

# CREDIT CARDS



THE DISADVANTAGES AND  
ADVANTAGES OF CREDIT CARDS

# Credit Cards

## The Disadvantages and Advantages of Credit Cards

*Credit card debt has become a serious problem in America. These learning materials focus on teaching students valuable and practical knowledge about credit cards.*

**OBJECTIVES:** *Students will be able to:*

- Define credit card and credit lines.
- Explain how a credit card is obtained.
- Identify why credit cards can be dangerous.
- Identify the common fees and costs of credit cards.
- Explain how you can avoid credit card debt.
- Identify some possible advantages of having a credit card.
- Analyze a credit card statement.
- Analyze a credit card disclosure form.

*Thank You  
Your support and feedback are greatly appreciated.  
Michael K. Powell*



# Credit Cards

## THE DANGERS OF CREDIT CARDS



The use of credit cards has drastically increased over the years. More and more people are using credit cards instead of cash. The average credit card holder in the U.S. has four credit cards. Credit cards are often used because they are convenient, safer to carry than cash, and allow people to buy things that they can't afford. However, though credit cards may have some benefits, they can be extremely dangerous. These pieces of plastic can place your financial health into serious jeopardy.

Credit card problems usually start off slowly, with one credit card and a few innocent purchases. At first, it doesn't seem like a problem nor like a threat. Instead, it is just like a small snowball slowly rolling down a hill. But shortly after you open one card, you get multiple offers to open other credit cards. You can't resist. You get more cards and make more purchases because it is so easy and exciting. Yet, before you know it that small snowball grows into a massive snowball and it is heading right for you. It is at this the point, you come to the realization you have become buried deep into credit card debt.

You might think that this could never happen to you, but it easily can and does happen to millions of Americans each year. It is now estimated that the average household owes over \$16,000 in credit card debt. Many of these people are struggling just to make the monthly minimum payment and have realized that a giant snowball of credit card debt is heading right for them.

**Answer each question with a complete sentence on a separate piece of paper.**

1. What is the average number of credit cards held by card holders?
2. Why are credit cards being used more often than in the past?
3. What can credit cards do to your financial health?
4. Shortly, after you open a credit card what often occurs?
5. Before you know it, what could easily happen with credit cards?
6. How much does the average household have in credit card debt?

# Credit Cards

## WHAT ARE CREDIT CARDS AND THEIR DISADVANTAGES

### WHAT IS A CREDIT CARD?

A **credit card** represents a line of credit. A **line of credit** is a set amount of money that you are allowed to borrow. A credit card is different from a debit card. With a **debit card**, you are using your own money that is in your bank account. With a credit card, you are being allowed to borrow the bank's money each time you make a purchase.



### HOW DO YOU OBTAIN A CREDIT CARD?

Applying for a credit card is very easy. You can either complete an application online, through the mail, or in a store. Approval for a credit card online or in a store is usually completed within a few minutes. You do need to be 18 or older to apply for any type of credit card, and you must have a job. The better your credit rating the larger amount they will most likely let you borrow.

### WHAT ARE THE DISADVANTAGES OF A CREDIT CARD?

Though it is very easy to obtain a credit card, it doesn't mean it is a good idea to get one. A credit card is not a source of free money. There are many fees and penalties when having a credit card. These fees and penalties vary greatly with each credit card.

*Answer each question with a complete sentence on a separate piece of paper.*

1. What does a credit card represent?
2. What is a credit line?
3. With a credit card, what is the bank allowing you to do?
4. Is obtaining a credit card easy or difficult?
5. What are two requirements needed to obtain a credit card?
6. What is a credit card not a source of?
7. What are there many of when having a credit card?



## The most common fees with credit cards are:

**Annual Fee:** This is money that you have to pay every year for using the credit card. It could be \$0, or it could be several hundred dollars. It depends on the card you get. The average annual fee is \$75.

**APR:** This is the annual percentage rate, which is the amount of interest that is charged on an unpaid credit card balance. Interest rates with credit card cards are normally very high. A high interest rate for a card holder means it is very expensive to borrow money, which you are doing when you have a balance on your credit card.

**Late Fee:** This is a fee charged to you if you are late with a payment. The fee is usually about \$45. If you have a balance on your card, you are required to make a minimum payment each month.

**Cash Advance Fee:** This is a fee that you have to pay when you withdraw cash with the credit card at an ATM or bank. It is usually around 3% on the money withdrawn plus other fees. Getting a cash advance with a credit card is a horrible idea because it is so expensive.

