

Your 5-minute guide to credit scores

Name _____

Click on the following link, read the article, and answer the following questions.

http://www.citizensbank.com/moneyhelp/credit/articles/your_5_minute_guide_to_credit_scores.aspx

1. Your credit score is the most important three-digit number in your life. What does it affect?
2. How do banks and credit card companies use the score?
3. What 3 things can a high score lead to?
4. How do landlords use credit scores?
5. What does a score above 760 mean?
6. What does a score below 620 mean?
7. The three major credit-reporting agencies use software to rate your risk for assuming debt based on your credit history. What is the resulting score called?
8. What factors are the scores based upon?
9. What are the low range and high range of the FICO score?
10. You are legally entitled to one free credit report each year from each of the three credit reporting agencies. Which website can you use to order a free report?

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11. Why shouldn't you apply for lots of credit cards?

12. Why shouldn't you cancel multiple credit cards?

13. What is the No. 1 way to raise your credit score?

14. How much can one late payment affect your score?

15. How long can late payments remain on your credit report?

16. If you find an error in your credit report, ask the creditor to correct it. What should you send to the credit bureau?

Council

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UNDERSTANDING A CREDIT CARD

GRADE LEVEL 10-12



“TAKE CHARGE OF YOUR FINANCES”

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Time to complete: 100 minutes

NATIONAL CONTENT STANDARDS

Family and Consumer Science Standards: 1.2.4, 2.1.1, 2.1.2, 2.3.1, 2.3.3, 2.4.3, 2.5.1, 2.5.3, 2.5.4, 2.6.1, 2.6.2, 3.2.5, 3.2.7, 3.3.2, 3.3.3, 3.5.2, 3.5.3, 3.5.6

National Council on Economic Education Teaching Standards: 6

National Standards for Business Education

- Career Development:
- Economics: I.1, I.2, I.3, II.1, IV.1, IV.2, VI.1, VI.4
- Personal Finance: VII.1, VII.2, VII.3-4

OBJECTIVES

Upon completion of this lesson, participants will be able to:

- Define credit card terminology.
- Assess the advantages and disadvantages of using a credit card.
- Interpret the impact credit has on an individual's credit history and credit score.
- Analyze a credit card offer.
- Explain the credit card application and approval process.
- Analyze a credit card statement.
- Understand the protections and rights available to credit card holders.
- Review safety tips when using credit cards.

INTRODUCTION

*Twenty-one year old Jenny felt rich when she received her first credit card during her junior year of college. She charged \$2,500, her credit limit, the first month. Every month after that, she was careful about paying on time, but only sent in the minimum monthly payment, \$50.00. With an interest rate of 19.8%, even though she never charged another item, it will take her **8 years and 9 months** to pay off her account. When her account has a zero balance, she will have paid a total of \$5,325.18. Therefore, she will have paid \$2,825.18 in interest.*

Credit is derived from the Latin word “credo” meaning “I believe.” **Credit** is when goods, services, or money is received in exchange for a promise to pay a definite sum of money at a future date. The lender “trusts” the borrower to repay the money. A **lender** is the person or organization who has the resources to provide the individual with a loan. A **borrower** is the person or organization that is receiving the money from the lender. When the privilege of borrowing has been extended, the borrower is usually expected to pay interest in addition to the amount borrowed. **Interest** is the price of money. When referring to credit, interest is the charge for borrowing money.

Types of Credit:

There are two types of installment credit: open-end (revolving) credit and closed-end credit.

Closed-end credit is a loan which the borrower must repay the amount in a specified number of equal payments. Closed-end credit usually has an agreement (contract) which must be signed outlining the repayment terms. Generally, the contract specifies the number of payments, the payment amount, and how much the credit will cost (interest rate or fees). Sometimes, closed-end installment credit requires a down payment. Examples of closed-end installment credit include automobile loans, mortgages, and education loans.

Open-end (revolving) credit is extended as a line of credit established in advance so that the borrower does not have to apply for credit each time new credit is desired. Common examples of open-end credit are credit cards, both general purpose cards (e.g., Visa, MasterCard, Discover and American Express) and retail store credit cards. A **credit card** is pre-approved credit which can be used for the purchase of goods and services now and payment of them later. In the case of credit cards, individuals may continue to borrow as long as they do not exceed the **credit limit**, which is the maximum dollar amount that can be charged on the card. The amount of the credit limit varies based upon an individual's perceived **creditworthiness**; their ability and willingness to pay the money back. A unique feature of revolving credit is that the loan balance can be repaid in one single payment or a series of equal or unequal payments, usually monthly. The borrower chooses how much to pay each month. However, the lender usually requires that a borrower pay at least a specified minimum amount each month. When a cardholder decides to make a monthly payment less than the total balance on the card, then the remaining unpaid balance is "revolved" to the next month.

Credit Card Interest and Interest Rates:

Credit card interest is charged to the account each month that the balance is not paid in full. The longer the cardholder takes to pay off the total balance, the larger the total interest charges will be. The rate at which interest is charged on a credit card account each month is usually expressed in terms of the annual percentage rate (APR).

Annual percentage rate (APR) is the cost of credit expressed as a yearly interest rate.¹¹

Credit card companies require cardholders to make at least a minimum monthly payment each month. But, that minimum required payment is usually only a small percentage (2.5 – 5%) of the total balance, enough to cover the interest charge for that month but not much more. Consequently, a cardholder who only makes the minimum payment each month makes slow progress toward paying off the total balance on the card. The table below illustrates how making only the minimum payment can make the final amount an individual must pay substantially higher than the amount that was initially charged to the credit card. In these two examples, there was a one-time charge and the individual paid only the minimum payment each month until the credit card was paid in full.⁸

Amount charged to credit card in one purchase	APR	Minimum payment	Time to pay off the credit card	Total amount paid in interest	Total amount paid
\$2,000	18%	\$50.00	62 months	\$1,077.25	\$3,077.25
\$500	12%	\$25.00	23 months	\$60.67	\$560.67

Advantages vs. Disadvantages to Using a Credit Card:

When used properly, credit cards offer a variety of consumer benefits. However, if a consumer uses a credit card irresponsibly, it can have many disadvantages as well.

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Convenient payment tool ▪ Useful for emergencies 	<ul style="list-style-type: none"> ▪ Interest can be costly when a balance is revolved ▪ Additional penalty fees may apply

<ul style="list-style-type: none"> ▪ Often required to hold a reservation ▪ Able to purchase “big ticket” items and spread out payments ▪ Protection against fraud ▪ Opportunity to establish a positive credit history ▪ Online shopping is safer than using a debit card because of the Fair Credit Billing Act protection ▪ Possibility of receiving bonuses, such as frequent flyer miles or cash rebates 	<ul style="list-style-type: none"> ▪ Tempting to overspend ▪ Risk of identity theft ▪ Responsible for lost/stolen cards ▪ Applying for multiple accounts in a short period of time can lower your credit score
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NOTE: It is important to note the difference between a credit card and a debit card. A **debit card** is a plastic card which looks like a credit card, but is electronically connected to the cardholder’s bank account. When a debit card is used to make a purchase the money is immediately withdrawn from the cardholder’s checking account. In contrast, a credit card transaction is not linked to the cardholder’s checking account. The cardholder receives monthly billing statements from the credit card company.

Impact of Credit Cards on a Consumer’s Credit History and Credit Score:

When a credit card is used properly, it can help consumers develop a positive credit history and therefore, earn a high credit score. A **credit report** is a record of a consumer’s credit history that includes information about credit card use as well as the use of other types of credit, such as auto loans, student loans and mortgage loans. If an individual has not used credit, they will not have any information in their credit report. Not having a credit report can cause an individual to be denied credit. A **credit score** is a number that summarizes an individual’s credit record and history.¹¹ It is a numeric “grade” of a consumer’s financial reliability. By using a credit card properly, consumers help increase their credit score. A high credit score gives the consumer the opportunity to have lower interest rates on loans, the privilege to use different forms of credit, and an easier approval process for future credit. However, if a consumer does not use credit cards properly, he/she can develop a negative credit history and lower his/her credit score. In some cases, improper credit card use can prevent individuals from qualifying for loans later in life including a mortgage to buy a home. In addition, consumers with low credit scores have difficulty renting apartments, pay higher interest rates, pay higher insurance rates, and have difficulty obtaining a job.

The following table outlines positive and negative credit card behaviors.

Positive	Negative
<ul style="list-style-type: none"> • Paying credit card balances in full every month • Paying credit card bills on time • Applying only for credit cards that are needed • Keeping track of all charges by keeping receipts and using a check register in the same manner that individuals keep track of personal checks or debit card transactions • Checking the monthly credit card statement for errors 	<ul style="list-style-type: none"> • Making late credit card payments. (This may trigger penalty fees, a higher penalty interest rate, and will hurt the credit score) • Paying only the minimum payment • Exceeding the card’s credit limit (usually triggers a penalty fee) • Charging items that can’t be paid off immediately • Owning too many credit cards

Comparison Shopping for a Credit Card:

Just as consumers shop around for the best deal on products they wish to purchase, comparison shopping for a credit card is essential. The terms and conditions of a credit card account can make a difference in how much consumers

pay for the privilege of borrowing. Credit card features vary widely and by knowing the facts, an informed customer will not be surprised by costs which may be incurred.

