



Lesson 8: The Almighty Dollar?

TOPIC: Credit Cards

OVERVIEW:

Whether or not a cashless society is in the future, it's no surprise that young adults have less cash and more plastic in their pockets. Despite the common practice of paying with plastic or digital money, teens and young adults still harbor misconceptions about issues like **debit** versus **credit**, what it really costs to "charge it," and how to know what you're getting before signing up for a **credit card**. This lesson tackles all of these key issues as young adults work through the process of decoding credit card offers and explore the real difference between debit and credit.

OBJECTIVES:

1. Identify and explain how credit cards differ from debit cards
2. Discuss different types of credit cards
3. Summarize credit card key terms and conditions and consumer protection laws
4. Evaluate credit card offers and explain how to manage a credit card
5. Demonstrate how to compute the debt-to-limit ratio

INDIVIDUAL HANDOUTS:

- Credit Versus Debit
- Credit Responsibility
- Comparing Cards
- Credit Trap

GROUP HANDOUTS:

- None

TEACHER PRESENTATION SLIDES:

- Two Truths, One Lie
- Credit Versus Debit
- Credit Card Fine Print

ESSENTIAL QUESTIONS:

- How is a credit card different from a debit card?
- What do I need to know before getting a credit or debit card?
- Should I get a credit card now? What about when I turn 21?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Slide:** Two Truths, One Lie

Post-Assessment:

- **Slide:** Credit Versus Debit slide
- **Handout:** Comparing Cards*
- **Handout:** Credit Responsibility
- **Handout:** Credit Trap*

***Money Smart Portfolio Handouts**

Time: 65 min

Subject Connections:

- English Language Arts
- Math

Supplies:

- Whiteboard or chart paper, markers
- Projector (for teacher presentation slides)
- Access to the Internet (optional)

Preparation:

- Make copies of student handout
- Set up projector with presentation slides

Glossary with key vocabulary 16

Instruction Steps

WARM UP

Credit Card Facts

5 MINUTES

Two Truths, One Lie 27

Credit cards...

1. Are used to purchase goods and services
2. Take money from your checking account when used to pay for purchases
3. Are subject to interest charges if not paid in full each month

Money Smart for Young People Grades 9 - 12

Begin the lesson by displaying the *Two Truths, One Lie* slide and tell students that two out of the three statements are factual and one is a “lie.” Challenge students to make an educated guess on which statement is false and why.

Explain that statement two is false because credit is the ability to borrow money, not using your checking account to pay for purchases. When you pay for a purchase with a credit card, it means you are taking out a loan to make the purchase. Tell students that ATM/debit cards look like credit cards, but they actually remove the money from your checking account to pay for purchases.

MONEY SMART TIP!

Connect back to Lesson 7, *Capacity, Character, Collateral, Capital*, for more information on different forms of credit. Remind students that people have a right to one free credit report every 12 months, and the way to order from the three major credit bureaus is by visiting www.annualcreditreport.com.

GUIDED EXPLORATION

Credit Versus Debit

25 MINUTES

Credit Versus Debit 28

1. Which card requires you to have enough money at the time you pay for something?
2. Which card's balance can increase and accrue charges if you do not pay the entire amount each month?
3. Which card(s) may have fees associated with them?
4. Which card generally offers purchase protections against faulty goods?
5. Which card allows you to pay for unexpected emergencies when you do not have enough money?

Money Smart for Young People Grades 9 - 12

Distribute and review the *Credit Versus Debit* handout and explain to students that although credit and ATM/debit cards look similar, they use money in very different ways.

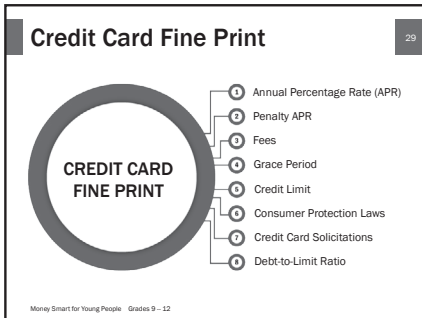
Next, divide the class into small groups. Give each group a small white board or piece of paper and marker. Explain that you are going to ask them a few questions to see if they can identify the difference between credit and debit. Tell groups to write down their answers as fast as possible and that whichever group puts their board up with the correct answers first wins. Display the *Credit Versus Debit* slide and start the challenge. Have the winning team present its answers to the class.