**Over-the-limit Fee:** This is a charge for each time you go over your credit card limit. For example, if you were approved for a credit line of a \$1,000 for your credit card, and you go over this limit by \$1, you will be charged an over-the-limit fee. The fee ranges from \$40 to \$70 dollars each time you go over your limit.

**Foreign Transaction Fee:** This fee occurs when you buy something in a foreign country and is about 2% of the purchase.

8. How much is the average annual fee for a credit card?
9. What does "APR" mean?
10. Are the interest rates normally high or low for credit cards?
11. What does a high interest rate mean for the card holder?
12. What does "Late Fee" mean?
13. Is it wise to get a cash advance with a credit card? Why or why not?
14. What happens if the card holder goes over their credit card limit?
15. What is a "Foreign Transaction Fee?"

# Credit Cards

## HOW TO AVOID CREDIT CARD DEBT

### THE MAIN CAUSE OF CREDIT CARD DEBT

The main reason why people fall into serious credit card debt is irresponsible spending habits. Often, newer cardholders spend recklessly and don't think or care about the consequences. It is easy for people to get caught up in the excitement of spending with credit cards. It can be fun, and it is easy to spend with credit cards. Often, not until it is too late, do they realize how deep they are into debt.

### HOW TO AVOID CREDIT CARD DEBT



Avoiding serious credit card debt can be done by following these simple tips:



- ◆ Don't buy anything you don't already have the money for. If you can't pay your credit card back immediately then don't make the purchase.
- ◆ Always keep close track of your credit card balance. Know what you have spent and what you can spend.
- ◆ Avoid high interest rates or other fees. Shop around for a credit card that has the lowest interest rates and fees. If it costs you \$75 to have a credit card that you rarely use, it isn't worth the money.
- ◆ Limit the number of credit cards. There is no need for multiple credit cards. One card is enough. Having more cards, means more temptation and a higher chance you will fall into serious debt.

*Answer each question with a complete sentence on a separate piece of paper.*

1. What is the main cause of serious credit card debt?
2. When you have credit cards, what is it easy to do?
3. What should you not buy, when you have a credit card?
4. What should you keep track of?
5. When obtaining a credit card, what should you avoid?
6. What type of credit card should you shop for?
7. How many credit cards should you have?





Rewards

# Credit Cards

## THE ADVANTAGES OF A CREDIT CARD



Though credit cards can be dangerous, there are some possible advantages to having them. When credit cards are used responsibly, they can become a useful tool and provide consumers some protections. Besides being a convenient way to purchase things, the following are some of key advantages of having a credit card:

**Lost or Stolen Safeguards:** If you lose a credit card or if it is stolen, and someone else uses it, you are protected. You are not held responsible if someone makes an unauthorized purchase, as long as you report the card stolen or lost, right away. Cash can be easily lost or stolen.

**Record Keeping:** Credit card statements can help you track your expenses. This can be useful for maintaining a budget.

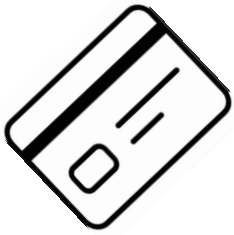
**Purchase Protection:** Most credit card companies provide insurance on a card holders' purchases. If a product is defective or broken the credit card company may refund your purchase.

**Build Positive Credit:** Being very responsible with your credit card can help you establish and build positive credit for the first time.

**Perks and Rewards:** Many credit card companies offer benefit programs based on the amount of purchases you make. There are many different types of reward programs out there. But be cautious, perks and reward programs are only worth it if you pay off your credit card balance each month.

*Answer each question with a complete sentence on a separate piece of paper.*

1. If credit cards are used responsibly, what can they become?
2. What are three advantages if you have a credit card?
3. What happens if your credit card is lost or stolen and someone makes a purchase?
4. What can a credit card allow you to track?
5. What does "purchase protection" for a credit provide?
6. If you use a credit card responsibly, what can it help you establish and build?
7. When are credit card perks and reward programs worth it?



# Advantages vs Disadvantages

## Credit Cards

Name \_\_\_\_\_

Per. \_\_\_\_\_ Date: \_\_\_\_\_

*Directions: Use the reading sheets about credit cards and/or your notes to help you list the advantages and disadvantages of having a credit card*

ADVANTAGES	DISADVANTAGES

*Directions: Write a paragraph, describing how a person can avoid falling into serious credit card debt.*

Blank area for writing a paragraph.