Understanding Your Credit Card Offer:

Credit card issuers are required to disclose the terms and fees of credit cards in an easy to read box format on all credit card applications and solicitations. The **Schumer box** (named after the U.S. senator who led the legislation through Congress) displays the main costs of the credit card.² The following table is an example of a credit card offer with each term defined below. The Federal Reserve Board website has the following credit card offer in an interactive format: <http://www.federalreserve.gov/creditcard/flash/offerflash.html>.¹²

CREDIT CARD OFFER EXAMPLE ¹²		What This Means For You
Interest Rates and Interest Charges		
Annual Percentage Rate (APR) for Purchases	<p>12.99%, 13.99% or 14.99%, introductory APR for one year, based on your creditworthiness</p> <p>After that, your APR will be 14.99%. This is a variable-rate APR that will vary with the market based on the Prime Rate.</p>	<p>This section discloses the interest paid for purchases on the card. The APR is the amount of money paid, on an annual basis, if balances on purchases are carried from one billing cycle to the next. Some credit cards have an introductory rate, which is the APR charged during the credit card's introductory period after a credit card account is opened. The card will have a different APR after the introductory period ends. If the card has an introductory rate, the introductory rate along with the rate that applies after the introductory rate ends will be shown here. Multiple interest rates may be listed here, because final interest rate may depend on the creditworthiness of the applicant. Some cards will have a variable-rate APR, which is an APR that may change depending on other factors, such as the prime rate. The prime rate is an index that represents the interest rate most banks charge their most credit-worthy customers.</p>
APR for Balance Transfers	<p>15.99%</p> <ul style="list-style-type: none"> This APR will vary with the market based on the Prime Rate 	<p>This section discloses the interest paid for balance transfers, which is the act of transferring debt from one credit card account to another. Balance transfer fees may apply, even if the balance transfer APR is 0%. If there is an introductory rate for balance transfers, cardholders should pay attention to when that rate ends and what the new rate will be.</p>
APR for Cash Advances	<p>21.99%</p> <ul style="list-style-type: none"> This APR will vary with the market based on the Prime Rate 	<p>This section discloses the interest paid for cash advances, such as withdrawing cash from an ATM using a credit card. Cash advance fees may also apply.</p>
Penalty APR and When it Applies	<p>28.99%</p> <p>This APR may be applied to your account if you:</p> <ol style="list-style-type: none"> Make a late payment; 	<p>Penalty APR is the interest rate charged on new transactions if the penalty terms in the credit card contract are triggered. Penalty APR is almost always higher than the APR for purchases. This</p>

	<ol style="list-style-type: none"> 2. Go over your credit limit; 3. Make a payment that is returned; or 4. Do any of the above on another account that you have with us. <p>How long will the Penalty APR apply? If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.</p>	<p>section discloses the penalty APR, as well as the penalty terms that trigger the penalty APR to take effect.</p>
<p>How to Avoid Paying Interest on Purchases</p>	<p>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.</p>	<p>This section explains how you can avoid interest charges on purchases by paying your bill in full by the due date.</p>
<p>Minimum Interest Charge</p>	<p>If you are charged interest, the charge will be no less than \$1.50.</p>	<p>Credit card companies often have a minimum interest amount. These charges typically range from \$0.50 to \$2 per month and are disclosed in this section of the credit card offer. If the minimum interest charge is \$1 or less, the company does not need to disclose this charge here.</p>
<p>For Credit Card Tips from the Federal Reserve Board</p>	<p>To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard</p>	
Fees		What This Means For You
<p>Set-up and Maintenance Fees</p>	<p>NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of \$250, your initial available credit will be only about \$209.</p> <ul style="list-style-type: none"> • Annual Fee: \$20 • Account Set-up Fee: \$20 (one-time fee) • Participation Fee: \$12 annually (\$1 per month) • Additional Card Fee: \$5 annually (if applicable) 	<p>This section discloses any set-up and maintenance fees for the card, which can include:</p> <ol style="list-style-type: none"> 1. Annual Fee- A yearly fee that may be charged for having a credit card. 2. Account Set-up Fee- Usually a one-time fee for opening and setting up the account. 3. Participation Fee- Usually a monthly fee charged for having a credit card. 4. Additional Card Fee- This is usually a one-time fee for having a second card on an account.
<p>Transaction Fees</p>	<ul style="list-style-type: none"> • Balance Transfer: Either \$5 or 3% of the amount of each transfer, whichever is greater (maximum fee: \$100) 	<p>This section discloses any transaction fees for the card, which can include balance transfer fees, cash advance fees, and foreign transaction fees.</p>

	<ul style="list-style-type: none"> • 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 	
<p>Penalty Fees</p>	<ul style="list-style-type: none"> • Late Payment: \$29 if balance is less than or equal to \$1000 OR \$35 if balance is more than \$1000 • Over-the-limit: \$29 • Returned Payment: \$35 	<p>This section discloses the penalty fees for the card, which can include late-payment, over-the-limit, and returned payment fees.</p> <ol style="list-style-type: none"> 1. A late payment fee is charged when a cardholder does not make the minimum monthly payment by the due date. Some companies may charge different late payment fees depending on the balance, but usually the higher the balance, the higher the late fee will be. 2. An over-the-limit fee is charged if the account balance goes over the set credit limit. The cardholder will not be charged this fee unless he/she has authorized the credit card company to permit transactions that exceed the credit limit. 3. A returned payment fee may be charged if the cardholder makes a payment but does not have enough money in that account to cover the payment. This is very similar to a bounced check fee and can happen whether payment is made with a check or direct withdrawal.

* How We Will Calculate Your Balance: We use a method called “average daily balance (including new purchases).”

Credit card companies can use one of several methods to calculate the outstanding balance on a credit card. The method used can make a big difference in the interest charges paid by the cardholder. The four balance calculation methods are: adjusted balance, average daily balance including new purchases, average daily balance excluding new purchases, and previous balance. Depending on the balance you carry over and the timing of your purchases and payments, you’ll usually have a lower finance charge with the adjusted balance method, the average daily balance excluding new purchases method, or the previous balance method.

* Loss of Introductory APR- We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill

If the card has an introductory rate, this area will list how the lower introductory rate can be lost. For the first year after opening an account, introductory rates can only be lost if the account becomes more than 60 days past due.

In addition to the Schumer box, consumers should also research benefits they can receive from the credit card when comparison shopping. Credit card companies compete against one another to earn business by offering different benefits to individuals. Popular incentives may include cash rebates, warranties for items purchased with the card, or travel accident insurance.¹ Some credit cards may offer products and services, such as frequent flyer miles; the amount of products and services received depends upon how much money is charged to the card.¹ Cardholders and applicants should know all the terms and conditions regarding credit card benefits. Some credit cards that offer extra benefits may also charge fees or higher interest rates to use the card. It is important to evaluate possible fees and rates to determine if the benefits outweigh the costs.

Receiving a Credit Card:

The first step to receiving a credit card is to compare different credit card offers and determine which card to apply for. Once the best card is chosen, applicants must complete a **credit application**, a form requesting information about a person's ability to repay and the applicant's age. Credit card applications can be completed through the mail, the internet, or over the phone. Most credit card companies have a credit card application on their website that can be submitted online or printed and mailed. Credit card companies also send their applications through the mail to potential applicants. Often, consumers will receive pre-approved credit card applications in the mail. If an individual is **pre approved** for that particular card, it means that they have passed the initial credit check. Once an individual completes a credit application, lenders conduct a **credit investigation**, which is a comparison of information on a credit application to information on a credit report, to insure all information is correct. Credit card applicants may or may not be approved for the credit card they apply for. Approval depends on the applicant's credit history.

Understanding a Credit Card Statement:

Credit card statements outline important information about the card, including transactions the cardholder has made during that billing cycle, the current balance on the credit card, the minimum payment due, and the payment due date. The 2009 Card Accountability Responsibility and Disclosure (CARD) Act created important requirements for credit card issuers to follow in regards to credit card statements. Credit card statements are required to include specific information about a credit card account. In order for consumers to use credit cards in a responsible manner, they need to understand how to read and evaluate their credit card statements. The information included on a credit card statement is explained below. The numbers in the statement correspond to the explanations below. The Federal Reserve Board website has the following credit card offer in an interactive format: <http://www.federalreserve.gov/creditcard/flash/readingyourbill.html>

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CREDIT CARD STATEMENT

Summary of Account Activity	
Previous Balance	535.07
Payments	-450.00
Purchases	+529.57
Balance Transfers	+785.00
Cash Advances	+318.00
Past Due Amount	+0.00
Fees Charged	+69.45
Interest Charged	+10.89
New Balance	\$1,784.53
Credit Limit	\$2,000.00
Available credit	\$215.47
Statement closing date	3/22/2012
Days in billing cycle	30

Payment Information	
New Balance	\$1784.53
Minimum Payment Due	\$53.00
Payment Due Date	4/20/12
Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APR's may be increased up to the	
Penalty rate of 28.99%	
Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example...	

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	10 years	\$3,284
\$62	3 years	\$2,232

Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:
Transactions made on or after 4/9/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.
Transactions made before 4/9/12: Current rates will continue to apply to these transactions. If you become more than 60 days late on your account, the Penalty APR will apply to those transactions as well.

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement. These changes will impact your account as follows:
Transactions made on or after 4/9/12: As of 5/10/12, any changes to APR's described below will apply to these transactions.
Transactions made before 4/9/12: Current APRs will continue to apply to these transactions.

