

# CREDIT

## ACTIVITY 5



### Credit Cards

#### RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

#### OBJECTIVES

Participants will:

- Recognize the difference between private label and general use credit cards.
- Identify factors to consider when shopping for a credit card.
- Recognize some costs of credit.
- Describe precautions to take when having a credit card.
- Recognize steps to take after losing a credit card.
- Understand the impact of identity theft.

#### MATERIALS NEEDED

- Overhead projector and screen\*
- Overhead (or other appropriate) markers
- Overhead transparencies and handouts for the activity

#### ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

The wording in the delivery notes does not always mirror the wording on a transparency. Try to vary the dialogue, rather than reading transparencies verbatim.

This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

Credit is of great interest to everyone. Facilitators cannot be expected to know everything about credit. Be honest with all questions. If you do not know the answer to a question, be up front and explain, *"I do not know the answer to your question. However, I will find the answer and get back with you."* Be sure to write down the question and follow through when you commit to finding the answer.

Have samples of various credit cards to support the discussion. However, "practice what you preach." Be careful how you use cards in the demonstrations—be protective of them.

\* If an overhead projector isn't available, consider making photocopies of the overhead transparencies for handouts instead.

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## ACTIVITY 5 - DELIVERY NOTES



### Credit Cards

#### Presentation Opening

- Welcome the participants.
- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where participants can see and refer to it during the session. Some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

#### Activity Overview

Review the topics for discussion in this activity:

- Types of Credit Cards
- Shopping for a Credit Card
- Costs of Credit
- Safeguarding Credit Cards

Use **“Overhead 1: Types of Credit Cards”** to explain the difference between the two types of cards.

- Be prepared to cite local examples of department store cards and gas cards. Have specific examples of bank and major credit cards that your audience will know, such as MasterCard, Visa, Discover, and American Express.
- Consider the audience, and if appropriate, ask the participants to look at the credit cards in their wallets to determine whether they have the two kinds of credit cards.

Ask for a show of hands of who has a credit card. Ask the following questions:

- Why do you have a credit card?
- When did you decide to use a credit card?
- Has a credit card been good or bad for you? Why?
- How did you get a credit card?
- Would you recommend a credit card to others? Why?

Ask those who have credit cards to share the questions they asked the lender before accepting a credit card. Responses will vary, but research tells us that the majority of individuals never ask critical questions about the use of a credit card before accepting its use.

Use **“Overhead 2: Shopping for a Credit Card”** to illustrate some of the many topics that should be discussed before accepting a credit card. The definitions will be covered later in the activity. For now, ask for general

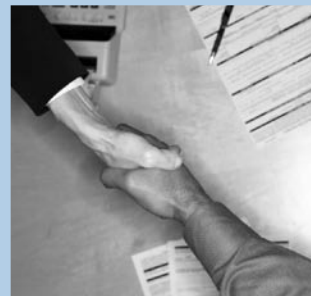
### Visual Aids

#### Overhead 1 Types of Credit Cards

#### Overhead 2 Shopping for a Credit Card

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## ACTIVITY 5 - DELIVERY NOTES



definitions from participants.

Distribute **“Handout 1: Questions to Ask When Shopping for a Credit Card”** to each participant.

- Define the terms and have participants determine what questions they should ask when shopping for a credit card.
- Encourage participation with this exercise, as it will be extremely helpful to all individuals who accept credit cards.
- Encourage participants to write their questions in the space provided and to use them as a reference if they shop for a credit card. Sample questions can include the following:
  - Annual Fee: How much is the annual fee and when is it charged?
  - APR: What is the APR and can it increase?
  - Minimum payment: When is it due?
  - Computation method: How is it calculated?
  - Grace period: Is there a grace period and how long is it?
  - Finance charges: When are they charged?
  - Card incentives: What are the restrictions on incentives?

Ask participants to share advice on how to keep credit cards safe. Even participants who do not have credit cards can provide advice.

While participants are thinking about getting a credit card, it's important that they also think about how they will pay for the items they purchase with a credit card. Distribute **“Handout 2: Costs of Credit”** to show participants how much an item could cost if they make only the minimum payments. Point out that “true cost” and time can be less than indicated in the chart if they make larger payments or pay the full balance; or the “true cost” and time can be greater if they miss payments.

Discuss default pricing as another cost of credit. Most credit card companies have what is called “default pricing”, the terms of which are disclosed in all credit card agreements. Default pricing goes into effect when a customer defaults on the agreement, for example, by failing to pay the minimum amount due by its due date. It can result in the credit card company raising the interest rate (or APR) on that customer's account. Failing to make at least minimum due payments on time can reflect negatively on one's credit score and can ultimately cost the customer more when using credit.

Encourage the students to always read credit agreements before signing them. If they have any questions, they should either ask the credit card company to clarify or ask someone they trust. And, as always, emphasize the importance of making timely payments.

### Visual Aids

#### Handout 1

Questions to Ask  
When Shopping for a  
Credit Card

#### Handout 2

Costs of Credit

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## ACTIVITY 5 - DELIVERY NOTES



Use **“Handout 3: Keeping Credit Cards Safe”** to talk about credit card safety.

