

Teacher's Guide

Interest Can Work *For* You!

and

Interest Can Work *Against* You!

Written by

Harlan R. Day, Ph.D.

Poster artwork by

Ryan Alvis

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Indiana's Credit Unions

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Framing the Issue: Basic Economic Concepts

Interest is certainly an “interesting” subject! It is a key factor in discussions of many current events, such as the actions of the Federal Reserve, mortgage foreclosures, student loans, the national debt, social security reform, and stock and bond markets, to mention a few.

But what is **interest**? And what is the **interest rate**? To help students understand these terms, first introduce them to the **circular flow model** of a market economy. (See Visual 1-1.)

The Circular Flow Model of a Market Economy

Three basic markets characterize the United States economy:

1. Products Market (goods and services)
2. Productive Resources Market (natural, human, and capital resources e.g. tools, buildings, and equipment)
3. Financial Capital Market (the market for loanable funds made available primarily by savings)

In Visual 1, these markets are illustrated by the circles. The decision-makers are the households and businesses. (While government plays a significant role in our economy – and in the determination of interest rates - the most basic circular flow model shows only households and businesses.)

The circular arrows going in opposite directions illustrate two major flows. The inner "real flow" consists of actual goods and services and productive resources. The outer "money flow" represents payments made (or received).

The **products market** (top circle) is the market for goods and services. In the products market, goods and services flow from businesses to households in exchange for money payments. Buyers (demand) and sellers (supply) interact in the market to determine the prices of these goods and services.

In the **productive resources market** (bottom circle), households supply the productive resources, especially labor, and businesses **demand** productive resources in order to produce goods and services. The resulting interaction of supply and demand determines the **price** of the productive resources. In the case of labor, this price is called a **wage** or **salary**.

Many households do not spend all of their income. Income that is saved usually flows into the **financial capital market** (middle circle) where it is borrowed by businesses,

which typically use the savings to increase their **investment** in the production of goods and services. Households thus **supply** loanable funds (savings) and businesses **demand** them. The interaction of savers and borrowers in this market for loanable funds (savings) results in a special price - the **interest rate**. (As noted above, this is a very simple model. The situation is actually much more complex since businesses as well as households provide savings to the market. Also, consumers and governments compete with businesses to borrow the available savings.)

Banks, insurance companies, credit unions, and other financial institutions help households channel their savings to businesses. Individuals who decide to save their income give up the opportunity to spend it. Thus, spending on current consumption is the **opportunity cost** of saving. However, the interest earned on savings will enable savers to spend *more* in the future.

Interest Rates and Risk¹

When people use their savings to purchase financial investments, they expect to receive a **return** on these investments. **Risk** is the uncertainty that a person will receive the promised or expected return. *It is important to emphasize to students that higher expected or promised returns almost always entail higher risk.* For example, an entrepreneur/company may have an idea that could earn a lot of money if successful, but there are so many risks that could jeopardize the success that to attract investors, the entrepreneur/company must offer a high rate of return on any investments in the company. Just as in any other economic decision, there is “no free lunch!”

There are various kinds of risk, some of which are interrelated, to point out to your students.

Financial Risk: This is the risk that a government or business will not be able to return your money. For example, a business could declare bankruptcy and you could even lose your entire investment! Or a government could collapse and all its debt/bonds could be worthless.

Fraud Risk: This is a special type of financial risk in which investments are misrepresented in order to deceive people. Most of these fraudulent investments occur in schemes that do not involve legitimate banks, credit unions, or brokerage firms. *Investors should contact their state’s securities regulator to determine if a questionable financial investment is legitimate.* (See Visual 1-2 for practical ways to avoid investment scams.)

1. The information in this section was adapted from Lesson 9 in *Financial Fitness for Life: Bringing Home the Gold*, published by the National Council on Economic Education, 2001.

Market Risk: This is the risk that the price of a particular security, such as a stock or bond, may fall due to changes in supply or demand. Point out that riskier investments *can* have a high return, but they may also get a low return or even losses due to market risk.

Interest Rate Risk: Changes in rates of interest can affect the value of financial investments. For example, if interest rates rise, this will especially hurt the value of bonds, which pay a constant amount based on a fixed interest rate. Bonds initially issued at a lower interest rate will lose value compared to bonds issued at the current, higher market rate of interest.