MONEY SMART TIP!

Discuss the concept of digital money and explain to students that some people use mobile wallets to pay for goods and services. Explain that a mobile wallet is a type of mobile app that some people like to use along with one or more debit or credit cards. You enter information from debit or credit cards into the app and use your mobile device to make point-of-sale purchases instead of using a card. Ask students to reflect on why “virtual” money has grown in popularity and whether they can imagine a “cashless” society.

Remind students that saving money and waiting to make a purchase is an alternative to credit and that it is important to think carefully about whether or not to take on credit.

Explain that, if one day you do determine that a credit card is the right choice for you, there are some items to be aware of when selecting a card.



Display the ***Credit Card Fine Print*** slide and use the terms in the glossary to define and discuss each of the concepts.

Grade-Level Modifications:

Beginner: Rather than showing the ***Credit Card Fine Print*** slide, simplify the discussion by asking students to explain what it means to look for the fine print. Give other fine print examples, such as weight loss advertisements that reveal in the fine print that results are not typical, and help students make the connection that there is also fine print on credit card offers that reveal the full truth of what you’re signing up for.

Advanced: After reviewing the ***Credit Card Fine Print*** slide, give students an opportunity to practice computing the **debt-to-limit ratio**. (Refer to Lesson 9, *As Easy as Pi* for more information.)

MONEY SMART TIP!

Discuss with your students the 2009 Credit Card Accountability Responsibility and Disclosure Act (CARD Act), and the implications the act holds for young adults under age 21. For more information, visit <https://obamawhitehouse.archives.gov/the-press-office/fact-sheet-reforms-protect-american-credit-card-holders>. Explain that the act makes it more difficult to obtain a credit card until age 21. However, if a young adult is at least 18 years of age and is able to show a source of income or have a cosigner, he or she may be able to obtain a credit card.

Next, distribute the ***Credit Responsibility*** handout and have students work in small groups to analyze and assess the scenarios. Invite groups to share their analysis, and reiterate the differences between responsible and irresponsible use of credit cards.

INDEPENDENT EXPLORATION

Terms and Conditions

25 MINUTES

Note: These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

Distribute the **Comparing Cards** handout and tell students that they are going to complete a comparison-shopping simulation by researching and comparing different credit card choices. Explain that, anytime you are considering a new financial product like a credit card, researching your options thoroughly is the best way to know what you are signing up for before making any decisions.

Allow students time to complete the research, either working individually or with a partner. When students are finished, invite them to share their final conclusions about which card they discovered would be a good choice and why.

Grade-Level Modifications:

Beginner: Rather than students conducting the research, provide them with information from three different credit cards and discuss the similarities and differences of each.

Advanced: Have students prepare a report and presentation for the class explaining the positives and negatives for each of the credit cards they research.

WRAP UP

Credit Trap

10 MINUTES

Distribute the **Credit Trap** handout and allow students time to complete it. Invite students to share with the class and reflect on their “traps.”

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

What are the consequences of mobile banking replacing cash and credit cards?

Do you support or oppose the changes made in the 2009 CARD Act to restrict credit opportunities for young adults under age 21? Defend your position.

What role do you think the government should have in regulating credit cards?

Suggested Readings:

The CARD Act: What It Means for You by VISA: Learn about the CARD Act and why it matters to consumers, particularly young adults under age 21. www.whatsmyscore.org/facts/cc_act.php

MATHEMATICS

Activity/Project Ideas:

Have students practice computing the debt-to-limit ratio. For example: refer to Lesson 9, *As Easy as Pi*, for information and problems related to financial ratios.

Challenge students to calculate the true cost of a credit card balance by computing interest paid over different periods of time. For example: provide students with the following scenario and model how to solve the problem. If necessary, provide students with an online calculator such as www.greenpath.com/calculators/DebtPayoff2.html.