# CREDIT CARD COMPARISON

Name \_\_\_\_\_

Per. \_\_\_\_\_ Date: \_\_\_\_\_

Type of Credit & Company	APR (%)	Annual Fee	Late-Payment Fee	Over-the-Limit Fee	Foreign Transaction Fee	Cash Advance Fee
Capital One, Visa Signature	16%	\$75	\$35	\$50	3%	3%
American Express	18%	\$75	\$50	\$45	3%	3%
West Coast Credit Union, Master Card	11%	None	\$30	\$45	2%	3%
Platinum Citibank, Visa	19%	\$95	\$75	\$50	0%	3%

**Directions:** Use the chart above to answer the following questions:

1. Which credit card offers the best interest rate?
2. Which credit card has the highest annual percentage rate?
3. What fee is the same for all the credit cards shown and how much is it?
4. Which credit card has the highest annual fee?
5. Which credit card do you think is the worst card to obtain? Explain why.
6. Which credit card do you think is the best card to obtain? Explain why.



# ANALYSIS

## John Doe's Credit Card Statement

*Directions: Use the credit card statement to answer the questions on the following page.*

Summary of Account Activity	Payment Information																																														
<table style="width: 100%; border-collapse: collapse;"> <tr><td>Previous Balance . . . . .</td><td style="text-align: right;">\$1000.00</td></tr> <tr><td>Payments . . . . .</td><td style="text-align: right;">\$500.00</td></tr> <tr><td>Other Credits . . . . .</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Purchases . . . . .</td><td style="text-align: right;">\$725.00</td></tr> <tr><td>Balance Transfers . . . . .</td><td style="text-align: right;">\$.00</td></tr> <tr><td>Cash Advances . . . . .</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Due Amount . . . . .</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Fees Charged . . . . .</td><td style="text-align: right;">\$35.00</td></tr> <tr><td>Interest Charged . . . . .</td><td style="text-align: right;">\$10.54</td></tr> <tr><td colspan="2"><hr/></td></tr> <tr><td><b>Current Balance . . . . .</b></td><td style="text-align: right;"><b>\$1270.54</b></td></tr> <tr><td><b>Credit Limit . . . . .</b></td><td style="text-align: right;"><b>\$5000.00</b></td></tr> <tr><td><b>Available Credit . . . . .</b></td><td style="text-align: right;"><b>\$3729.46</b></td></tr> <tr><td><b>Statement Closing Date . . . . .</b></td><td style="text-align: right;"><b>04/20/19</b></td></tr> <tr><td><b>Days in Billing Cycle . . . . .</b></td><td style="text-align: right;"><b>30</b></td></tr> </table> <p>Questions? Call Customer Service . . . .1-800-xxx-xxxx            Lost or Stolen Credit Card .1-800-xxx-xxx</p>	Previous Balance . . . . .	\$1000.00	Payments . . . . .	\$500.00	Other Credits . . . . .	\$0.00	Purchases . . . . .	\$725.00	Balance Transfers . . . . .	\$.00	Cash Advances . . . . .	\$0.00	Due Amount . . . . .	\$0.00	Fees Charged . . . . .	\$35.00	Interest Charged . . . . .	\$10.54	<hr/>		<b>Current Balance . . . . .</b>	<b>\$1270.54</b>	<b>Credit Limit . . . . .</b>	<b>\$5000.00</b>	<b>Available Credit . . . . .</b>	<b>\$3729.46</b>	<b>Statement Closing Date . . . . .</b>	<b>04/20/19</b>	<b>Days in Billing Cycle . . . . .</b>	<b>30</b>	<table style="width: 100%; border-collapse: collapse;"> <tr><td>Current Balance . . . . .</td><td style="text-align: right;">\$1270.54</td></tr> <tr><td>Minimum Payment Due . . . . .</td><td style="text-align: right;">\$25.00</td></tr> <tr><td>Payment Due Date . . . . .</td><td style="text-align: right;">.4/29/19</td></tr> <tr><td colspan="2"> </td></tr> <tr><td colspan="2"><b>Late Payment Warning:</b> If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the penalty APR of 28.99%.</td></tr> <tr><td colspan="2"> </td></tr> <tr><td colspan="2"><b>Total Minimum Payment Warning:</b> If you make only minimum payments, you will pay more and it will take longer to pay off your balance. For example:</td></tr> <tr><td colspan="2" style="padding-left: 20px;"> <ul style="list-style-type: none"> <li>• If you pay <b>only the minimum payment</b> it will take <b>93 months</b> to pay off and you will have paid <b>\$1891.33</b></li> </ul> </td></tr> </table>	Current Balance . . . . .	\$1270.54	Minimum Payment Due . . . . .	\$25.00	Payment Due Date . . . . .	.4/29/19	 		<b>Late Payment Warning:</b> If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the penalty APR of 28.99%.		 		<b>Total Minimum Payment Warning:</b> If you make only minimum payments, you will pay more and it will take longer to pay off your balance. For example:		<ul style="list-style-type: none"> <li>• If you pay <b>only the minimum payment</b> it will take <b>93 months</b> to pay off and you will have paid <b>\$1891.33</b></li> </ul>	
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### TRANSACTION SUMMARY