Inflation Risk: This is the risk that a financial investment will not keep pace with inflation. For example, if a savings account earns 3% interest and inflation is 2%, the actual (real) return is only 1%. And if the inflation rate is 4%, then the savings account actually has a negative real return!

Visual 1-3 illustrates a Financial Risk Pyramid which shows a range of investments from very high risk to low risk. Explain to students that investments with the possibility of a high return also entail high levels of risk, and vice versa.

When considering riskier investments, train your students to ask this question: “Could I afford to lose this money?” If the answer is “No,” then the investment probably should not be made.

Benefits and Pitfalls of Interest

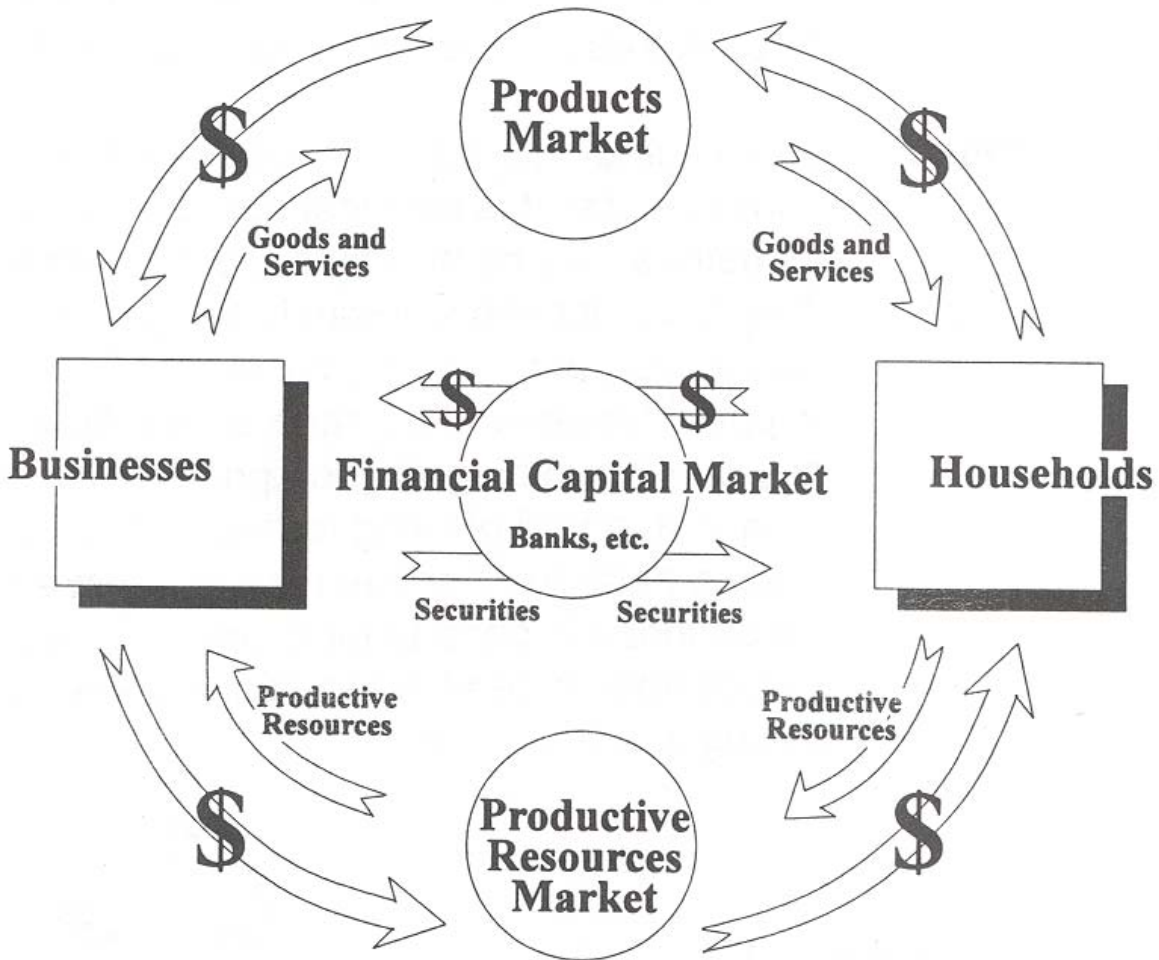
Interest can be a “two-edged sword.” Savers and financial investors benefit greatly from the interest earned by letting businesses and others use their savings. The teaching activities for Poster 1: *Interest Can Work For You!* show how regular saving over a period of time, through the power of compound interest, can result in a substantial amount in the future.