Sheila has a credit card balance of \$5,000. If she makes the minimum payment of 4% each month, how many months will it take Sheila to pay off the balance if she has a 12% interest rate? (113 months) How much will Sheila have paid in interest? (\$1,600.31)

Next, challenge students by adjusting variables in the scenario, such as the minimum payment amount or interest rate using the following questions. If Sheila's minimum payment is 3% but her interest rate is 18%, how many months will it take her to pay off the \$5,000 balance? (198 months) How much interest has been paid? (\$4,698.44) What if Sheila pays only 2% for a minimum payment with an interest rate of 15 percent? (330 months to pay off balance and \$7,517.52 in interest payments)

SOCIAL STUDIES AND ECONOMICS

Discussion Topics:

Engage students in a discussion about pros and cons of moving to a cashless economy. In what ways will the economy benefit by paying with "plastic" or mobile phones? What problems might this create?

Activity/Project Ideas:

Have students conduct a research project to explore the history of money. For example: encourage students to visit the U.S. Department of Treasury's Bureau of Engraving and Printing website at www.moneyfactory.gov/uscurrency/history.html.

Challenge students to research and create a cash-to-credit timeline showcasing historical milestones for how technology shapes the way we interact with money. For example: students may read *The History of Credit Cards* at CreditCards.com.

www.creditcards.com/credit-card-news/credit-cards-history-1264.php

TECHNOLOGY

Online Resources:

Farm Blitz by Financial Entertainment: An interactive game that allows users to manage farm resources and make decisions when faced with financial emergencies.

Understanding Your Credit Card Offer by The Federal Reserve: A website illustrating a real credit card offer with tips on how to read each section.

Reading Your Statement by The Federal Reserve: A website illustrating a real credit card statement with tips on how to read each section.

Annual Credit Report: A website that allows you to obtain a free credit report once every 12 months.

www.annualcreditreport.com/index.action

Activity/Project Ideas:

Have students research and discuss smartphone technology and how the ability to bank anywhere, anytime is rendering physical wallets obsolete.

Have students discuss credit card terms and conditions with their parents.

Challenge students to consider how payment services, such as Apple Pay, Google Pay, and Venmo, will affect customers.

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Playing a credit and debit game	Students play a game to practice and explore positive credit and debit card behaviors. www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/playing-credit-debit-game/
Creating a PSA about credit cards	Students conduct Internet research to create a 30- or 60-second TV public service announcement (PSA) to raise awareness of and motivate people to adopt safe and responsible credit card practices. www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/creating-psa-about-credit-cards/
Calculating loan payments	Using a case study, students experience how time, the amount borrowed, and interest rates affect the payments made on a loan. www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/calculating-loan-payments/
Defining debt consolidation	Students work collaboratively to match questions with their answers to better understand key concepts and important rules to live by related to debt consolidation and borrowing. www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/defining-debt-consolidation/
Shopping in Credit City	Students complete a shopping game to see how much money they would spend on four major purchases that require borrowing money. www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/shopping-credit-city/

Answer Key

Student Handout 1:

Credit Responsibility

Situation 1: What do you think about Jason's use of a credit card?

Irresponsible because Jason is using credit to pay for credit.

Situation 2: What do you think about Collin's use of a credit card?

Irresponsible because Collin is paying more interest by keeping an ongoing balance.

Situation 3: What do you think about Lynda's use of a credit card?

Responsible because Lynda pays her balance off each month.

Situation 4: What do you think about Becca's use of a credit card?

Irresponsible because Becca did not read the fine print before opening her credit card.

Student Handout 2:

Comparing Cards.

Answers will vary. Use handout to assess student ability to conduct research and evaluate and compare data.

Student Handout 3:

Credit Trap.

Answers will vary. Students may recommend to read the fine print, understand fees and penalties, know your interest rates and credit limits, understand how credit cards affect your borrowing abilities and credit score, the Four Cs, and knowing how much credit you can personally manage.



Lesson 8: The Almighty Dollar?

CREDIT VERSUS DEBIT

Name: _____

Although they look similar, credit and ATM/debit cards allow you to use money differently. Review the chart to see the differences.