Revised Terms, as of 5/10/12	
APR for Purchases	16.99%

Transactions				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
XXXX1	2/22	2/23	Store #1	\$529.57
XXXX2	2/25	2/26	Payment	\$450.00 -
XXXX3	2/26	2/26	Cash Advance	\$318.00
XXXX4	3/15	3/17	Balance Transfer	\$785.00
Fees				
XXXX5	2/23	2/23	Late Fee	\$35.00
XXXX6	2/27	2/27	Balance Transfer Fee	\$23.55
XXXX7	2/28	2/28	Cash Advance Fee	\$10.90
Total Fees for this Period				\$69.45
Interest Charged				
Interest Charge on Purchases				\$6.31
Interest Charge on Cash Advances				\$4.58
Total Interest for this Period				\$10.89
2012 Totals Year-to-Date				
Total fees charged in 2012			\$90.14	
Total interest charged in 2012			\$18.27	

Interest Charge Calculation			
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99%	\$512.14	\$6.31
Cash Advances	21.99%	\$253.50	\$4.58
Balance Transfers	0.00%	\$637.50	\$0.00

1. **Summary of Account Activity-** Credit card statements must include a summary of the transactions on the account- payments, credits, purchases, balance transfers, cash advances, fees, interest charges, and amounts past due. The summary of account activity will also show the new balance, available credit (credit limit minus the amount owed), and the last day of the billing period (payments or charges after this day will show up on the next bill).
2. **Payment Information-** The total new balance, the minimum payment amount, and the date payment is due is included in the payment information. A payment is considered on time if received by 5 p.m. on the day it is due.
3. **Late Payment Warning-** The late payment warning states any additional fees and the higher interest rate that may be charged if a payment is late.
4. **Minimum Payment Warning-** A minimum payment warning includes an estimate of how long it can take to pay off a credit card balance if only the minimum payment is made each month, and an estimate of the total amount paid, including interest, if the bill is paid in three years (assuming no additional charges are made).
5. **Notice of changes to your interest rates-** If a cardholder triggers the Penalty APR, the credit card issuer must notify them on their statement that their rates will be increasing.
6. **Other changes to your account terms-** Cardholders must be notified of any raise in rates or fees or any other significant changes to the account on their statement.
7. **Transactions-** A list of all the transactions that have occurred since the last statement (purchases, payments, credits, cash advances, and balance transfers). This section should be carefully reviewed by the cardholder to ensure there are no unauthorized charges or errors.
8. **Fees and Interest Charges-** Credit card issuers must list the fees and interest charges separately on the monthly statement. Interest charges must be listed by type of transaction (for example, a cardholder may be charged a different interest rate for purchases than for cash advances).
9. **Year-to-date Totals-** The total amount paid in fees and interest charges for the current year.
10. **Interest Charge Calculation-** A summary of the interest rates on the different types of transactions, account balances, the amount of each, and the interest charged for each type of transaction.

Cardholder Protections and Rights

The Truth in Lending Act limits a person's liability for unauthorized credit card charges to \$50.00 per card. To take advantage of this law, a person must write a letter within 60 days of the first bill containing the error. If an individual's card has been stolen, it should be reported and canceled immediately. If an individual's credit card number is used fraudulently, but the credit card itself is not used, the individual has no personal liability.

The 2009 CARD Act created many new credit card protections for consumers.¹¹ Some of these protections include:

1. To receive a credit card, consumers must be 21 years of age or older. Consumers under 21 can still get a credit card, but they need to either have a co-signer or show documentation of sufficient income to make payments. If someone agrees to be a co-signer on an account, they are equally responsible for the loan. Therefore, the loan is also on their credit report, positively or negatively impacting it depending upon how the credit is managed.
2. Credit card interest rates on existing balances generally can't be raised unless a cardholder is 60 days or more past due.
3. Issuers are required to send a monthly statement at least 21 days before a credit card payment is due.
4. Credit card payment due dates must be consistent month to month.
5. Credit card companies cannot increase rates for the first 12 months after an account is open. There are some exceptions which allow an earlier adjustment of the interest rate, including:
 - a. If the card has a variable interest rate
 - b. If the cardholder is more than 60 days late in paying their bill, the rate can go up.

- c. If the card has an introductory rate, it must be in place for at least 6 months and then it can revert to the previously disclosed purchase APR
6. Cardholders must be notified of any significant changes in rates and fees at least 45 days before the changes take effect. In addition, any changes made to an account can only apply to future transactions (new charges) and the consumer has the option of closing the account before the changes go into effect.
7. Some set-up and maintenance fees are charged before the card is used and may reduce the amount of credit initially available. These non-penalty fees cannot exceed 25% of the initial credit limit. For example, if a credit card has a credit limit of \$1,000 the total fees for the first year (not including penalty fees) cannot exceed \$250.
8. Cardholders now have to “opt-in” to allowing transactions that take them over their credit limit. Otherwise, overt-the-limit transactions are denied. If a cardholder “opts-in” to allowing over-the-limit transactions, the credit card company can impose only one over-the-limit penalty fee per billing cycle.

Credit Card Safety Tips:

When using a credit card, sign the back with a signature and “Please See I.D.” A signature on the back of a credit card is required as part of the contract that an individual agrees to when they originally signed up for the credit card.⁵ The “Please see I.D.” will alert the merchant to check the identification of the consumer and compare it to the name and signature on the card.

Do not leave cards lying around the home or office. Close unwanted accounts in writing and by phone, then cut up the card. Never give out the account number unless making purchases. Keep a list of all cards, account numbers, and phone numbers separate from cards.

A lost or stolen credit card should always be reported immediately. Promptly reporting a lost or stolen credit card will reduce the cardholder’s liability for any fraudulent purchases.

Online shopping is becoming increasingly popular. If this is something that is often done, consider using a temporary credit card number. A set amount will be charged to your credit card. Then, a number will be given to you to do your shopping. This card is a one-time use only number. This will decrease the threat of an individual’s credit card number getting into the hands of the wrong individual. If you choose to not use a temporary card number the second best solution is to pay for purchases using a credit card. If products are not delivered or if an incorrect product is delivered, the consumer is responsible for only the first \$50 of the purchase. The remaining portion of the charge will be removed from the consumer’s account. Billing disputes are covered by the Fair Credit Billing Act.

NOTE: Here is another example of an important difference between using a credit card and a debit card to pay for a transaction. If a debit card is used online without the owner’s authorization it does not have the same protection. The liability for a debit card amount increases rapidly depending on how quickly the fraudulent action is reported.

Managing credit cards online will decrease the paper trail. But, many banks and credit card companies keep old statements archived on their website. This will help if there are any discrepancies.

If a pre approved credit card, application, or solicitation is delivered to an individual, it is a safe practice to use a paper shredder to destroy the documents. This will help protect individuals from identity theft.

In this lesson, participants will read an information sheet and review a PowerPoint presentation to learn about credit cards, how to select them, and safety tips. During the PowerPoint presentation, they will complete a worksheet. They will then have the opportunity to compare three credit card offers and write a short essay on which offer they feel is the best and why. In addition, participants will participate in an activity to reinforce credit card definitions.

BODY

Home Discussion: Part 1 Activity: Prior planning will be required to complete this activity.

1. A few days before the *Understanding Your Credit Card* 1.4.1 lesson is taught, provide each participant with a *Home Discussion: Part 1* handout.
2. Instruct participants to take the *Home Discussion: Part* handout 1 1.4.1.A4 home and complete the questions with a parent, guardian, or other adult family member.
3. Explain to participants that they do not need to use any references to complete the handout. They should discuss each answer with their family member and answer the questions using only the prior knowledge of both the participant and the family member.
4. Explain to participants that after they have completed the *Understanding Your Credit Card* 1.4.1 lesson in class, they will have a chance to take the *Home Discussion: Part 1* handout 1 1.4.1.A4 home again and discuss the answers with a family member.
5. Explain to participants that a name, signature, and phone number from the adult family member that helped answer the questions is required on the *Home Discussion: Part 1* handout 1 1.4.1.A4.

Anticipatory Set Option 1: This anticipatory set will take approximately 5 minutes.

1. Show participants a quick video clip (1:35) about college students' knowledge of credit cards.
 - a. <http://www.creditcards.com/credit-card-news/video-credit-card-basics-1264.php> Discuss with participants the following questions:
 - i. Do you think the students in the video have credit cards?
 1. According to a 2009 study by Sallie Mae, 84% of undergraduate college students have at least one credit card.¹²
 - ii. Is it essential to understand the basic credit card terms before receiving a credit card?
 1. The same 2009 Sallie Mae survey found that 84% of undergraduate students polled felt they needed more financial management education.¹²
 - iii. Do you think a lack of credit card knowledge leads to credit card misuse?
 1. College students have an average credit card balance of \$3,173.¹²
 2. Undergraduate college students graduate with an average of \$4,100 in debt.¹²
 - iv. Explain to participants that under the 2009 Card Accountability Responsibility and Disclosure (CARD) Act, consumers under 21 are not able to obtain a credit card unless they have a co-signer or proof of income. Do you think this will reduce credit card misuse among people under 21? Do you think this will help them manage credit cards later on in their life?

Anticipatory Set Option 2: This anticipatory set will take approximately 15 minutes.

