late fee even if you're only a couple of days late.
 - A. True
 - B. False
9. Credit cards can only be used to buy things. They cannot be used to obtain cash.
 - A. True
 - B. False
10. If you fall behind on your credit card payments, the credit card company is not allowed to report this to anyone. This is confidential information.
 - A. True
 - B. False

CREDIT AND CREDIT CARDS

POST-TEST

Directions: Answer the following either true or false.

1. Most people in their late teens and early twenties have credit cards.
A. True B. False
2. Very few young people have more than one or two credit cards.
A. True B. False
3. Interest is the extra money you must pay a lender because they gave you the money in the first place.
A. True B. False
4. The number of people in their late teens and early twenties with credit problems has decreased in recent years.
A. True B. False
5. To use a credit card as a "purchase enabler" means you're buying things that you want even though you don't have the money in the bank now.
A. True B. False
6. If you pay the "minimum payment amount" each month, you will pay off your credit card balance in a reasonable amount of time.
A. True B. False
7. If you use a debit card to make a purchase, the purchase price will be subtracted from your checking or savings account at your bank.
A. True B. False
8. Using your credit card to get cash advances make good economic sense.
A. True B. False
9. A "balance transfer" is where you pay off one credit card by transferring your balance to another credit card.
A. True B. False
10. If your credit card has a high interest rate, don't waste your time asking them to reduce the rate, because credit card companies would never agree to cut your interest rate.
A. True B. False

MULTIPLE CHOICE QUESTIONS

11. What percent of people in their late teens and early twenties have credit cards?
A. 10% B. 25% C. 50% D. 80%
12. What percent of people in their late teens and early twenties have four or more credit cards?
A. 2% B. 10% C. 25% D. 50%
13. As of December, 2002, the average young person had a credit card balance of:
A. \$300 B. \$1,000 C. \$2,700 D. \$4,500
14. A bad credit history generally stays with you for _____.
A. six months B. one year C. three years D. seven years

CREDIT AND CREDIT CARDS

POST-TEST (CONTINUED)

15. Your credit rating may be checked when you apply for a job.
 A. True B. False
16. Noelle is a young person with a typical credit card balance for the year 2002. She pays only the "minimum payment amount" each month. How long will it take her to pay off her balance? Show your calculations on the back of this sheet
 A. 28 years B. 15 years C. 6 years D. 3 years
17. If your credit card is lost or stolen and you notify your credit card company right away, your legal responsibility is limited to _____.
 A. \$0 B. \$50 C. \$100 D. There is no legal limit on your responsibility.
18. A "loan consolidation" means you have convinced your credit card company to reduce your interest rate.
 A. True B. False
19. A "balance transfer" means you have moved your credit card balance from one credit card company to another.
 A. True B. False
20. If a credit card company gives you a very low interest rate, the company cannot raise that rate for at least two years.
 A. True B. False

SHORT ANSWER QUESTIONS

Read each of the following statements and answer in one or two sentences.

21. Define credit.

22. What does it mean to use a credit card as a "purchase enabler?"

23. How is a "store credit card" different from a typical credit card issued by a bank?

24. Lamar just received notice that his credit card company is increasing his credit line by \$1,000. "Sweet! I can buy a lot of cool stuff with that." Comment on Lamar's statement.

CREDIT AND CREDIT CARDS

POST-TEST (CONTINUED)

25. If a credit card company only requires you to pay the "minimum payment amount" each month, why would someone think it's a good idea to pay more?

26. What should you do if you find that you are in "over your head" and cannot pay even the "minimum payment amount?"

27. Is a "balance transfer" a transaction that reduces your overall debt?

28. Whenever Marcie wants some cash, she goes to an ATM and gets a cash advance on her credit card. Comment on her economic plan.

29. Will has a \$2,000 credit card balance on a card with a 21% interest rate. Noelle has a \$5,000 credit card balance on a card with a 13% interest rate. Noelle asked Will "Why is my interest charge this month so much higher than yours if your interest rate is so much higher than mine?" Explain.

30. Distinguish between an annual fee and a late payment fee.

ESSAY QUESTIONS

Write a short essay in response to each of the following situations. Use the back of this sheet.

31. Nathan has a credit card issued by a store named Hi-Tech Electronics. He has a \$1,000 credit limit. Soon after getting the card, Nathan uses it to buy a bunch of gadgets totaling \$900. Nathan has no money saved in the bank. When his mother discovered the purchases, she asked Nathan how he would pay back the money. He said, "I'm not worried about that. The worst thing that could happen is that the store won't let me buy any more stuff. If that happens, I can always switch to some other store."

32. Marla plans to apply for a job at Huge Industries, Inc. For the last year she has worked at Tiny Company. Marla's uncle Leon, advised her to clean up her poor credit history by paying off her past due bills and reducing her high credit card balances. She responded, "I don't need a good credit record to apply for a job. Employers only look at your employment record, and I've been a good employee at Tiny Company. Why would a company care about your credit history, as long as you show up every day and do a good job?"