On the other hand, while borrowing and paying interest can certainly help people, especially when purchasing expensive items such as a house, a car, or education, too much debt can cause real problems. Poster 2: *Interest Can Work Against You!* shows how a large amount of high-interest debt, such as credit card debt, can be a significant financial burden.

There’s a lot to be learned about managing one’s finances! We trust you will find these two posters and the teaching activities that accompany them to be very valuable as you help your students learn the basics of sound financial management.

Visual 1-1

The Circular Flow Model of a Market Economy



Note: This simple circular flow model shows businesses borrowing savings only from households. In reality, the situation is much more complex since businesses as well as households provide savings to the market. Also, consumers and governments compete with businesses to borrow the available savings.

Visual 1-2

How to Avoid Investment Scams!

Follow these rules to guard yourself from investment fraud.

1. Remember That Investing Involves Risk.
2. Investigate Before You Invest.
3. Call Your State's Securities Regulator.
4. Don't Be Pressured Into a Quick Investment Decision.
5. Be Very Cautious When Investing Your Money in Response to Unsolicited Offers.
6. Beware of Fantastic Promises for Easy Profits.

Note: This information is taken from the *Financial Literacy Posters* set, published by the Indiana Council for Economic Education, 2004. The Indiana State Secretary of State's office, Securities Division, provided financial support and information for these posters. They are available at www.kidseconposters.com.

Visual 1-3

Financial Risk Pyramid

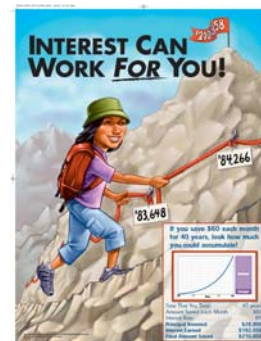


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Teaching Activities for Poster 1: Interest Can Work For You!

Teaching Activity 1: It Costs How Much to Live on My Own?

Young adults often have an unrealistic view of what it takes to live in today's society. When they have to live on their own, they are often very surprised at the costs of things such as food, rent, insurance, utilities, etc. In fact, many young people don't realize that they will face some of these costs! This activity will help students develop realistic expectations about what it costs to live.



Part A: Students research cost estimates for the living responsibilities listed. Students could search newspapers, the Internet, talk to parents, etc. After students estimate a monthly salary/wage to meet their cost estimates, have them research and discuss wages and salaries for various occupations. (The website, CareerOneStop, is an excellent source: www.careeronestop.org) Discuss the kind of education students will need to get a job good enough to attain their desired standard of living. Emphasize that acquiring more education and skills will usually result in a better income.

Part B: Let students work in pairs or small groups to determine how to cut living costs. Encourage students to talk to parents or other family members to see how they reduce living costs. Have students share their own ideas for cutting costs. (See ideas below.)

Ways to Save Money

The following ways to save money were identified in *Build Wealth, Not Debt*, a brochure published by Indy Saves, an affiliate of America Saves. (www.americasaves.org) Discuss with your students these and other ways to save.

- Save \$.50 a day in loose change \$15
- Cut soda consumption by 1 liter per week \$6
- At work, substitute one coffee for one cappuccino \$40
- Bring lunch to work (save about \$5 per day) \$100
- Eat out two fewer times each month \$30
- Purchase two fewer lottery tickets a week (\$1.00) \$8
- Cut cigarette consumption by 2 packs a week \$24
- Buy grocery store brands \$ 10
- Eliminate premium cable channels \$20
- Use fewer phone features \$10
- Borrow, rather than buy, one book per month \$15
- Comparison shop for gas (save est. \$0.25 per gallon) \$4
- Maintain checking account minimum to avoid fees \$7
- Pay credit card bill on time to avoid late fee \$25
- Pay off \$1,000 of credit card debt, reducing interest \$15

Total \$329

If a 22-year-old person invested the \$324 month in the example above for 40 years at 8% interest, he or she would have **\$1,138,627** by age 62!

