

# Student Activities



## Lesson Five

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### Credit Cards



## shopping for credit

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Credit card costs and features can vary greatly. This exercise will give you a chance to shop for and compare the costs and features of three credit cards.

### directions

Using the attached form, research the costs and features of:

- Two major credit cards; and
- One credit card from a department store.

When you're done, answer the following questions.

### what did you find?

1. Which credit card has the highest annual percentage rate and how much is it?
2. What method is used to calculate the monthly finance charge for the first major credit card?
3. When does the finance charge begin to accrue on the credit card from the local department store?
4. Do any of the cards have annual fees? If so, which one(s) and how much is the fee?
5. Is there a transaction fee on any card? If so, how much is it?
6. Is there a minimum finance charge on either of the major credit cards? If so, how much is it?
7. Does the first major credit card charge a fee for late payments? If so, how much is it?
8. What is the grace period on the credit card from the local department store?
9. Rafael wants to buy a new CD player that costs \$450. According to his budget, he can afford payments up to \$62.00 per month. Which of the three credit cards you've found would you recommend that Rafael use to purchase the CD player?

Why?

# shopping for credit (continued)

use the following form to compare two or more credit cards:

	card one	card two
<b>Type of account:</b> Credit card Charge card		
<b>Company name, address, phone</b>		
<b>Website</b>		
<b>Locations where card is accepted</b>		
<b>Annual fee (if any)</b>		
<b>Grace period</b>		
<b>Annual Percentage Rate (APR)</b>		
<b>Finance charge calculation method</b>		
<b>Credit limit</b>		
<b>Minimum payment</b>		
<b>Other fees:</b> Late payment		
<b>Other features</b>		



## what does your statement tell you?

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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 unauthorized charges and/or billing errors.

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

### directions

Use the credit card statement below to answer these questions:

1. What is the date of the statement?
2. What is the Annual Percentage Rate (APR)?
3. What is the corresponding periodic rate?
4. What is the new balance?
5. What was the previous balance?
6. How many charges were made during the billing cycle?
7. How many credits and payments were made during the billing cycle?
8. Were there any charges for late payments? If so, how much were the charges?
9. What is the total amount of the credit line?
10. What is the total amount of available credit?
11. What is the total amount of charges made during the current billing period?
12. Was there a finance charge for the current billing cycle? If so, how much were the charges?
13. What is the account number on the statement?
14. Where should the payment be sent?
15. What is the periodic rate for cash advances?

# what does your statement tell you? (continued)

**SEND PAYMENT TO**

Box 1234  
Any Town, USA

**CREDIT CARD STATEMENT**

ACCOUNT NUMBER	NAME	STATEMENT DUE	PAYMENT DUE DATE
4125-239-412	John Doe	2/13/09	3/09/09

CREDIT LINE	CREDIT AVAILABLE	NEW BALANCE	MINIMUM PAYMENT DUE
\$1200.00	\$1074.76	\$125.24	\$20.00

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT
463GE7382		1/25	PAYMENT THANK YOU	-168.80
32F349ER3	1/12	1/15	RECORD RECYCLER ANYTOWN, USA	14.83
89102DIS2	1/13	1/15	BEEFORAMA REST ANYTOWN, USA	30.55
NX34FJD32	1/18	1/18	GREAT ESCAPES BIG CITY, USA	27.50
84RT3292A	1/20	1/21	DINO-GEL GASOLINE ANYTOWN, USA	12.26
973DWS321	2/09	2/09	SHIRTS 'N SUCH TINYVILLE, USA	40.10

Previous balance	(+) 168.80	Current Amount Due	125.24
Purchases	(+) 125.24	Amount Past Due	
Cash Advances	(+)	Amount Over Credit Line	
Payments	(-) 168.80	Minimum Payment Due	20.00
Credits	(-)		
FINANCE CHARGES	(+)		
Late Charges	(+)		
NEW BALANCE	(=) 125.24		

FINANCE CHARGE SUMMARY	PURCHASES	ADVANCES	For Customer Service Call: 1-800-xxx-xxxx
Periodic Rate	1.65%	0.54%	For Lost of Stolen Card, Call: 1-800-xxx-xxxx
Annual Percentage Rate	19.80%	6.48%	24Hour Telephone Numbers

**Please make check or money order payable to Your First Bank. Include account number on front.**



## how much does it really cost?

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### directions

Use the Cost of Credit calculator at [practicalmoneyskills.com](http://practicalmoneyskills.com) to answer the following questions.