CREDIT AND CREDIT CARDS

DISCUSSION QUESTIONS AND ACTIVITIES

1. DEBATE

Some people think that it is a good idea to "carry a balance" on your credit card, which means that you don't pay off your full balance each month, but instead pay off just a portion of the balance. One reason commonly given is that the credit card company will value you more as a customer, because you will be paying interest on the balance that you are carrying.

Other people feel just as strongly that it's better to be a "balance payer," and thereby avoid interest charges completely.

Create two debate teams, one for the proposition that it's smart to "carry a balance," the other for the proposition that it's better to be a "balance payer." Each team should research its position to identify valid arguments in favor of its proposition. Each team should also research the opponent's position, to try to anticipate arguments the opponent is likely to make. Each team should include mathematical examples involving interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, one month's interest on a \$3,000 balance at 21% interest would be:

$$\text{Interest} = \$3,000 \times .21 \times 1/12$$

$$\text{Interest} = \$52.50$$

After this research is completed, the two teams can debate this issue.

2. NEWSCAST

Many actual news stories in recent years have described the growth in credit card use among young people. They have noted that there have been large increases in:

- The number of credit cards the typical young person has.
- The dollar balance carried on these cards.
- The interest paid on these cards.
- The number of credit problems (e.g. bankruptcies) young people experience.

Depending on the class size, create teams to research this issue. Next, the teams can develop and present mock newscasts on the subject. If you wish, you can make this into a competition. If you do so, it is recommended that it be required of each team that it submit a script before any newscasts are presented, so that teams that present later are not unfairly advantaged by having access to the research done by the teams that presented earlier. It is recommended that the teams weave into their newscasts a discussion of interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, one month's interest on a \$5,000 balance at 18% interest would be:

$$\text{Interest} = \$5,000 \times .18 \times 1/12$$

$$\text{Interest} = \$75$$

3. SKIT

Having a bad credit rating (history) can be harmful in a number of ways. For example, it may result in a lender refusing to extend credit to you in the future, or requiring that you pay a very high interest rate to get a loan. Create and present a skit showing the numerous scenarios that a person with bad credit might confront. It is recommended that the skit include a segment dealing with interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, the interest on a \$10,000, six month loan at 15% interest would be:

$$\text{Interest} = \$10,000 \times .15 \times 6/12$$

$$\text{Interest} = \$750$$

CREDIT AND CREDIT CARDS**VOCABULARY LIST**

annual fee - Yearly fee charged by some credit card companies.

ATM cash advance - Using your credit card to get cash from an automated teller machine.

balance payer - Someone who pays off his or her entire credit card balance each month.

balance transfer - Paying off one credit card balance by transferring it to another credit card.

credit - Borrowing money and promising to pay it back later.

credit card solicitations - Advertisements sent in the mail inviting you to apply for credit cards.

credit cards - Plastic cards used to make purchases on credit.

credit inquiry - A lender's check of your credit rating.

credit line - The maximum amount you can borrow on a credit card.

credit rating (history) - A detailed record of past borrowing and credit payments.

debit cards - Plastic cards used to pay for purchases with funds you have in a bank account.

grace period - Time period following your credit card statement date where no interest is charged if paid in full during grace period.

interest - Fee paid to a lender for use of money.

interest rate - Annual percentage which when multiplied by your credit card balance equals the interest charge.

late fee - Yearly fee charged by some credit cards.

loan consolidation - Paying off all of your current loan balances by taking out one new, large loan.

minimum payment amount - The minimum amount you must pay this month.

purchase enabler - Using a credit card to make transactions where you already have the money in the bank and will pay the bill off in full each month.

store credit cards - Cards issued by specific stores, for use in that company's stores only.

teaser rates - Low, temporary interest rates offered by some credit cards.

debit cards - Plastic cards used to pay for purchases that are withdrawn from funds you have in a bank account.

late fee - Fee charged for a late payment.

CREDIT AND CREDIT CARDS**USE THE CORRECT TERM**

Directions: Find the right word or term from the vocabulary list that completes the following statements.

1. To find your interest charge, you would multiply the _____ by your credit card balance.
2. Last month Lydia only paid the _____ on her credit card, the smallest amount allowed.
3. If you are not careful with the use of credit, you can damage your _____.
4. Sam paid his credit card bill five days after it was due and was charged a _____.
5. Maria uses her credit card to buy things only when she already has the money in the bank, or as a _____.
6. Mario is a _____, because he always pays his entire credit card bill each month.
7. If your credit card company informs you that you can charge a greater amount on your card, it means they have increased your _____.
8. Nate just received a _____ in the mail, inviting him to apply for a credit card.
9. If you borrow money, the extra money you have to pay to the lender is called _____.
10. Rick paid off one credit card by using another credit card. This is called a _____.