

TEACHER'S GUIDE

reality CHECK

the student's guide to the real world

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Lesson 6: Credit Crunch

Chapter 30 from *Reality Check*

Time

50 minutes

Relationship to National Standards

FCS National Standards: 2.1.2,
2.6.2, 3.3.3

JumpStart Financial Literacy
Standards PMM3, CD 1

Assessment

"Do I Have to Have a Credit
Card?" simulation

Materials

- Interest rates for three different credit cards, an auto loan and a mortgage (Interest rates can be found at bankrate.com and creditcards.com.)

- Copies for each group of "The Cost of Credit"

- "Gotcha Fees" matching cards

- Paper and drawing supplies

- Copies for the class of "Do I Have to Have a Credit Card?" assessment and scoring guide

Student Outcomes

Students will examine credit cards and analyze the financial and emotional effects of their use.

Concepts

Money management, credit and interest.

Procedures

1 | Prior to the start of this lesson, ask students to read Chapter 30 of *Reality Check*. Another option would be to have student volunteers read these portions of the book aloud at the start of class.

2 | Divide students into five groups. Assign each group either a credit card, auto loan or mortgage interest rate from sites the teacher has previously checked out (see note in materials needed). If you have a smartboard available, you can show the students the sites where you got the rates. Have each group complete their section of "The Cost of Credit," and share answers with the rest of the class. Discuss the following questions:

- Why do you think credit card rates are so high?
- What does it mean when an APR is variable?
- What else could you do with the money it would cost you in interest for borrowing the money?
- Why should you not use a credit card for food and other consumables? (Used up before the bill is paid)

3 | Give each student a term or a definition from the "Gotcha Fees" handout. They are to mingle around the room and find the person who matches their card. Once they have found their partner, they are to create a picture to illustrate their term. Have the class guess the term and definition from the illustration. Give the students 10 minutes for the activity.

4 | Imagine that you or someone you know is in serious credit card debt. It is causing them to lose sleep, perform poorly at work and you think they are becoming depressed. Brainstorm for strategies that would help take away the emotional strain by easing the financial strain. Examples would include:

- Call the credit card company and explain the circumstances
- Plan a budget to cover the minimum payments for all credit cards
- Cut spending on wants and make a plan to apply the savings to credit card debt
- Try to increase income and use the additional income only on the credit card debt
- Keep track of your balances so you will stay motivated
- Stop using your cards
- Be aware of scams offering a quick fix for credit problems
- Talk to someone about your problem

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5 | Divide the students into three groups. Each group will take one of the common responses for having a credit card and as a group come up with an explanation of why the response would not be a valid argument. Have each group explain to the class the problems with their response.

6 | Pass out the "Do I Have to Have a Credit Card?" assessment and scoring guide. Explain that they will be working through a simulation for a student using a credit card. Check to see if the students have any questions about the assessment.

additional resources

- http://www.explainmycreditcard.com/schumer_box_credit_card.html
A step-by-step breakdown of the terms, rates and fees used in the Schumer Box.
- <http://www.cardratings.com/>
Credit card information site which includes rates and features of various types of cards.
- <http://www.bankrate.com/calculators/managing-debt/minimumpayment-calculator.aspx>
Site features rates for different types of loans as well as various calculators.
- <http://www.mydollarplan.com/get-out-of-emotional-debt/>
A plan for getting out of debt that looks at the emotional costs involved.
- <http://www.practicalmoneyskills.com/personalfinance/creditdebt/>
Resources to help you understand credit and debt management, plus a test on your knowledge of credit cards.

enrichment activities

- Create a PowerPoint or other presentation on the Schumer Box to be shown at a parent's meeting.
- Create a brochure on the fee terms using the illustrations created by the class.
- Interview a credit counselor about additional strategies for managing debt.
- Investigate reward points and fees for various credit cards. Compare the cost of the fees with the benefits of the rewards to determine if it's worth owning the card. Create a poster outlining your results.

NAME:

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instructions

Determine the interest rate for the type of credit your group was assigned. Then calculate how much interest you would pay for each borrowed amount.

the cost of credit

TYPE OF CREDIT	INTEREST RATE	COST TO BORROW \$1,000	COST TO BORROW \$5,000	COST TO BORROW \$10,000
CREDIT CARD #1				
CREDIT CARD #2				
CREDIT CARD #3				
30-YEAR FIXED MORTGAGE				
36-MONTH USED CAR				

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“gotcha” fees activity cards

LATE PAYMENT FEE	Charged when you do not make at least the minimum payment on time
OVER YOUR CREDIT LIMIT FEE	Charged when you exceed your credit card limit by overcharging
ANNUAL FEE	Charged for just having the account even if you pay your statement on time each month
CASH WITHDRAWAL/ADVANCE FEE	Charged for borrowing money against your credit card
INACTIVITY FEE	Charged for having an account that is dormant for a specified amount of time
APPLICATION FEE	Charged for processing your application for a credit card
DEBT CONSOLIDATION/ BALANCE TRANSFER FEE	Charged for moving your debt from one credit card to another
INTERNATIONAL TRANSACTION FEE	Charged for purchases you make outside the United States
MINIMUM FINANCE CHARGE	Charged if you carry a balance from month to month even if your charge would be less
TRANSACTION FEE	Charged by some credit card companies every time you use your card

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do I have to have a credit card?