### questions

**José wants to buy a stereo for \$650 and pay for it using a credit card that has an Annual Percentage Rate of 19.85%.**

**If José pays the minimum monthly payment of \$21.45:**

1. How long will it take him to pay for the stereo?
2. What is the total amount José will pay for the stereo?
3. What is José's total cost of using credit?

**If José makes monthly payments of \$60:**

4. How many months will it take for José to pay off the stereo?
5. What is the total amount José will pay for the stereo?
6. What is José's total cost of using credit?

**Patty took a cash advance of \$1,500. Her new credit card charges an Annual Percentage Rate of 21%. The transaction fee for cash advances is 3% of the cash advance, with a maximum fee of \$35. This fee is added to the total cash advance, and accrues interest.**

**If Patty makes monthly payments of \$65:**

7. How long will it take Patty to pay for the cash advance?
8. What is the total amount Patty will end up paying for the cash advance?
9. How much interest and fees will Patty pay?

**If Patty pays the cash advance back at a rate of \$130 per month:**

10. How long will it take Patty to pay for the cash advance?
11. What is the total amount Patty will end up paying for the cash advance?
12. How much interest and fees will Patty pay?

## how much does it really cost? (continued)

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**Marie just used her new credit card to buy a bike for \$400. Her budget allows her to pay no more than \$25 each month on her credit card. Marie has decided not to use the credit card again until the bike is paid off. The credit card she used has an Annual Percentage Rate of 21%.**

**If Marie pays \$25 each month on her credit card:**

13. How long will it take Marie to pay for the bike?
14. What is the total amount Marie will end up paying for the bike?
15. How much interest will Marie pay for using her credit card to buy the bike?

**If Marie pays the minimum payment of \$14 each month:**

16. How long will it take Marie to pay for the bike?
17. What is the total amount Marie will end up paying for the bike?
18. How much interest will Marie pay for using her credit card to buy the bike?

**Gary has just used his credit card to buy a new watch. He got the watch on sale for \$235. The regular price was \$290. He used a credit card that has an Annual Percentage Rate of 20%.**

**If Gary makes the minimum monthly payment each month of \$10:**

19. How much will Gary end up paying for his new watch?
20. How long will it take Gary to pay for his watch?
21. What is the total amount of interest Gary will end up paying?

**If Gary pays \$25 each month, instead of the minimum monthly payment of \$10 each month:**

22. How much will Gary end up paying for his new watch?
23. How long will it take Gary to pay for his watch?
24. What is the total amount of interest Gary will end up paying?



## how deep can they go?

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### 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 installment and credit card debt?

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?

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?

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

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





## lesson five quiz: credit cards

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### true-false

1. \_\_\_\_ A proprietary credit card is usually accepted by one type of store or company.
2. \_\_\_\_ The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
3. \_\_\_\_ The annual fee for a credit card is set by the government.
4. \_\_\_\_ APR measures the interest rate charged by a credit card.
5. \_\_\_\_ If someone uses your lost or stolen credit card, you are liable for no more than \$50.

### multiple choice

6. \_\_\_\_ A credit card issued through a credit union would be an example of a \_\_\_\_\_ card.  
**A.** bank  
**B.** travel and entertainment  
**C.** store  
**D.** proprietary
7. \_\_\_\_ The grace period refers to the time:  
**A.** taken to process a credit card application  
**B.** for paying an account without an interest charge  
**C.** allowed to notify a creditor of a billing error  
**D.** used for calculating interest
8. \_\_\_\_ Comparing the APR among several credit cards allows you to obtain the:  
**A.** lowest grace period  
**B.** lowest annual fee  
**C.** lowest interest rate  
**D.** least expensive method of calculating interest
9. \_\_\_\_ If a billing error occurs on a credit statement, a consumer has \_\_\_\_ days to notify the creditor.  
**A.** 30  
**B.** 60  
**C.** 90  
**D.** 120

### case application

Jack uses his credit card for almost all purchases. He charges gas purchases, clothing, food, and other living expenses. What is your opinion of this money management habit?