Activity 3.3
Analyzing a Credit-Card Statement

TEACHER'S GUIDE

VIDEO SUMMARY AND ACTIVITY OVERVIEW

Many people use credit cards wisely, finding them to be convenient and especially helpful in emergency situations. But as Video 3 points out, credit cards can fool you. When you use a credit card, you borrow money from the card issuer. You also commit yourself to repaying the money you borrow according to terms that specify minimum payments and interest charges. People who run up big credit-card balances and make only minimum monthly payments may find themselves in debt over their heads.

In this activity, the students learn how debit cards differ from credit cards. They learn how best to handle a credit card. They examine a credit-card statement and respond to a series of questions about the information it contains.

CONCEPTS

Annual Percentage Rate (APR)
Credit
Credit card
Debit card

MATERIALS

Duplicated **Student Activity 3.3**, one for each student

PROCEDURE

1. Video 3 introduces key ideas about credit cards—the most common form of credit. This activity contrasts credit cards with debit cards and provides an explanation of the information included on credit-card statements.

2. Distribute a copy of **Student Activity 3.3** to each student. Ask the students to read Part 1 and answer the **Questions for Discussion** at the end of Part 1. Discuss their answers.

A. What is a debit card? ***A debit card is a small, coded card that enables its user to make purchases as if he or she were using cash. For each purchase, a charge is made to the card user's checking or savings account, and the amount charged is withdrawn from the account immediately by electronic transfer.***

B. What is a credit card? ***A credit card is a small, coded card that enables its user to make purchases by borrowing money from the card issuer. For each purchase, the card user agrees to repay the card issuer for the amount borrowed, according to terms specifying minimum monthly payments plus fees and interest charges.***

C. What are three tips for using a credit card wisely? ***Any of the following: Have only one card. Close any credit-card accounts you do not wish to use. Shred unused credit-card applications. Pay off the monthly balance. Shop for a card with a low interest rate and no annual fee. Use your card for such things as travel and emergency purchases. Use credit-card records to keep track of your spending. Avoid using your credit card for minor purchases.***

3. Ask the students to read Part 2 and answer the **Questions for Discussion** at the end of Part 2. Discuss their answers.

A. What is the finance charge for the current billing period? ***$5.64***

B. What is the annual percentage rate if the unpaid balance is over $500? ***15 percent*** Less than $500? ***18 percent***

C. What is the minimum payment due? ***$18***

D. What is the total amount charged for purchases made during the previous month? ***$38.76***

E. How much credit does Joan Berelli still have available? ***$638***

F. What is the new balance? ***$372.21***

G. How is the new balance determined? ***By deducting any payments from the previous balance, adding purchases during the month and adding the monthly finance charge.***

ASSESSMENT

1. Penny purchased a new DVD using a plastic bank card. Payment for the DVD was deducted immediately from her checking account. What sort of transaction was this?

A. A credit-card transaction
B. A debit-card transaction
C. A credit-score transaction
D. A debit-score transaction

2. Which of the following is a good tip for using a credit card?

A. Pay the minimum balance due.
B. Always keep three to five cards.
C. Shred unused credit card applications.
D. Use your card for minor purchases.

3. What is the annual percentage rate?

A. The grace period
B. The yearly line of credit
C. A record of annual payment history
D. The cost of credit expressed as an annual rate

Student Activity 3.3
Analyzing a Credit-Card Statement

Video Summary

Many people use credit cards wisely, finding them to be convenient and especially helpful in emergency situations. But as Video 3 points out, credit cards can fool you. When you use a credit card, you borrow money from the card issuer. You also commit yourself to repaying the money you borrow, according to terms that specify minimum payments and interest charges. People who run up big credit-card balances and make only minimum monthly payments may find themselves in debt over their heads.

Part 1: Debit Cards and Credit Cards

A. Debit Cards

Some people think that all those plastic cards in their wallets and purses are the same. They are not. For example, there are big differences between debit cards and credit cards.

Debit cards look like credit cards, but they work differently. Using a debit card is nearly the same as using cash. When you use a debit card, the charge for your purchase is immediately withdrawn, by electronic transfer, from your checking account. You do not receive a bill later. There is no loan involved, so you do not pay interest.

Debit cards provide a convenient way to pay for things. In using debit cards, however, you need to remember two points. First, you must keep track of the debit-card payments charged to your account. Many people record these payments immediately in their check register so they will not forget them. Second, there is no "grace period" as there is for people using a credit card. Payment is immediate and certain.