	ATM/Debit Cards	Credit Cards
Payments	<ul style="list-style-type: none"> Buy now, pay now. 	<ul style="list-style-type: none"> Buy now, pay later.
Interest Charges	<ul style="list-style-type: none"> No charges apply as funds are automatically debited from your checking account. 	<ul style="list-style-type: none"> Charges will apply if you carry a balance or if your card offers no grace period and you incur interest charges.
Fees	<ul style="list-style-type: none"> Fees on certain transactions (for example: an ATM fee charged for withdrawing funds from an ATM not operated by the bank that issued your debit card). Potentially costly fees if you try to spend more money than is available in your account. 	<ul style="list-style-type: none"> Fees and penalties can be imposed if payments are not timely. Some cards have annual fees. Not all cards offer grace periods (time to repay without incurring interest charges).
Other Potential Benefits	<ul style="list-style-type: none"> Easier and faster than writing a check. No risk of losing cash that you cannot replace. Some cards may offer freebies or rebates. As long as you do not overdraw your account, debit cards are a good way to pay for purchases without borrowing money and paying interest. 	<ul style="list-style-type: none"> Freebies sometimes offered (for example: cash rebates, bonus points, or travel deals). You can withhold payment on charges in dispute. If you manage your credit card carefully, your credit score may go up and you may qualify for lower interest rates on loans.
Other Potential Concerns	<ul style="list-style-type: none"> Usually there are no protections against faulty goods and services. You need another way to pay for unexpected emergencies (for example: vehicle repairs) if you do not have enough money in your bank accounts. 	<ul style="list-style-type: none"> Overspending can occur, since the credit limit may be higher than you can afford. If you do not pay your card balance in full each month, or your card does not have an interest-free grace period, you will pay interest. This can be costly, especially if you only pay at or near the minimum amount due each month.

CREDIT CARD RESPONSIBILITY TIPS

- Keep track of what you are charging. It can be easy to spend more than you realize.
- Read your monthly statements carefully and make sure all of the charges are accurate.
- Pay off your full balance every month.
- Always pay your balance on time to avoid late fees and build a positive credit history.



Lesson 8: The Almighty Dollar?

CREDIT RESPONSIBILITY

Name: _____

Sometimes people who use credit cards do not follow the tips and guidelines for responsible credit card use. Read each scenario and determine whether the credit card user is **responsible** or **irresponsible** with his or her credit card use. Briefly explain your answer.

SITUATION 1

Jason receives a credit card bill. He gets a cash advance on another credit card to pay part of the bill. What do you think about Jason's use of a credit card?

SITUATION 2

The balance on Collin's credit card is \$3,000, which is his credit limit. He makes only the minimum monthly payment of \$50 and is always close to the limit on his credit card. What do you think about Collin's use of a credit card?

SITUATION 3

Lynda uses her credit card for convenience and only for larger purchases of more than \$100. She pays cash for most small purchases under \$100. She pays her credit card bill in full each month. What do you think about Lynda's use of a credit card?

SITUATION 4

Becca was excited to get a credit card offer in the mail. She applied for the credit card without reading the terms. When the card came, she bought several items. When the bill came, she was surprised to find additional fees charged to her account and that the APR was 21%. What do you think about Becca's use of a credit card?



Lesson 8: The Almighty Dollar? COMPARING CARDS

Name: _____

Using an Internet search engine, research three different credit card offers and complete the chart with your findings.

	Credit Card 1	Credit Card 2	Credit Card 3
Name of credit card issuer/card			
What is the APR? <ul style="list-style-type: none">▪ Introductory APR?▪ Rate for purchases?▪ Rate for cash advances?▪ Penalty APR?			
What are the fees? <ul style="list-style-type: none">▪ Annual fee?▪ Late fee?▪ Over-the-limit fee?▪ Cash advance fee?▪ Other fees?			
Are there any benefits? (For example: reward points earned, rebates)			
Other? (For example: customer service hours, online access, access to a real person)			

If you were going to get a credit card, which of the three cards from your research would you select, and why?



Lesson 8: The Almighty Dollar? CREDIT TRAP

Name: _____

Taking on a credit card can be full of challenges, from managing your balance to understanding APRs. Use what you have learned in this lesson to write five tips for how to avoid credit traps and irresponsible credit card use.

Tip 1



Tip 2

Tip 3

Tip 4

Tip 5