It Costs How Much to Live on My Own?



Directions: Some day you will probably have to live on your own. You will have to get a job and earn money to pay bills. Have you thought about how much it might cost to support yourself and perhaps a spouse and children?

Part A: Suppose you have just completed high school and are now living on your own. In the blanks below, estimate how much you think it will cost per month for these expenses. In the second blank, list the source of your information. (Possible sources: newspapers, Internet, family input, etc.)

Apartment Rent	_____	_____
Car/Transportation	_____	_____
Car Insurance	_____	_____
Gas	_____	_____
Food	_____	_____
Utilities	_____	_____
Eating Out	_____	_____
Clothes	_____	_____
Entertainment	_____	_____
Cable TV	_____	_____
Cell Phone	_____	_____
Medical	_____	_____
Giving	_____	_____
Saving	_____	_____
Other?	_____	_____
Other?	_____	_____

Salary/Wage: Compute how much you will have to earn each month, after taxes, to pay your bills. Did you plan for any savings, giving, or emergencies? _____

How Could I Reduce My Living Costs?



Part B: Think of 10 ways to reduce the living costs you estimated in Part A. For example, you could reduce rental costs by having roommates, or you could save gas by living closer to work so you could walk. Be creative!

<u>Ways to Reduce Living Costs</u>	<u>How Much I Would Save</u>
1.	_____
2.	_____
3.	_____
4.	_____
5.	_____
6.	_____
7.	_____
8.	_____
9.	_____
10.	_____
Total You Would Save: _____	

Which of the ideas for reducing costs you listed above do you think will be difficult to do? Why? Discuss with the class.

Teaching Activity 2: Watching Your Money Grow!



To increase their wealth, it is important that students not only live within their means, but also begin to save regularly. Stress that the amount is not as important as being consistent. Over time, even small contributions will add up. For example, if a student invested only \$50 each month at 5% for 40 years, he or she would accumulate \$76,619! (\$24,000 in principal and \$52,619 in interest.) Explain that this assumes investments accumulate tax free in an account such as an Individual Retirement Account (IRA).

To complete the worksheet, students will use the Compound Interest Calculator at Bankrate.com (www.bankrate.com) to answer the questions. Go to the Bankrate.com web site and click on Calculators in the top tool bar. Scroll down the page and click on Compound Interest Calculator. (Found under Most Popular)

When reviewing the worksheet answers, be sure to emphasize how important it is to invest regularly and begin at an early age (if possible) since this will have a huge impact on the amount saved due to interest compounding. Point out that an effective way to save regularly is to have an amount deducted automatically from one's pay check and deposited directly into a savings account or other savings vehicle. Challenge your students to save a certain percentage of their pay each month. If the amount is not deducted automatically, emphasize the importance of saving as soon as you get paid – not at the end of the month, when there's often nothing left!

Also discuss that it is important to diversify one's savings portfolio by not investing exclusively in low-interest rate savings accounts or certificates of deposit. (Use Visual 1-3: Financial Risk Pyramid.) A portfolio that also includes "blue chip" stocks and mutual funds should greatly increase the return without adding too much risk, especially over the long term. Such a portfolio should also provide some protection from the effects of inflation. For example, a portfolio earning 3% with an inflation rate of 3% has a real return (i.e. buying power return) of 0%!

Below is the completed Watching Your Money Grow worksheet. Amounts are calculated based on a person saving until age 65:

<u>Monthly Amt. Saved</u>	<u>Interest Rate</u>	<u>Your Age</u>	<u>Amt. Accumulated</u>
\$25	5%	22	\$ 45,469
\$50	5%	22	\$ 90,936
\$50	8%	22	\$225,240
\$50	8%	18	\$312,691
\$50	8%	30	\$115,459

Watching Your Money Grow!



To increase your wealth and plan for the future, it is important not only to live within your means, but also to save regularly. The amount is probably not as important as being consistent. Over time, even small contributions will add up. For example, if you invested only \$50 each month at 5% for 40 years, you would accumulate \$76,301! (\$24,000 in principal and \$52,301 in interest). Of course, this assumes that it grows tax free, such as in an Individual Retirement Account (IRA).