2. Play a song for participants that relates to credit cards and/or overspending.
 - a. A list of possible songs include:
 - i. "Ka-Ching" - Shania Twain
 - ii. "Money for Nothing" - Dire Straits
 - iii. "Can't always get what you want" - Rolling Stones
 - iv. "If the Devil Danced In Empty Pockets" - Joe Diffie
 - v. "Material Girl" - Madonna
 - vi. "Money" - Flying Lizards
 - vii. "Money's too tight to mention" - Simply Red
 - viii. "If I had a million dollars" - Barenaked Ladies
 - ix. "Money, money, money" - ABBA
 - x. **Note to educator:* Music videos for each of the songs listed above are available on <https://www.youtube.com/>
3. While the song is playing, ask participants to analyze the lyrics.
4. When the song is over, instruct participants to write a paragraph answering the following questions:

- a. What do you believe is the overall meaning or purpose of the song?
 - b. What do the lyrics of the song mean to you?
 - c. How do you believe the lyrics relate to our current society?
 - d. **Note to educator:* It may be necessary to play the song more than once. The educator could also choose to give participants a handout with the lyrics.
5. Once participants complete their paragraphs, discuss their answers as a class.

Vocabulary reinforcement: This lesson has a significant amount of vocabulary. Awareness may need to be created in advance of instruction and then reinforced throughout. If participants have a strong background in the concept of credit and credit cards, this activity may not be needed.

6. Pass out a *Credit Card Offer Scavenger Hunt* handout 1.4.1.A6, a *Sample Credit Card Offer 1* handout 1.4.1.E1, and a highlighter to each participant.
7. The *Credit Card Offer Scavenger Hunt* handout 1.4.1.A6 includes a table of vocabulary words. Instruct participants to find and highlight each of the vocabulary words on the *Sample Credit Card Offer 1* handout 1.4.1.E1.
8. Once all vocabulary words have been highlighted, instruct participants to choose eight of the highlighted words that they are not familiar with and record them in the first column of the table on the *Credit Card Offer Scavenger Hunt* handout 1.4.1.A6.
9. Pass out an *Understanding Your Credit Card* information sheet 1.4.1.F1 to each participant.
10. Instruct participants to use their *Understanding Your Credit Card* information sheets 1.4.1.F1 to find and record the definition of each of the eight vocabulary words in the second column of the table.
11. After the definitions are complete, instruct participants to use the third column of the table to explain how the words relate to one another in the credit card offer provided.
12. Instruct participants to use the blank space provided to create a graphic organizer that illustrates the relationship of each of the eight chosen vocabulary words.
 - a. The *Credit Card Offer Graphic Organizer* handout 1.4.1.E4 is provided as a sample.

Lesson instruction:

13. Hand out one *Understanding a Credit Card* note taking guide 1.4.1.L1 to each participant to complete during the *Understanding a Credit Card* PowerPoint presentation 1.4.1.G1.
14. Present the *Understanding a Credit Card* PowerPoint presentation 1.4.1.G1.
 - a. Slide 1 – Understanding Your Credit Card
 - b. Slide 2 – Credit
 - i. Review the definition of interest and credit.
 - c. Slide 3- Lender and Borrower
 - i. Review the definition of lender and borrower.
 - d. Slide 4 – Closed-end vs. Open-end Credit
 - i. Discuss the definition and purpose of closed-end and open-end credit.
 - e. Slide 5- Closed-end vs. Open-end Credit
 - i. Discuss the difference in payments and loan amounts for closed-end and open-end credit.
 - ii. Explain that credit cards are a form of open-end credit.
 - f. Slide 6: Credit Card
 - i. Ask participants to share their answers to question 1 on the *Home Discussion: Part 1* activity 1.4.1.A4.
 - ii. Discuss the correct definition of credit card.
 - iii. Discuss the definitions of credit limit and creditworthiness.
 - g. Slide 7: Credit Card Interest
 - i. Explain to participants that interest is charged on a credit card every month the balance is not paid in full.

- ii. Ask participants what the definition of APR is.
- iii. Discuss the correct definition of APR.
- h. Slide 8: Minimum Payments
 - i. Explain to participants that no matter how much money is charged to a credit card, a minimum payment is required every month.
 - 1. The minimum payment is usually a small percentage of the total balance due.
 - ii. Ask participants what they believe would happen if only the minimum payment was made on a credit card every month.
- i. Slide 9: Minimum Payments
 - i. Show the table as an example of how much interest is paid when only the minimum payment is paid.
 - ii. Identify that this chart assumes that the amount charged was a one-time payment with no additional money charged and only the minimum monthly payments were made.
 - iii. Make sure to point out the amount of interest paid.
- j. Slide 10: Advantages to Using Credit Cards
 - i. Ask participants to share some of the advantages of credit cards they recorded on their *Home Discussion: Part 1* assignment 1.4.1.A4, question 2.
 - 1. Record these items on the board.
 - ii. Instruct participants to brainstorm additional advantages of a credit card.
 - 1. Record these items on the board.
 - iii. Add to the list of ideas from the PowerPoint presentation 1.4.1.G1.
- k. Slide 11 – Disadvantages to Using Credit Cards
 - i. Ask participants to share some of the disadvantages of credit cards they recorded on their *Home Discussion: Part 1* assignment 1.4.1.A4, question 3.
 - 1. Record these items on the board.
 - ii. Instruct participants to brainstorm additional disadvantages of a credit card.
 - 1. Record these items on the board.
 - iii. Add to the list of ideas from the PowerPoint presentation 1.4.1.G1.
- l. Slide 12– Debit Card
 - i. Ask participants to share their answers to question 4 on the *Home Discussion: Part 1* activity 1.4.1.A4.
 - ii. Discuss the difference between a credit card and debit card.
 - 1. A debit card is linked to a consumer's bank account, where as items purchased with a credit card are bought on credit and paid for at a later date.
- m. Slide 13– Credit History
 - i. Ask participants to share their answers to question 5 on the *Home Discussion: Part 1* handout 1.4.1.A4.
 - ii. Explain to participants that credit cards can have a positive or negative impact on an individual's credit history, depending on how the card is managed and used.
 - iii. Explain the definitions of credit report and credit score.
- n. Slide 14: Positive Credit Card Use
 - i. Ask participants what happens when an individual uses credit cards properly.
 - ii. Discuss how proper credit card use leads to developing a positive credit history and high credit score.
- o. Slide 15: Positive Credit Card Use
 - i. Ask participants to brainstorm positive uses of credit cards.
 - ii. Add to the list of ideas from the PowerPoint presentation.
- p. Slide 16: Negative Credit Card Use
 - i. Ask participants what happens when an individual uses credit cards improperly.

- ii. Discuss how improper credit card use leads to developing a negative credit history and low credit score.
- q. Slide 17: Negative Credit Card Use
 - i. Ask participants to brainstorm positive uses of credit cards.
 - ii. Add to the list of ideas from the PowerPoint presentation.
- r. Slide 18: No Credit
 - i. Explain to participants that having no credit can cause an individual to be denied credit as well.
- s. Slide 19: Credit Card Offers
 - i. Explain to participants that credit card companies are required to disclose information regarding a credit card in the Schumer box.
- j. Slides 20-33 – Credit Card Offer
 - ii. Instruct participants to refer to the *Sample Credit Card Offer 1* handout 1.4.1.E1 that was used in the vocabulary reinforcement activity at the beginning of the lesson.
 - 1. *Note to educator:* If the vocabulary reinforcement activity was not completed at the beginning of the lesson, then hand out a *Sample Credit Card Offer 1* handout 1.4.1.E1 to each participant.
 - iii. Review the parts of the Schumer box and the terminology for each section.
 - 1. As each section is discussed, instruct participants to find that section on their *Sample Credit Card Offer 1* handout 1.4.1.E1.
 - 2. As each question is presented, instruct participants to find the correct answer on their *Sample Credit Card Offer 1* handout 1.4.1.E1.
 - iv. *Note to educator:* The Federal Reserve website includes the same credit card offer in an interactive form that can be used in replace of slides 21-34 in the *Understanding Your Credit Card* PowerPoint 1.4.1.G1. However, the questions prompted in the *Understanding Your Credit Card* PowerPoint are not provided on the Federal Reserve’s credit card offer.
 - 1. <http://www.federalreserve.gov/creditcard/flash/offerflash.html>
 - 2. *Note to educator:* The credit card offer is also available in a downloadable PDF form.
- t. Slide 34-35- Credit Card Chaos
 - i. *Note to educator:* Preparation for this activity is needed. Print off the *Credit Card Chaos* activity pieces 1.4.1.H1 and hang them around the room in various locations. The credit card applications in this lesson *Sample Credit Card Offer 1, 2, and 3*, 1.4.1.E1-E3 may be used or ones the educator or other community members receive will also work. If using personal credit card offers, be sure to mask all personal identifying information with a black permanent marker or other method. Evenly distribute one credit card application to each participant. Reference the *Credit Card Chaos Activity* answer key 1.4.1.K2
 - ii. For each set of terms ask participants to locate one sign that is true about their credit card application and move to that particular sign.
 - 1. For example: the first round of the activity the educator will say “please move to the sign that is correct for your credit card application.” “Does your credit card application have a fixed interest rate or a variable interest rate?”
 - iii. The participants would then move to one of the two posters, indicating by their movement which is true of their application.
 - 1. Instruct participants within their group to define the term on their poster.
 - 2. Discuss with participants which credit card characteristic is more positive for the consumer and why.
 - iv. Repeat the steps for each set of terms on Slide 35 (in order):
 - 1. Fixed-rate APR for Purchases vs. Variable-rate APR for Purchases