You just signed up for the Country Credit Card at the August Back-To-School Fair at your college. You paid your application fee and got an awesome t-shirt and the frequent flyer miles will be fun to use. Because you are not yet 21 you talked your mom into co-signing the form by telling her it would be good to have for emergencies since you are two hours away from home. As part of the agreement they gave you this copy of the Schumer Box. You have a beginning credit limit of \$500. You've applied for jobs all over campus so you are sure you will be able to pay off the balance every month, no big deal. Answer the following questions based on this information and the Schumer box for this credit card.

1st Month: *You go to the bookstore to get your books and after standing in line for 40 minutes you realize you left your checkbook in your room. You decide to charge them on your new credit card. You also decide to pick up some chips and a drink since you can pay for them at the same time. Your bill comes to \$257.*

1 | What is the interest rate that will be charged for this purchase if you pay it off by October and make no other purchases?

2 | Why is it a bad idea to charge the snacks on your credit card?

2nd Month: *When your bill comes you make the minimum monthly payment of \$7.71 because you haven't found a job yet. Your roommate tells you about an amazing opportunity for spring break but you have to buy the tickets now or the rate is going to double. The ticket price is \$324. You call the credit card company to verify your balance.*

3 | Why do you have to pass up this awesome opportunity?

4 | What type of fee will you be charged this month?

5 | How much is the fee?

3rd Month: *At the start of your billing period you are running short on cash so you go to the bookstore and get a \$100 cash advance on your credit card. Your mom sends you a check the next week so you can pay it off when your bill comes.*

6 | What fee would you have to pay?

7 | How much will the fee be?

8 | About how much would it cost in interest if you didn't pay it off for a year?

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4th Month: *You finally got a job, but you won't get paid until the week after your credit card bill is due. You decide to wait until payday to make your payment so you can pay off the balance on your bill.*

9 | What fee will you have to pay?

10 | How much will the fee be?

5th Month: *You hurriedly pick up Christmas presents for everyone on your drive home since you've been cramming for finals and haven't had time to shop. Rushing from store to store you charge \$79 at Savemart, \$87 at Lacy's Department Store, \$93 at Sports-R-U's, \$68 at Cole's and \$125 at Toy Town. As you leave for home you see that your gas gauge is on empty so you fill up your tank, grab something to eat and charge \$55 to your card. You get your bill two weeks later on break.*

11 | What is your interest rate at the beginning of the billing period?

12 | Explain why this is the current rate.

13 | You also have another fee, what is it the fee for?

14 | How much will the fee be?

6th Month: *You plan to pay off your Christmas bill when you got back to school and back to work. It's time to buy books again but this time you remember to take your checkbook and pay for them with money from your parents instead of charging them. You find out that you've been laid off from your job but scrape together enough money to make the minimum payment. At this rate you won't be buying any Christmas presents for the next five years. You're worried and stressed because you have no income but still owe for all the great presents you bought your family. You can't ask to return them! All you can think about when you are in class is the money you owe. You haven't told anyone about the bill. You're not sleeping and your roommate thinks you're sick.*

15 | What should you do to get out from under the emotional strain of your debt?

16 | What should you do to get your financial problem under control?

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7th Month: *You finally have a job again and will be able to pay off your credit card balance. You decide to look at whether or not you really need a credit card. First you need to look at some of the problems you have had.*

17 | What is your current interest rate?

18 | How did the decisions you made affect the interest rate?

19 | How much money did you borrow during the first six months?

20 | How much money did you pay in fees during the time you've had your card? (Hint: start at the very beginning)

21 | How did your debt affect your emotional health?

22 | Did you use the card only for emergencies?

23 | How could you have avoided the non-emergency purchases?

24 | What does Grant say is a better plan for emergencies?

25 | Was it worth going into debt for a t-shirt and some frequent flyer miles?

26 | What happened to the plan to pay the balance in full every month?

27 | Determine if it is a good idea for you to have a credit card at this point in your life and justify your answer with facts to support it. Your answer should be in a complete paragraph. You may use the back of this sheet or a separate sheet for your answer.

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This is a Schumer Box (a chart required by law detailing basic rates and fees) for a fictitious credit card.