Date	Description	Reference #	Charges	Credits
3/25	Grocery Land	XX999XXXX9	\$142.00	
3/27	Book Store	XX999XXXX9	\$33.00	
4/1	Restaurant	XX999XXXX9	\$125.00	
4/19	Payment	XX999XXXX9		\$500.00
4/19	Bob's Auto	XX999XXXX9	\$425.00	

<p style="text-align: center;"><b>FINANCE CHARGE CALCULATION</b></p> <p>Purchases @ 13.99% APR: \$0.00</p> <p>Balance Transfers @ 13.99% APR: \$0.00</p> <p>Cash Advances @ 25.99% APR: \$0.00</p>	<p style="text-align: center;"><u>Fees and Interest</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Late fees</td><td style="text-align: right;">\$35.00</td></tr> <tr><td>Balance transfer fees</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Cash advance fees</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Total fees for this period</td><td style="text-align: right;">\$0.00</td></tr> <tr><td>Total interest for this period</td><td style="text-align: right;">\$10.54</td></tr> </table>	Late fees	\$35.00	Balance transfer fees	\$0.00	Cash advance fees	\$0.00	Total fees for this period	\$0.00	Total interest for this period	\$10.54
Late fees	\$35.00										
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Cash advance fees	\$0.00										
Total fees for this period	\$0.00										
Total interest for this period	\$10.54										

**Send Payment to:**  
**Blue CARD SERVICES**  
**PO BOX 999**  
**MONEYVILLE, MA 99999-9999**

Account Number 9999 5555 9999 5555  
 Payment Due Date: 4/29/2019  
 New Balance Total: \$1270.54  
 Current Payment Due: \$25.00  
 Amount Enclosed \$ \_\_\_\_\_

## ANALYSIS

# John Doe's Credit Card Statement

Name \_\_\_\_\_

Per. \_\_\_\_\_ Date: \_\_\_\_\_

*Directions: Use the credit card statement to answer the questions below.*

1. What is the current balance that Joe Doe owes?
2. What is the total amount that Joe charged for this billing cycle?
  - a. List the purchases that Joe made.
3. How much did Joe pay for his last payment?
4. Why was Joe charged \$35 by the credit card company?
5. How much interest was Joe charged for this month?
6. What is the credit limit that Joe has for this credit card?
  - a. What is Joe's available credit?
7. What is APR for purchases for this credit card?
8. What is the minimum payment amount that Joe must make?
9. When is the due date for Joe to make a payment?
10. Did Joe take a cash advance on this credit card?
11. Why did you think the federal government requires that financial institutions place a "Total Minimum Payment Warning" on all credit card statements?





# ANALYSIS

## Credit Card Disclosure

**Directions:** Use the disclosure form below to answer questions on the following page.

Credit Card Disclosure Information	
<b>Annual percentage rate (APR) for purchases</b>	Your APR will be 14.99%
<b>APR for balance transfer</b>	17.99%
<b>APR for cash advances</b>	APR for cash advance will be 22.99%
<b>Penalty APR and when it applies</b>	<p>28.99% This APR will be applied to your account if you:</p> <ol style="list-style-type: none"> <li>1. make a late payment,</li> <li>2. go over the credit limit,</li> <li>3. make a payment that is returned or,</li> <li>4. do any of the above on another account that you have with us.</li> </ol> <p>How long will the penalty APR apply? If your APRs are increased for any of these reasons, the penalty APR will apply until you make six consecutive minimum payments when due.</p>
<b>How to avoid paying interest on purchases</b>	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
<b>Minimum interest charge</b>	If you are charged interest, the charge will be no less than \$1.50.
Fees	
Set-up and Maintenance Fees	
• Annual fee	\$75
• Account set-up fee	\$20 (one-time fee)
• Participation fee	
• Additional card fee	\$5 (if applicable)
Transaction Fees	
• Balance transfer	Either \$5 or 3% of the amount of the transaction, whichever is greater (maximum fee: \$100)
• Cash advance	Either \$5 or 3% of the amount of each cash advance, whichever is greater
• Foreign transaction	2% of each transaction in U.S. dollars
Penalty Fees	
• Late payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000
• Over-the credit limit	\$45
• Returned payment	\$35