2. Introductory Rate vs. No Introductory Rate
 3. APR for Purchases Greater than or Equal to 15% vs. APR for Purchases Less than 15%
 4. No Minimum Interest Charge vs. Minimum Interest Charge
 5. Annual Fee vs. No Annual Fee
 6. Balance Transfer Fee vs. No Balance Transfer Fee
 7. Late Fees vs. No Late Fees
- k. Slide 36 – Credit Card Benefits
- v. Often credit card companies will use these as incentives for consumers to use their credit card.
 - vi. Emphasize the importance of completely understanding the terms of the benefit.
 1. Often benefits may end after the first six months or year.
 2. Additional fees may be required for the benefit.
 3. There may be restrictions on when the benefits may be used.
 - vii. Discuss with participants what they would be willing to do for an additional benefit.
 1. Would they be willing to pay a high APR?
 2. Would they be willing to pay an annual fee?
- l. Slide 37-38 – Receiving a credit card
- i. Ask participants to share their answers to question 6 on the *Home Discussion: Part 1* activity 1.4.1.A4.
 - ii. Discuss the steps involved with receiving a credit card.
 - iii. Make sure participants understand that approval for a credit card depends on the applicant's credit history.
- b. Slide 39: Pre-approved credit card applications
- i. Identify that often consumers receive credit cards in the mail because the credit card company has already approved them.
 1. They should shred these credit card offers if not accepted.
- c. Slide 40: Credit Card Statements
- i. Explain to participants that the 2009 CARD Act requires that credit card companies include specific information on a credit card statement.
 - ii. Instruct participants to refer to page 5 of their *Understanding Your Credit Card* information sheet 1.4.1.F1. This sample credit card offer is the same as "Andrew's Credit Card Statement" and will be used as a reference for slides 42-51.
 1. **Note to educator:* If the vocabulary reinforcement activity was not completed at the beginning of the lesson, then hand out an *Understanding Your Credit Card* information sheet 1.4.1.F1 to each participant.
- d. Slide 41-50: Credit Card Statement
- i. Review the parts of the credit card statement and the terminology for each section.
 1. As each section is discussed, instruct participants to find that section on their credit card statement on page 5 of the *Understanding Your Credit Card* information sheet 1.4.1.F1.
 - ii. **Note to educator:* The Federal Reserve website includes the same credit card statement in an interactive form that can be used in replace of the PowerPoint. However, the questions prompted in the *Understanding Your Credit Card* PowerPoint 1.4.1.G1 are not provided on the Federal Reserve's credit card statement.
 1. <http://www.federalreserve.gov/creditcard/flash/readingyourbill.html>
 2. The credit card statement is also available in a downloadable PDF form.
- m. Slide 51– Cardholder Protections and Rights
- viii. Identify that there are laws to protect credit card users.

- ix. Explain that the Truth in Lending Act limits liability for unauthorized card charges.
- u. Slide 52-56: Cardholder Protections and Rights
 - i. Explain cardholders rights under the 2009 CARD Act.
- v. Slide 57: Credit Card Safety Tips
 - i. Ask participants to share their answers to question 7 on the *Home Discussion: Part 1* activity 1.4.1.A4.
 - ii. Discuss credit card safety tips.
- w. Slide 58: Online Shopping Safety Tips
 - i. Discuss safety tips when using a credit card to shop online.
- x. Slide 59: – Fair Credit Billing Act
 - i. Discuss with participants that credit cards are safer to use than debit cards when making online purchases.
 - 1. The liability for a debit card amount increases rapidly depending on how quickly the fraudulent action is reported.
- y. Slide 60-61: Summary

CONCLUSION

Home Discussion: Part 2

**Note to Educator: Home Discussion: Part 2* worksheet 1.4.1.A5 needs to follow the completion of *Home Discussion: Part 1* activity 1.4.1.A4 at the beginning of the lesson.

Or, review credit card terminology by playing the *Credit Cards 101 Trivia* Power Point 1.4.1.G2. For instructions, review *Credit Cards 101* activity instructions 1.4.1.J1.

Or, complete *Understanding a Credit Card* worksheet 1.4.1.A1.

Or, complete *Understanding a Credit Card Statement* worksheet 1.4.1.A2.

ASSESSMENT

Comparison Shopping for a Credit Card worksheet 1.4.1.A3

- Using the *Comparison Shopping for a Credit Card* worksheet 1.4.1.A3, each participant will compare at least three (3) credit card offers (*Sample Credit Card Applications 1, 2, and 3* handouts 1.4.1.E1, E2, E3) and select the credit card based upon the applications that is best for them.
 - **Note to educator:* An alternative to this facilitation is to use the Federal Reserve’s Survey of Credit Card Plans found at: <http://www.federalreserve.gov/creditcard/survey.html>. This survey includes information about real-life credit cards that are offered to consumers. If this option is used the “Codes Used in List of Plans” handout will also need to be used. It is found at: <http://www.federalreserve.gov/creditcard/scodes.html>. Participants will not be able to complete the entire comparison chart with this facilitation option, because not all information for credit cards is provided.
- Each participant will write a one page essay describing the credit card chosen and the decision making process used to make their choice. The essay will include a discussion of at least four specific comparison points. The objective of this paper is to convince the educator that the card chosen by the participant is the best credit card available. The completed *Comparison Shopping for a Credit Card* worksheet 1.4.1.A3 will be attached to the essay when it is submitted.
- Essays will be evaluated using the *Comparison Shopping for a Credit Card Essay* rubric 1.4.1.B1.

Or, *Clever Credit Card Use* enhancement tool 6.4.1

MATERIALS

Understanding a Credit Card worksheet – 1.4.1.A1
 Understanding a Credit Card Statement worksheet 1.4.1.A2
 Comparison Shopping for a Credit Card worksheet – 1.4.1.A3
 Home Discussion: Part 1 – 1.4.1.A4
 Home Discussion: Part 2 – 1.4.1.A5
 Credit Card Offer Scavenger Hunt – 1.4.1.A6
 Comparison Shopping for a Credit Card Essay rubric – 1.4.1.B1
 Understanding a Credit Card information sheet – 1.4.1.F1
 Sample Credit Card Offer 1 handout – 1.4.1.E1
 Sample Credit Card Offer 2 handout – 1.4.1.E2
 Sample Credit Card Offer 3 handout – 1.4.1.E3
 Credit Card Offer Graphic Organizer – 1.4.1.E4
 Understanding a Credit Card PowerPoint presentation – 1.4.1.G1
 Credit Cards 101 Trivia Power Point presentation – 1.4.1.G2
 Credit Card Chaos activity pieces – 1.4.1.H1
 Credit Cards 101 instructions – 1.4.1.J1
 Credit Cards 101 questions and answers – 1.4.1.K1
 Credit Card Chaos activity answers – 1.4.1.K2
 Understanding a Credit Card note taking guide – 1.4.1.L1
 Computer with internet access (optional)

RESOURCES

1. The Federal Reserve Board - Choosing a Credit Card
<http://www.federalreserve.gov/Pubs/shop/#incentives>
 - The Federal Reserve Board publishes information on factors to take into account while selecting a credit card
2. The Federal Deposit Insurance Corporation – FDIC Laws Regulations and Related Acts
<http://www.fdic.gov/regulations/laws/rules/6500-1600.html#6500226.5a>
 - The Federal Reserve Board publishes information on factors to take into account while selecting a credit card
3. The Federal Reserve Board Credit Card Solicitations and Disclosures
<http://www.federalreserve.gov/pubs/bulletin/2006/creditcards/default.htm>
 - The Federal Reserve Board publishes information on factors to take into account while selecting a credit card
4. Pre Approved Credit Card Offers
<http://www.cardreport.com/overview/pre-approved.html>
 - Credit News, Tools, and Reference
5. Credit Cards
<http://www.creditcards.com/credit-card-news/sign-or-write-see-ID-1282.php>
 - Providing information to search, compare, and apply for credit cards
6. FICO Scores
<http://www.myfico.com/>
7. Credit Card Smarts
<http://www.ace.uiuc.edu/cfe/ccs/ccs6.PDF>
 - Fact sheet 6 decide on how many credit cards you need
8. Online Interest Calculator
<http://www.debtsteps.com/minimum-payment-credit-card-calculator.html>

- By providing the current balance, APR, and payment amount the time, total interest, and total amount paid will be calculated
- 9. Montana State University Extension Publication Guide
www.montana.edu/wwwpb/pubs/mt9802.html
 - Selecting a Credit Card MontGuide – MT9802
 - A step-by-step guide to assist consumers in credit card selection
- 10. Nellie Mae Foundation
www.nelliemae.com/library/research.html
 - Credit Card Usage Analysis Studies
- 11. Federal Reserve Board- New Credit Card Rules
http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm
 - An overview of changes made with the 2009 Card Accountability Responsibility and Disclosure Act
- 12. Federal Reserve Board- Consumers Guide: Credit Cards
<http://www.federalreserve.gov/creditcard/default.htm>
 - An interactive consumer's guide for credit cards.
- 13. Sallie Mae
http://www.salliemae.com/about/news_info/newsreleases/041309.htm
 - News release about a 2009 study of undergraduate credit card use

Other Examples of Online Calculators:

<http://math.about.com/library/blcompoundinterest.htm>

- Compound interest calculator

<http://calculators.interest.com/index.asp>

- Interest calculators for mortgages, homes, credit cards, etc...