COUNTRY CREDIT CARD	
Annual Percentage Rate (APR) for purchases	0.00% for 3 months from activation. After that 18.25% variable.
Other APR's	Cash Advance APR 22.99% Default APR 29.99%
Variable Rate Information	APR may vary each billing period. The rate for purchases will be the U.S. Prime Rate plus 12.99%. Cash Advance rate will be the U.S. Prime Rate plus 17.99% and never lower than 22.99%. Default rate will be the U.S. Prime Rate plus 22.99% up to 29.99%.
Grace Period	20 days if balance is paid in full by due date every period. One payment beyond the due date will result in no grace period.
Balance Calculation Method	Average daily balance including new purchases.
Annual Fee	\$25.00
Minimum Finance Charge	\$0.50
International Transaction Fee	4% of the U.S. dollar amount of purchases made outside the United States in any currency.
Other Fees	Application fee: \$10 Balance transfer fee: 5% of balance transfer, \$10 minimum Cash Advance fee: 5% of balance transfer, \$10 minimum Late Fee: \$25 Over-the-credit-limit fee: \$25 Transaction fee: \$5 for accessing balance check toll-free number Inactivity fee: \$25 for account inactive for 6 months
<p>Actions which trigger the Default APR:</p> <ul style="list-style-type: none"> • Do not make minimum payment on time • Go over the credit limit • Make payment with invalid method • Other change in credit status <p>Variable rate calculation: Based on Wall Street Journal rate two days before statement date. Applied to Balances: Payments will be applied to low APR balances first. Changes to Rates: Rates may be changed as permitted by law. Advanced notification will be given.</p>	

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do I have to have a credit card? answer key

1st Month:

1 | What is the interest rate that will be charged for this purchase if you pay it off by October and make no other purchases? *0.00%*

2 | Why is it a bad idea to charge the snacks on your credit card? *Use them up before they are paid for*

2nd Month:

3 | Why do you have to pass up this awesome opportunity? *It would put you over your \$500 credit limit*

4 | What fee will you be charged this month? *Transaction fee for balance check*

5 | How much is the fee? *\$5*

3rd Month:

6 | What fee would you have to pay? *Cash Advance Fee*

7 | How much will the fee be? *\$10*

8 | About how much would it cost in interest if you didn't pay it off for a year? *\$23*

4th Month:

9 | What fee will you have to pay? *Late Fee*

10 | How much will the fee be? *\$25*

5th Month:

11 | What is your interest rate at the beginning of the billing period? *29.99%*

12 | Explain why this is the current rate? *Because last month you did not make the minimum payment on time*

13 | You also have another fee, what is the fee for? *Over-the-credit limit fee*

14 | How much will the fee be? *\$25*

6th Month:

15 | What should you do to get out from under the emotional strain of your debt? *Answers may vary but could include: Talk to someone, stop using your cards, try to increase income*

16 | What should you do to get your financial problem under control? *Answers may vary but could include: Make a plan to pay off your debt, call the credit card company.*

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do I have to have a credit card? answer key

7th Month:

17 | What is your current interest rate? 29.99%

18 | How did the decisions you made affect the interest rate? *Making late payment, going over the limit triggered the default APR.*

19 | How much money did you borrow during the first six months? \$864

20 | How much money did you pay in fees during the time you've had your card? \$75

21 | How did your debt affect your emotional health? *Answers may vary but could include Worry, stress, trouble sleeping, studying*

22 | Did you use the card only for emergencies? *No*

23 | How could you have avoided the non-emergency purchases? *Answers may vary but include: Going back to get checkbook instead of charging books, not buying snacks, planning ahead for Christmas*

24 | What does Grant say is a better plan for emergencies? *An emergency fund*

25 | Was it worth going into debt for a t-shirt and some frequent flyer miles? Why or Why not? *Answer similar to: No, a t-shirt was not worth the fees and interest paid. As for the frequent flyer miles, he lives two hours away from home!*

26 | What happened to the plan to pay the balance in full every month? *Didn't get a job right away, laid off*

27 | Determine if it is a good idea for you to have a credit card at this point in your life and justify your answer with facts to support it. Your answer should be in a complete paragraph. *Answers should be in a well written paragraph with details to support their decision about having or not having a credit card.*

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do I have to have a credit card? scoring guide

CATEGORY	4 EXCEEDS EXPECTATIONS	3 MEETS EXPECTATIONS	2 CAME CLOSE TO EXPECTATIONS	1 BELOW EXPECTATIONS	SCORE
RESPONSES TO QUESTIONS	All of the questions were addressed	All but one or two of the questions were addressed	All but three or four questions were addressed	More than four of the questions were not addressed	
CONTENT FOR FIRST SIX MONTHS	All responses to questions were accurate and factual	Almost all responses to questions were accurate and factual	Most responses to questions were accurate and factual	Less than half of the responses to questions were accurate and factual	
CONTENT FOR SEVENTH MONTH	All responses to questions were accurate and factual	Almost all responses to questions were accurate and factual	Most responses to questions were accurate and factual	Realistic decision was not made about the future use of the credit card and no supporting details	
PLAN FOR THE FUTURE	Realistic decision was made about the future use of the credit card and excellent details given to support the choice	Realistic decision was made about the future use of the credit card and good details given to support the choice	Realistic decision was made about the future use of the credit card but supporting details were lacking	Realistic decision was not made about the future use of the credit card and no supporting details	
WRITING SKILLS	No mistakes were found in spelling, grammar, punctuation or capitalization	1-2 mistakes were found in spelling, grammar, punctuation or capitalization	3-4 mistakes were found in spelling, grammar, punctuation or capitalization	More than 4 mistakes were found in spelling, grammar, punctuation or capitalization	

TOTAL POINTS EARNED = ____ / 20 POINTS POSSIBLE