

Lesson 3: Credit Cards

Student Guide Pages: 99-100

Lesson Objectives: By the end of this lesson, your students should be able to:

- explain how credit cards work
- define *grace period*

Lesson Summary:

One of the most dangerous but common ways to build credit is with a credit card. A *credit card* is a piece of plastic that allows you to borrow money. When you swipe it, the bank that issued the credit card pays with *their* money, and you owe the bank.

During the *grace period*, typically 30 to 45 days, you have the opportunity to pay back the bank with no interest. One day beyond the end of the grace period, you will be charged interest. Another way to say it is that during the grace period, it is a good deal for you. After that, it's a good deal for the credit card company. This is why credit card companies love it when you pay only the minimum amount, because then they can charge you interest on the rest. Most

people should avoid getting credit cards, because the majority cannot pay the full amount before the grace period ends.

Review Questions:

- Is there such thing as a fixed interest rate on a credit card?

Answer: No! Even if a card has a fixed rate, it simply means the card issuer must notify you before they raise the rate.

Technically, it can go up at any time.

- If you pay just the minimum balance on your credit card bill, you will owe the credit card company interest. Is a little interest really that big of a deal?

Answer: The big deal is that the interest is never little.

Interest rates on credit cards are very high, so it is crucial to pay them off in full every month, if you use them at all.

Homework Assignment:

Tell the students to go online and research additional credit card fees, aside from the interest charged. These include:

- **Cash advance fee:** a very expensive way to get cash from your credit card
- **Late fee:** if you pay your bill late, this can be as high as \$29

- **Overdraft fee:** occurs if you charge more than allowed
- **Annual fee:** charged just for using the card, though not all cards have this

Class Activity:

Tell students to share their credit card war stories. Who has one? Who has tried to get one? Are they still trying? Who has been burned? What fees were they unaware of?

Additional Information:

www.myfico.com: This website is run by the people who offer the most popular credit score in the world, the FICO score.

www.annualcreditreport.com: This site offers a free copy of your credit report once a year.

www.bankrate.com: This site provides several great financial calculators, including some to determine minimum payments on credit cards.

Fun Facts:

Only 2 percent of higher education students have no credit history at all. (www.college.com)

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