Fill in the blanks in the chart below using the Compound Interest Calculator at Bankrate.com (www.bankrate.com). Go to the Bankrate.com web site, click on Calculators in the top tool bar. Scroll down the page and click on Compound Interest Calculator. (Found under Most Popular) The calculator assumes you will save until age 65.

<u>Monthly Amt. Saved</u>	<u>Interest Rate</u>	<u>Your Age</u>	<u>Amt. Accumulated</u>
\$25	5%	22	_____
\$50	5%	22	_____
\$50	8%	22	_____
\$50	8%	18	_____
\$50	8%	30	_____

What important investment principles did you learn from the chart above?

Why is it so important to begin saving as early as possible?

Why is it often so difficult to begin saving early?

Teaching Activities for Poster 2: Interest Can Work Against You!

Interest can have a significant, beneficial impact on our lives. For example, we have learned that regular saving combined with the power of compound interest can help someone build up quite a “nest egg” for the future. Also, prudent borrowing, even though it means making interest payments, allows people to purchase high-priced items such as a house and car or to invest in education.

Unfortunately, if you are not careful and accumulate a heavy burden of debt, then interest can work against you. This is especially true when people accumulate high-interest debt and only pay it off in small amounts. This is a significant problem with credit cards since they frequently have high rates of interest, especially for people with poor credit ratings.



In November 2007, the AmericaSaves web site (www.americasaves.org) reported that people in the United States spent well over \$75 billion a year on credit card interest and fees. Families who consistently had credit card balances paid an average of \$1,500 a year in interest and fees. If these people saved that \$1,500 in an account earning only five percent interest, in 40 years they would have nearly \$200,000! The web site noted that taking on too much debt also lowers a person’s credit score. A low credit score means that people end up paying higher interest rates on all consumer and mortgage loans. A low credit score also makes it harder to rent an apartment, get utility services, and even get a job. Furthermore, too much debt can add a lot of stress to someone’s life, negatively affecting family life and work performance.

So it’s important that your students learn how to avoid the problems of too much high-interest debt. Bankrate.com web site has some good information for students. Also, there are excellent lessons on credit and credit cards in *Financial Fitness for Life: Bringing Home the Gold, Part C – Spending and Credit*. (Available from the National Council on Economic Education - www.ncee.net).

An excellent resource is the booklet, *The ABCs of Credit Card Finance, Essential Facts for Students*, published by the Center for Student Credit Card Education, Inc. Teachers may order free booklets for students and can download very useful PowerPoint presentations. See www.cscce.com.

Also check out the excellent What’s My Score web site of the Indiana Secretary of State. Students can play Financial Football to improve their financial literacy! Check it out at www.whatsmyscore.org.

Before you do the next two activities with your students, go over some of the interesting credit card facts in Visual 2-1. These were collected by the Federal Reserve, which conducts a consumer finances survey every three years.

We trust that using the How Interest Can Work *Against* You poster and doing the following activities with your students will help them make better credit decisions.

Visual 2-1

Credit Card Facts

In 2007, the following facts were collected by the Federal Reserve about consumer finances:

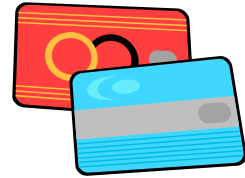
Percent of families with credit cards	73.0%
Percent of <u>all</u> families carrying a credit card balance	46.1%
Percent of families <u>with a credit card</u> carrying a balance	60.3%
Median balance for families carrying a credit card balance	\$3,000
Mean (average) balance for those families carrying a credit card balance	\$7,300
Percent of all credit cards that are bank cards (e.g. Visa, MasterCard, American Express)	96.1%
Percent of bankcard holders who usually pay their balances in full each month	55.3%

From the 2007 Federal Reserve Survey of Consumer Finances

Teaching Activity 1: The High Cost of Too Much Credit Card Debt

First, explain these helpful aspects of credit cards to your students:

- Safer than carrying large amounts of cash
- Useful in emergencies
- Convenient for travel, purchasing over the Internet, etc.
- A "free" loan if the balance is paid off monthly
- Benefits often attached to purchases (e.g. frequent flyer miles)



However, explain that carrying a large credit card balance can be a financial burden. Go over Poster 2: How Interest Can Work Against You. Point out that people with good credit can get a credit card with a lower interest rate, currently about 14%. However, people with no credit or with poor credit often pay rates of close to 19.8%. In fact, late payments or going past the credit limit can cause the annual percentage rate (APR) to increase significantly. (For a definition of APR see Visual 2-3.)