B. Credit Cards

Using a credit card really means you are borrowing money from the card issuer. When you buy something using a credit card, you promise to pay back the money you have borrowed plus a payment for interest and fees that may be due if you do not make repayment by a certain time.

Credit-card loans offer advantages. They are convenient and easy to use. They can be great in an emergency. And it's nearly impossible to travel without credit cards. But credit-card loans can pose serious problems. They come with relatively high interest rates. And some people borrow more against their credit cards than they should, given their income levels.

Here are some tips for using a credit card successfully:

- Have only one card.
- Close any credit card accounts you do not wish to use.
- Shred unused credit-card applications you receive in the mail.
- Pay off the monthly balance.
- Shop for a card with a low interest rate.
- Shop for a card with no annual fee or a low fee.
- Use your card for such things as travel and emergency purchases.
- Use credit-card records to keep track of your spending.
- Avoid using your credit card for minor purchases.

Questions for Discussion

A. What is a debit card?

B. What is a credit card?

C. What are three tips for using a credit card wisely?

Part 2: Reading a Credit-Card Statement

Many institutions offer credit cards—banks, department stores, savings and loan associations, credit unions, oil companies, finance companies, auto companies, telephone companies and even football teams. Typically, card holders can charge up to a certain amount on their accounts by buying goods and services or by withdrawing cash advances. A statement is mailed to the card holder each month showing the charges, the total amount owed, the minimum to be paid and the finance charge.

Most card issuers charge a fixed interest rate. Many also charge an annual fee for the card. Most offer a grace period (usually 30 days) that allows card users to avoid paying interest on the balance if the balance is paid in full within a stated time period.

Knowing how to read a credit-card statement is a useful skill. Here are a few things to look for when you read a credit-card statement:

- Line of credit: How much you can purchase using credit.

- Amount due: The minimum that must be paid on the account per monthly statement.

- Annual Percentage Rate (APR): The APR is a measure of how much credit costs you, expressed as an annual rate.

- Finance charges: The interest and other fees that might be assessed on the account.

The following is an example of a credit card statement for Joan Berelli, issued by Ralph's Pretty Good Department Store.

RALPH'S PRETTY GOOD DEPARTMENT STORE

JOAN BERELLI 1616 ELM STREET MIDDLETON, MA 02568		AMOUNT DUE THIS STATEMENT	$ 18.00
YOUR LINE OF CREDIT IS	$ 1000	NEW BALANCE	$ 372.21
YOUR AVAILABLE CREDIT IS	$ 638	AMOUNT PAID	$

Mo.	**Day**	**Reference**	**TRANSACTION DESCRIPTION**	**CHARGES**	**PAYMENTS & CREDITS**
			** FINANCE CHARGE ON AVERAGE DAILY BALANCE OF $363.52 IS	5.64	
03	24	9545	PAYMENT		18.00
03	29	0032	WOMENS WEAR 29 SWEATER 43	38.76	

	ON AVERAGE DAILY BALANCE OF:	**MONTHLY PERIODIC RATE**	**ANNUAL PERCENTAGE RATE**
FINANCE CHARGE RATE(S)	$.01 TO $33.00	MIN. FINANCE CHARGE $.50	
	$33.01 TO $500.00	1.5%	18%
	$500.01 AND ABOVE	1.25%	15%

use **ACCOUNT NO.** on correspondence	**BILLING DATE**	**PREVIOUS BALANCE**	**NEW BALANCE**	**MINIMUM PAYMENT**
K 7605 3821 F	APR 12 2005	345.81	372.21	18.00

To avoid a FINANCE CHARGE next month, pay the NEW BALANCE shown above within 30 days (28 days for February statements) from BILLING DATE. If you prefer to pay in installments pay the MINIMUM PAYMENT shown above, or more, within 30 days (28 days for February statements) from BILLING DATE. The sooner you pay and the more you pay, the smaller your FINANCE CHARGE.

Questions for Discussion

A. What is the finance charge for the current billing period?

B. What is the annual percentage rate if the unpaid balance is over $500? Less than $500?

C. What is the minimum payment due?

D. What is the total amount charged for purchases made during the previous month?

E. How much credit does Joan Berelli still have available?

F. What is the new balance?

G. How is the new balance determined?