<https://wa-appliedmath.org/>

HOME DISCUSSION: PART 1

	Total Points Earned
7	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Work with a parent, guardian, or adult family member to answer the following questions using only prior knowledge.

1. What is a credit card?
2. What do you believe are the advantages to using a credit card?
3. What do you believe are the disadvantages to using a credit card?
4. What is the difference between a debit card and a credit card?
5. Can credit cards positively affect an individual financially?
6. How should a consumer choose a credit card?
7. How can credit card information be kept safe?

Name of Adult: _____

Signature of Adult: _____

Phone number: _____

CREDIT CARD OFFER SCAVENGER HUNT

	Total Points Earned
32	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Step 1: Find and highlight each of the vocabulary words in the table below in the Credit Card Offer provided. (8 points)

Vocabulary Words			
Credit	Interest	Credit Card	Credit Limit
Creditworthiness	Annual Percentage Rate (APR)	Schumer box	Introductory Rate or Introductory APR
Variable-rate APR	Prime Rate	Balance Transfers	Penalty APR
Annual Fee	Late Payment Fee	Over-the-limit Fee	Pre-approved

Step 2: Review the highlighted words in the Credit Card Offer. Which words are you not familiar with? Write eight words that you are not familiar with in the first column in the table below. Using your information sheet 1.4.1.F1, write the definition of each word in your own words in the second column. After the definitions are complete, use the third column of the table below to explain how each word relates to the credit card offer provided. (16 points)

Word	Definition	Relationship

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Step 3: Use the space provided below to create a graphic organizer that illustrates the relationship of each of the eight chosen vocabulary words. Make sure to explain the relationships created in the graphic organizer. (8 points)

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SAMPLE CREDIT CARD OFFER 1

Schumer Box for a Pre-approved Credit Card

Interest Rates and Interest Charges

Annual Percentage Rate (APR) for Purchases	12.99%, 13.99% or 14.99%, introductory APR for one year, based on your creditworthiness. After that, your APR will be 14.99%. This is a variable-rate APR that will vary with the market based on the Prime Rate.
APR for Balance Transfers	15.99% <ul style="list-style-type: none"> • This APR will vary with the market based on the Prime Rate
APR for Cash Advances	21.99% <ul style="list-style-type: none"> • This APR will vary with the market based on the Prime Rate
Penalty APR and When it Applies	28.99% This APR may be applied to your account if you: <ol style="list-style-type: none"> 5. Make a late payment; 6. Go over your credit limit; 7. Make a payment that is returned; or 8. Do any of the above on another account that you have with us. <p>How long will the Penalty APR apply? If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.</p>
How to Avoid Paying Interest on Purchases	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.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard

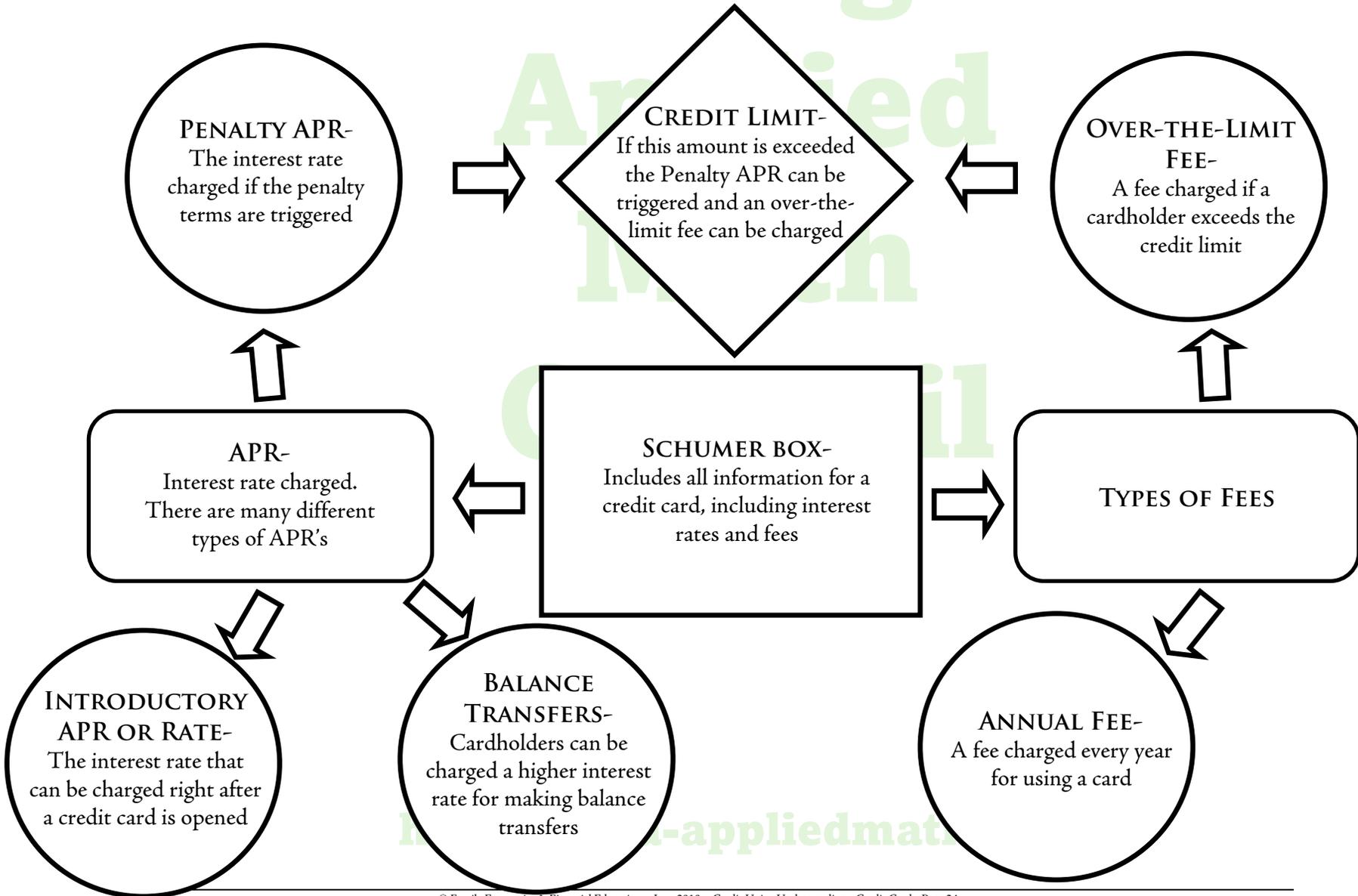
Fees

Set-up and Maintenance Fees	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of \$250, initial available credit will be only about \$209. <ul style="list-style-type: none"> • Annual Fee: \$20 • Account Set-up Fee: \$20 (one-time fee) • Participation Fee: \$12 annually (\$1 per month) • Additional Card Fee: \$5 annually (if applicable)
Transaction Fees	<ul style="list-style-type: none"> • Balance Transfer: Either \$5 or 3% of the amount of each transfer, 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	<ul style="list-style-type: none"> • Late Payment: \$29 if balance is less than or equal to \$1000 OR \$35 if balance is more than \$1000 • Over-the-limit: \$29 • Returned Payment: \$35

* How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)."

* Loss of Introductory APR- We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill

CREDIT CARD OFFER GRAPHIC ORGANIZER



UNDERSTANDING A CREDIT CARD

	Total Points Earned
77	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

CREDIT:



INTEREST:

LENDER:



BORROWER:

SUMMARIZE CLOSED-END CREDIT:

EXAMPLE:



SUMMARIZE OPEN-END CREDIT:

EXAMPLE:

CREDIT CARD:



CREDIT LIMIT



CREDITWORTHINESS:



ANNUAL PERCENTAGE RATE (APR):

ADVANTAGES	DISADVANTAGES	
<h1>Washington Applied Math</h1>		

DEBIT CARD:

CREDIT REPORT:



CREDIT SCORE:

POSITIVE CREDIT CARD USE	NEGATIVE CREDIT CARD USE

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Directions: Use the space provided to describe each section of the credit card offer and define vocabulary words

Schumer box-	
Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	
APR for Balance Transfers	
APR for Cash Advances	
Penalty APR and When it Applies	
How to Avoid Paying Interest on Purchases	
Minimum Interest Charge	
For Credit Card Tips from the Federal Reserve Board	
Fees	
Set-up and Maintenance Fees	
Transaction Fees	
Penalty Fees	

* How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)."

* Loss of Introductory APR- We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill

<http://www-appliedmath.org/>

Additional benefits to using credit cards may include:

List the four steps to receiving a credit card:

- 1.
- 2.
- 3.
- 4.

Directions: Describe each section of a credit card statement.