# ANALYSIS

## Credit Card Disclosure

Name \_\_\_\_\_

Per. \_\_\_\_\_ Date: \_\_\_\_\_

**Directions:** Use the credit card disclosure form to answer questions below.

1. What is the annual percentage rate (APR) for this credit card?
2. For cash advances what is the APR?
3. What three things would move the APR for the balance on this credit card to 28.99%?
4. What is the annual fee that customers are charged for holding this credit card?
5. If you decided to transfer the balance from another credit card to this credit card, what would be the fee charged?
  - a. What would be the APR charged for the transferred balance?
6. What is the fee for a cash advance?
7. If you use this credit card in a foreign country, what would be the fee on each transaction you made in the foreign country?
8. If you are late on making a payment, what would be the fee charged?
9. What would be the fee charged if you went over your credit limit?





## ASSESSMENT

# Credit Cards

Name \_\_\_\_\_

Per. \_\_\_\_\_ Date: \_\_\_\_\_

*Select the best answer:*

**1. A credit card represents**

- a. free money.
- b. is the same as a debit card.
- c. a line of credit.
- d. All of the above.

**2. A line of credit is**

- a. the money you have in your bank account.
- b. a set amount of money that you are allowed to borrow.
- c. how many credit cards you have.
- d. None of the above.

**3. Falling into serious credit card debt**

- a. rarely happens to people.
- b. only happens to those that lose their job.
- c. can easily occur and happens to millions of Americans.
- d. None of the above.

**4. The main reason why people fall into serious credit card debt is**

- a. because they lose their job.
- b. Because they don't make enough money.
- c. irresponsible spending habits.
- d. All of the above.

**5. The way you can stay out of credit card debt is**

- a. don't buy anything you can't afford.
- b. by keeping track of your balance.
- c. by limiting the number of credit cards to one.
- d. All of the above.

**6. The advantage of a credit card is the**

- a. Lost or Stolen Safeguards.
- b. Purchase Protection.
- c. Recorder Keeping Ability.
- d. All of the above.

**7. When shopping around to obtain a credit card, it is important to make sure it has**

- a. a low interest rate and low fees.
- b. a high interest rate.
- c. a fancy perks and reward program.
- d. a high popularity rating.

**8. When you have a credit card you should**

- a. buy what you need and want.
- b. only buy what you can afford to buy.
- c. use it often for cash advances.
- d. All of the above.



Over-the-limit Fee Foreign Transaction Fee APR	Annual Fee Late Fee Cash Advance Fee
--	--

*Directions: Select the best term for each sentence.*

9. \_\_\_\_\_ A fee that you have to pay every year for using the credit card.

10. \_\_\_\_\_ A fee that you are charged if you are late with a credit card payment.

11. \_\_\_\_\_ This fee occurs when you buy something in a foreign country.

12. \_\_\_\_\_ This is a charge for times when you go over your maximum credit card limit.

13. \_\_\_\_\_ A fee that you have to pay when you withdraw cash with the card at an ATM.

14. \_\_\_\_\_ The amount of interest that is charged on a balance of the credit card.

*15. List two advantages and three disadvantages of having a credit card.*

<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>

## True or False

16. \_\_\_\_\_ Though credit cards may have some advantages, they can be extremely dangerous.
17. \_\_\_\_\_ Credit cards are not easy to obtain.
18. \_\_\_\_\_ Everyone needs and should have a credit card.
19. \_\_\_\_\_ There can be many fees and possible penalties when having a credit card.
20. \_\_\_\_\_ The lower the APR credit card, the better it is for the card holder.

Type of Credit & Company	APR (%)	Annual Fee	Late-Payment Fee	Over-the-Limit Fee	Foreign Transaction Fee	Cash Advance Fee
Bank of America, Visa	14%	\$75	\$35	\$45	3%	3%
New Capital, Master Card	12%	\$25	\$35	\$45	3%	3%

21. *Use the comparison chart of the two credit cards above. Which credit card would be the best choice? Explain why.*