- The handout includes room to add additional recommendations that participants provide.
- To emphasize this discussion, ask for a show of hands of participants who have lost or had their credit cards stolen.
- Encourage a few to share their experiences.
- Use the items on the handout to emphasize security precautions.

Introduce the topic of identity theft with **“Overhead 3: Protecting Against Identity Theft.”** Ask the following questions:

- What do you think of when you see the words “identity theft”?
- Has anyone been a victim of identity theft? If so, would they be willing to share their experience?
- What happens when identity theft occurs?

Responses may vary, but make sure participants understand that identity theft occurs when someone gains access to and uses another person’s **credit card numbers, Social Security Number, birth date, checking and savings account numbers, drivers’ license, automobile records,** and other important personal information for their own gain.

With such identifying information, people can open credit accounts, gain access to checking and savings accounts, make loans, and perform a multitude of other financial transactions.

Explain that identity theft has become a major problem in the U.S. Use **Overhead 3** to generate suggestions from participants about how individuals can protect against identity theft.

### **Closing**

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a “sneak preview” of any activity to come.

## Visual Aids

### **Handout 3**

Keeping Credit Cards Safe

### **Overhead 3**

Protecting Against Identity Theft

**CREDIT**  
**ACTIVITY 5 - OVERHEAD 1**



## **TYPES OF CREDIT CARDS**

### **Private Label**

- Issued by a single source.
- Can only be used at a single source.
- Examples: Department Stores, Gasoline Companies

### **General Label**

- Issued by a single source.
- Can be used in many places.
- Examples: Bank Card, Major Credit Card

**CREDIT**  
**ACTIVITY 5 - OVERHEAD 2**



**SHOPPING FOR A CREDIT CARD**  
**DECISIONS, DECISIONS...**

ANNUAL FEE?

APR?

COMPUTATION METHOD?

GRACE PERIOD?

FINANCE CHARGE?

CREDIT LIMIT?

CARD INCENTIVES?

# CREDIT

## ACTIVITY 5 - HANDOUT 1 - PG. 1



## QUESTIONS TO ASK WHEN SHOPPING FOR A CREDIT CARD

### **Annual Fee**

- Annual charge for using a particular credit card.
- Most common with general label credit cards.

*What question should you ask?*

### **APR (Annual Percentage Rate)**

- Annual cost of credit on a loan.
- May include up-front fees and other internal costs.
- Expressed as a percentage rather than a dollar amount.
- True gauge of the cost of borrowing.
- Truth in Lending law requires lender to tell the APR.

*What question should you ask?*

### **Minimum Payment**

- Amount of payment required by the account due date, usually billed monthly.

*What question should you ask?*

### **Computation Method**

- How finance charges are determined.
- Methods may include previous balance, average daily balance, or something similar.

*What question should you ask?*

# CREDIT

## ACTIVITY 5 - HANDOUT 1 - PG. 2



### **Grace Period**

- Period of time after purchase date when balance may be paid in full to avoid finance charges

*What question should you ask?*

### **Finance Charges**

- Dollar amount of interest paid on money borrowed, plus fees for arranging the loan.
- Also known as interest paid on unpaid balances.

*What question should you ask?*

### **Card Incentives**

- Special rewards when the card is used.
- Could be a refund of money, free tickets to special events, or rewards for use with hotels, airlines, restaurants, or purchases.

*What question should you ask?*

# CREDIT

## ACTIVITY 5 - HANDOUT 2



### COSTS OF CREDIT

How much can credit cost? If you make only the minimum payment for an item, here are some examples of what you might actually pay and how long it will take you to pay it.

Balance*	APR	First Month Payment	Interest Costs When Making Just the Minimum Payment	True Costs When Making Just the Minimum Payment on Time	Number of Years to Pay for the Item
\$500	15%	\$20	\$100	\$600	2.4
\$1,000	15%	\$22	\$552	\$1,552	6.3
\$2,500	15%	\$55	\$2,377	\$4,877	13.9

**\*Assumptions:**

1. No additional sales 2. Customer is paying minimum due only (assuming 2.5% of payment rate for interest calculation). 3. Payment is made on time. 4. Minimum is the positive amortization scenario, maximum of financial charge + late fee + 1% and \$20, with a floor of 1.5%.

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## ACTIVITY 5 - HANDOUT 3



### KEEPING CREDIT CARDS SAFE

#### ALWAYS

- Report a lost or stolen credit card immediately. Why?
- Check all statements against receipts. Why?

#### NEVER

- Lend your card to anyone. Why?
- Leave credit cards lying around. Why?
- Leave receipts lying around. Why?

**Are there other ways to safeguard credit cards?**

**If so, what are they?**

**CREDIT**  
**ACTIVITY 5 - OVERHEAD 3**



## **PROTECTING AGAINST IDENTITY THEFT**

**How would you protect the following things against identity theft?**

- Personal Identification Information
  - Social Security or Individual Taxpayer Identification Number (ITIN)
  - Driver's license number
  - Passport number
- Mail (both incoming and outgoing)
- Credit Cards
- Wallets and Purses
- Financial Records (mortgage papers, loan papers, etc.)