CREDIT CARD STATEMENT	
Summary of Account Activity	
Payment Information	
Late Payment Warning	
Minimum Payment Warning	
Notice of changes to your interest rates	
Other changes to your account terms	
Transactions	
Fees and Interest Charges	
Year-to-date Totals	
Interest Charge Calculation	

SUMMARIZE CARDHOLDER PROTECTIONS UNDER THE TRUTH IN LENDING ACT:

SUMMARIZE CARDHOLDER PROTECTIONS UNDER THE 2009 CARD ACT:

CREDIT CARD SAFETY TIPS

SUMMARIZE CARDHOLDER PROTECTIONS UNDER THE FAIR CREDIT BILLING ACT:

UNDERSTANDING A CREDIT CARD

	Total Points Earned
41	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Please match the following definitions with the correct terms by placing the correct letter in the spot indicated. (1 point each)

- | | |
|--|--|
| <ul style="list-style-type: none"> a. Annual Fee b. Annual Percentage Rate (APR) c. Balance transfers d. Credit Limit e. Interest | <ul style="list-style-type: none"> f. Introductory rate g. Late-payment fee h. Over-the-limit fee i. Penalty APR j. Variable-rate APR |
|--|--|
-
1. _____ The charge for borrowing money.
 2. _____ Transferring debt from one credit card to another.
 3. _____ Charged if the account balance goes over the set credit limit.
 4. _____ The maximum amount of charges allowed to an account.
 5. _____ The cost of credit expressed as a yearly interest rate.
 6. _____ The interest rate that may be charged right after a credit card account is opened.
 7. _____ An interest rate that may change depending on other factors, such as the prime rate.
 8. _____ A yearly fee that may be charged for having a credit card.
 9. _____ Charged when a cardholder does not make the minimum monthly payment by the due date.
 10. _____ The interest rate charged on new transactions if the penalty terms in the credit card contract are triggered.

Directions: Select the best possible answer by circling the appropriate letter. (1 point each)

11. Only making the minimum payment on a credit card every month:
 - a. Will only pay a small percentage of the total balance owed
 - b. Will make the final amount paid substantially higher than the amount initially charged to the card
 - c. Will result in slow progress towards paying off the total balance on the card
 - d. All of the above

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12. Credit card companies can only increase interest rates during the first 12 months after an account is open if:
- the cardholder is notified of the changes in writing at least 45 days before the changes take effect
 - the card has a variable interest rate
 - the cardholder is 1 day late in paying their bill
 - All of the above

Directions: Write a short answer for the following questions:

13. Is a 13% or 18% APR for a credit card better? Why? (2 points)

14. Identify three safety tips when using a credit card. (3 points)

15. What are two advantages AND two disadvantages to credit cards? (4 points)

16. Please explain the difference between close-end and open-end (revolving) credit providing one example of each. (4 points)

17. What is the difference between a debit card and a credit card? (2 points)

18. How do credit cards affect an individual's credit history (which includes a credit report and credit score)? (1 point)

19. What will happen if a cardholder makes a late credit card payment? (1 point)

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20. What are two positive uses of credit cards AND two negative uses of credit cards? (4 points)

Washington

21. Summarize three cardholder protections the 2009 CARD Act created. (3 points)

Applied

For the following questions, please indicate if the statement is True or False by writing a T or F on the line. (1 point each)

22. _____ Having no credit history can cause an individual to be denied credit.
23. _____ Credit card applicants will always be accepted for the card they apply for, but they may have to pay a higher interest rate.
24. _____ Under the 2009 CARD Act, individuals under the age of 21 cannot receive a credit card.
25. _____ The Truth in Lending Act limits an individual's liability for unauthorized credit card charges, in case a credit card is lost or stolen.
26. _____ It is better to use a debit card rather than a credit card when purchasing items online.

Math Council

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UNDERSTANDING A CREDIT CARD STATEMENT

	Total Points Earned
16	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Refer to the provided credit card statement to answer the following questions.

1. What is the current APR for purchases, balance transfers, and cash advances? (3 points)

2. What was the total amount of interest charged for this billing cycle? How much of this interest was charged to purchases? How much of this interest was charged to cash advances? (3 points)

3. What was the total amount of fees charged for this billing cycle? What were these fees charged for? (2 points)

4. Are there any changes to the terms of the account? If so, what are the changes? (2 points)

5. What will happen if the credit card bill is not paid on time this month? How will this affect future purchases? (2 points)

6. The cardholder pays the minimum payment of \$53.00 this month and makes no new purchases during the next billing cycle. What will be the new credit card balance during the next billing cycle if the cardholder has a \$10.27 interest charge for the month? (1 point)

7. What was the balance of the credit card before this billing cycle (include the previous balance and any payments made)? (1 point)

8. How much of the credit limit is left for this credit card? Can this full amount be charged to the credit card? (2 points)

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CREDIT CARD STATEMENT

Summary of Account Activity	
Previous Balance	535.07
Payments	-450.00
Purchases	+529.57
Balance Transfers	+785.00
Cash Advances	+318.00
Past Due Amount	+0.00
Fees Charged	+34.45
Interest Charged	+10.89
New Balance	\$1,749.53
Credit Limit	\$2,000.00
Available credit	\$215.47
Statement closing date	3/22/2012
Days in billing cycle	30

Payment Information		
New Balance		\$1749.53
Minimum Payment Due		\$53.00
Payment Due Date		4/20/12
Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 fee and your APR's may be increased up to the Penalty rate of 28.99%		
Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example...		
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	10 years	\$3,284
\$62	3 years	\$2,232

Transactions				
Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
XXXX1	2/22	2/23	Store #1	\$529.57
XXXX2	2/25	2/26	Payment	\$450.00 -
XXXX3	2/26	2/26	Cash Advance	\$318.00
XXXX4	3/15	3/17	Balance Transfer	\$785.00
Fees				
XXXX6	2/27	2/27	Balance Transfer Fee	\$23.55
XXXX7	2/28	2/28	Cash Advance Fee	\$10.90
Total Fees for this Period				\$34.45
Interest Charged				
Interest Charge on Purchases				\$6.31
Interest Charge on Cash Advances				\$4.58
Total Interest for this Period				\$10.89
2012 Totals Year-to-Date				
Total fees charged in 2012				\$55.14
Total interest charged in 2012				\$18.27

Interest Charge Calculation			
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99%	\$512.14	\$6.31
Cash Advances	21.99%	\$253.50	\$4.58
Balance Transfers	0.00%	\$637.50	\$0.00

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement. These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APR's described below will apply to these transactions.

Transactions made before 4/9/12: Current APRs will continue to apply to these transactions.

Revised Terms, as of 5/10/12

APR for Purchases	16.99%
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COMPARISON SHOPPING FOR A CREDIT CARD

	Total Points Earned
33	Total Points Possible (1 point per card and item)
	Percentage

Name _____

Date _____

Class _____

Directions: Complete this table using the *Sample Credit Card Offers 1, 2, and 3* handouts 1.4.1.E1, E2, E3. After the comparison table is completed, choose which credit card would be the best choice. Write a one page essay explaining why the credit card is the best choice and why. In addition, explain the decision making process used and the possible consequences of the choice (attach *Comparison Shopping for a Credit Card* worksheet to essay).

	Card 1	Card 2	Card 3
What is the Annual Percentage Rate (APR) for Purchases			
Is the APR for purchases a fixed-rate APR or variable-rate APR?			
Introductory APR- What is the rate and how long does it last?			
What is the APR for Balance Transfers?			
What is the APR for Cash Advances?			
What is the Penalty APR?			
Is there a minimum interest charge? If so, how much?			
Set-up and Maintenance Fees			
Transaction Fees			
Penalty Fees			
How is the balance calculated?			

COMPARISON SHOPPING FOR A CREDIT CARD ESSAY

Name _____

Date _____

Class _____

Directions: Write a one page essay explaining why that credit card is the best choice, explain the decision making process used, and the possible consequences of the choice (attach worksheet to essay).

	Exemplary 3	Satisfactory 2	Unsatisfactory 1	Rating	Weight	Score
Content	5 thoughtful examples are provided comparing similarities and/or differences between the 3 credit cards.	4 thoughtful examples are provided comparing similarities and/or differences between the 3 credit cards.	3 thoughtful examples are provided comparing similarities and/or differences between the 3 credit cards.		3	
Content	Each example is 100% described in detail.	90% of the examples are described in detail.	80% or fewer of the examples are described in detail.		3	
Writing Skills	Sentences are fluid and effective. Very few errors in mechanics, punctuation, and word usage.	Sentences are usually controlled. There are minor errors in mechanics, punctuation, and word usage.	Sentences are generally adequate. There are lapses in mechanics, punctuation, and grammar.		2	
Presentation and Completion	Assignment is easily read and neatly assembled. All answers have been attempted. Presentation quality is excellent.	Assignment is adequate. Answers may be missing, incomplete, or too brief. Presentation quality is adequate.	Assignment is incomplete. Answers show lack of attention. Presentation is sloppy.		1	
Content Accuracy	90-100% of the facts in the essay are accurate.	80-89% of the facts are accurate.	Fewer than 80% of the facts in the essay are accurate.		1	
				Total Points Earned		
				Total Points Possible		30
				Percentage		

SAMPLE CREDIT CARD OFFER 2

Schumer Box

Interest Rates and Interest Charges

Annual Percentage Rate (APR) for Purchases	14.99% This is a variable-rate APR that will vary with the market based on the Prime Rate.
APR for Balance Transfers	0 % introductory APR for six months. After that, your Balance Transfer APR will be 18.99% <ul style="list-style-type: none"> This APR will vary with the market based on the Prime Rate
APR for Cash Advances	24.99% <ul style="list-style-type: none"> This APR will vary with the market based on the Prime Rate
Penalty APR and When it Applies	29.99% This APR may be applied to your account if you: <ol style="list-style-type: none"> Make a late payment; Go over your credit limit; Make a payment that is returned; or Do any of the above on another account that you have with us. <p>How long will the Penalty APR apply? If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.</p>
How to Avoid Paying Interest on Purchases	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.
Minimum Interest Charge	There is no minimum interest charge.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard

Fees

Set-up and Maintenance Fees	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of \$250, initial available credit will be only about \$209. <ul style="list-style-type: none"> Annual Fee: \$0 Account Set-up Fee: \$20 (one-time fee) Participation Fee: \$15 annually Additional Card Fee: \$5 annually (if applicable)
Transaction Fees	<ul style="list-style-type: none"> Balance Transfer: Either \$25 or 5% of the amount of each transfer, whichever is greater (maximum fee: \$100) Cash Advance: Either \$25 or 5% of the amount of each cash advance, whichever is greater Foreign Transaction: 3% of each transaction in U.S. dollars
Penalty Fees	<ul style="list-style-type: none"> Late Payment: \$30 Over-the-limit: \$30 Returned Payment: \$30

* How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)."

* Loss of Introductory APR- We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill

SAMPLE CREDIT CARD OFFER 3

Schumer Box

Interest Rates and Interest Charges

Annual Percentage Rate (APR) for Purchases	11.99%, introductory APR for one year. After that, your APR will be 15.99%.
APR for Balance Transfers	14.99%
APR for Cash Advances	20.99%
Penalty APR and When it Applies	28.99% This APR may be applied to your account if you: <ul style="list-style-type: none"> 13. Make a late payment; 14. Go over your credit limit; 15. Make a payment that is returned; or 16. Do any of the above on another account that you have with us. How long will the Penalty APR apply? If your APR's are increased for any of these reasons, the Penalty APR will apply until you make six consecutive minimum payments when due.
How to Avoid Paying Interest on Purchases	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.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$2.00.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard

Fees

Set-up and Maintenance Fees	NOTICE: Some of these set-up and maintenance fees will be assessed before you begin using your card and will reduce the amount of credit you initially have available. For example, if you are assigned the minimum credit limit of \$250, initial available credit will be only about \$209. <ul style="list-style-type: none"> • Annual Fee: \$15 • Account Set-up Fee: \$10 (one-time fee) • Additional Card Fee: \$10 annually (if applicable)
Transaction Fees	<ul style="list-style-type: none"> • Balance Transfer: \$0 • Cash Advance: Either \$10 or 3% of the amount of each cash advance, whichever is greater • Foreign Transaction: 3% of each transaction in U.S. dollars
Penalty Fees	<ul style="list-style-type: none"> • Late Payment: \$35 • Over-the-limit: \$35 • Returned Payment: \$35

* How We Will Calculate Your Balance: We use a method called "average daily balance (excluding new purchases)."

* Loss of Introductory APR- We may end your introductory APR and apply the Penalty APR if you become more than 60 days late in paying your bill

CREDIT CARD CHAOS POSTERS

Fixed-rate APR for Purchases

<https://wa-appliedmath.org/>

Variable-rate APR for Purchases

<https://wa-appliedmath.org/>

Washington Applied Math Rate

Council

<https://wa-appliedmath.org/>

No Introductory Interest Rate

<https://wa-appliedmath.org/>

APR for Purchases Greater than or Equal to 15%

<https://wa-appliedmath.org/>

Washington Applied Math Council Purchases Less than 15%

<https://wa-appliedmath.org/>

Washington

Applied

No Minimum
Interest Charge

<https://wa-appliedmath.org/>

Washington Applied Math Interest Charge Council

<https://wa-appliedmath.org/>

Annual Fees

No Annual Fees

<https://wa-appliedmath.org/>

Washington Applied Math

Balance Transfer Fee

<https://wa-appliedmath.org/>

Washington Applied Mathematics Council No Balance Transfer Fee

<https://wa-appliedmath.org/>

Late Payment Fees

Washington
Applied
Math
Council

<https://wa-appliedmath.org/>

No Late Payment Fees

Washington
Applied
Math
Council

<https://wa-appliedmath.org/>

CREDIT CARDS 101 INSTRUCTIONS

Note to educator: if PowerPoint is not available, the presentation may be printed and created into a Trivia board.

1. Set up the LCD projector or smart board and laptop with the *Credit Cards 101 Trivia* PowerPoint presentation 1.4.1.G2.
 - a. Divide the participants into groups of 3-4.
 - i. Hand out pieces of scratch paper or a white board and a marker to each team.
2. Each team will have a chance to answer each question by writing their answer on the scratch paper or white board.
3. After the facilitator has given a little bit of time for each team to record their answer, ask each group to hold up their piece of paper or white board.
4. Award points to the groups with the correct answers.
 - a. Teams with incorrect answers do not receive or lose any points. Their point total stays the same.
5. Record the points on the board or have the students track points on their own.
6. Allow each team to take a turn picking the category and dollar amount for the question.
7. To use the PowerPoint:
 - a. On the first slide, click on the graphic to go to the activity board slide.
 - b. To choose a question, click on the category and dollar amount chosen.
 - i. It is linked to the question slide and will automatically pull up the correct slide.
 - c. After reading the question and the groups have all answered, click on the graphic directly under it to go to the answer slide.
 - d. After the question and answer is finished, click on the graphic below the answer to go back to the activity board.
 - i. It is important to understand that the dollar amounts on the activity board and the pictures are all hyperlinked. If you do not click on these specific items the trivia activity will run as a typical PowerPoint presentation in slide order.
8. At the activity board, if the wrong category or dollar amount is chosen, the little graphic in the left-corner of any question slide will take the screen back to the activity board.
9. Before final trivia, compute the point total for each team.
 - a. Allow each team to decide a 'wager' before answering the final trivia question.
 - b. If the final trivia question is answered correctly, the wager is added to the points.
 - c. If the final trivia question is answered incorrectly, the wager is subtracted from the points.
10. The team with the most points wins.

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CREDIT CARDS 101 - QUESTIONS AND ANSWERS

Terminology

1. A yearly fee that may be charged for having a credit card.
 - a. What is an annual fee?
2. When a consumer has passed an initial credit check.
 - a. What is pre-approved?
3. A loan which the borrower must repay the amount in a specified number of equal payments.
 - a. What is closed-end credit?
4. A plastic card that is electronically connected to the cardholder's bank account.
 - a. What is a debit card?

Schumer Box

1. The cost of credit expressed as a yearly interest rate.
 - a. What is the annual percentage rate (APR)?
2. Transferring debt from one credit card account to another.
 - a. What is a balance transfer?
3. The interest rate charged right after a credit card account is opened.
 - a. What is introductory rate?
4. The interest rate charged on new transactions if the penalty terms in the credit card contract are triggered.
 - a. What is penalty APR?

Credit History

1. An individual's ability and willingness to pay money back.
 - a. What is creditworthiness?
2. A record of a consumer's credit history.
 - a. What is a credit report?
3. A number that summarizes an individual's credit record and history.
 - a. What is a credit score?
4. An example of positive credit card use.
 - a. What is paying card balances in full every month, paying card bills on time, applying for only cards that are needed, keeping track of all charges, or checking monthly card statement for errors.

Credit Card Knowledge

1. Outlines important information about a credit card, including transactions the cardholder has made during that billing cycle and the current balance on the credit card.
 - a. What is a credit card statement?
2. The cardholder's liability for unauthorized credit card charges under the Truth in Lending Act.
 - a. What is \$50.00.
3. The maximum amount of charges allowed to the account.
 - a. What is the credit limit?
4. To increase credit card safety, the back of the card should include the cardholder's signature and this.
 - a. What is "Please See ID?"

Final Trivia

1. An APR that may change depending on other factors, such as the prime rate.
 - a. What is variable-rate APR?

CREDIT CARD CHAOS ACTIVITY ANSWERS

Credit Chaos Activity

Category	Card 1	Card 2	Card 3
Fixed –rate APR vs. Variable-rate APR	Variable- 14.99%	Variable- 14.99%	Fixed- 14.99%
Introductory Rate vs. No Introductory Interest Rate	Introductory Rate- 12.99%- 14.99% for one year	NO Introductory Rate	Introductory Rate- 11.99% for one year
APR for Purchases Greater than or Equal to 15% vs. APR for Purchases Less than 15%	Less than	Less than	Greater than
No Minimum Interest charge vs. Minimum Interest Charge	Minimum Interest Charge of \$1.50	NO Minimum Interest Charge	Minimum Interest Charge of \$2.00
Annual Fee vs. No Annual Fee	Annual fee- \$20	NO Annual Fee	Annual fee- \$15
Balance Transfer Fee vs. No Balance Transfer Fee	Balance transfer fee- Either \$5 or 3 % of the amount of each transfer, whichever is greater	Balance transfer fee- Either \$25 or 5% of the amount of each transfer, whichever is greater	NO balance transfer fee
Late Payment Fees vs. No Late Payment Fees	Late payment fee- \$29 if balance is less than or equal to \$1000 OR \$35 if balance is more than \$1000	Late payment fee- \$30	Late payment fee- \$35

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