Emphasize to your students how long it takes to pay off a loan when the APR is very high and when you pay only the minimum required amount. Important! Point out that the poster calculations are based on a minimum payment of 2% or \$20, whichever is greater.

Also, briefly discuss credit card "cash advances." These are loans from a credit card provided in cash. The interest rate on these is very high. These types of loans should probably be avoided or at least paid off very quickly. (Have students research cash advance rates on Bankrate.com.)

Review these three important ideas with your students. (Use Visual 2-2.)

- 1. It is usually best to pay off the credit card balance each month to avoid interest payments.**
- 2. Cards with high interest rates will mean high interest payments on outstanding monthly balances.**
- 3. Paying off a balance with larger monthly payments will greatly lower interest payments and result in the balance being paid off much more quickly.**

Answers to The High Cost of Too Much Credit Card Debt: 1. a. 8 years and 6 months; \$1,039.96 in interest. b. 6 years and 3 months; 481.94 in interest c. The interest rate has a large effect on the amount paid. It is important to keep a good credit rating so you can qualify for a low-rate credit card.

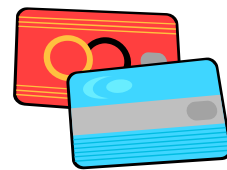
2. a. 2 years, \$199.23 b. You pay a lot less interest and will pay off your debt in a much shorter time if you increase your payments above the minimum amount.
3. \$91.04 monthly payment; \$92.44 total interest paid
4. None! If you pay off the entire monthly balance, there is no interest payment.

Visual 2-2

Three Important Things To Remember About Credit Cards!

- 1. It is usually best to pay off the credit card balance each month to avoid interest payments.**
- 2. Cards with high interest rates will mean high interest payments on outstanding monthly balances.**
- 3. Paying off a credit card balance with larger monthly payments will greatly lower interest payments and result in the balance being paid off much more quickly.**

The High Cost of Too Much Credit Card Debt



Credit cards can be very helpful. They are useful in emergencies, safer than carrying large amounts of cash, and convenient for travel and making Internet purchases. Some carry benefits such as frequent flyer miles, and for most credit cards, if you pay off the balance each month, you pay no interest. So a credit card is like getting a free loan!

But people who build up too much debt on their credit cards end up paying large amounts of interest. This can lead to financial hardship and cause a lot of stress. In the following exercises, you will use this web site to analyze credit card debt:

<http://cgi.money.cnn.com/tools/>. Under Planning, click on Debt Reduction Planner. In Box 1, you will make up a card name and enter the credit card information. In Box 2, you will enter a Payment Plan.

-
1. a. If you have a credit card balance of \$1,000, your Annual Percentage Rate (APR) is 19.8%, and in Box 2 you choose to pay the minimum payment plan (use 2% of \$1,000, or \$20, for the amount in Box 1 under minimum monthly payments), how many years will it take to pay off the debt? _____ How much interest will you pay? _____
b. If nothing changes in 1. above except that the APR is 14%, how many years will it take to pay off the debt? _____ How much interest will you pay? _____
c. Experiment with other interest rates. How important is it to have a good credit rating so you can get a credit card with a lower interest rate? _____

 2. a. Use the information from 1. above. In Box 2, if you decide to pay \$50 per month (Fixed Payments) instead of the minimum payment plan, how many years will it take to pay off the balance? _____ How much interest will you pay? _____
b. What did you learn from comparing your answers to the answers in 1. above?

 3. If you have a \$1,000 balance, and a 19.8% APR, how big would your monthly payment be if you wanted to pay off the \$1,000 in exactly one year? (Hint: In Box 2, choose Debt-free deadline.) What is the payment? _____ How much interest will you pay? _____

 4. If you could pay off the \$1000 at once, during the grace period, how much interest would you pay? _____

 5. Experiment with other balance amounts, interest rates, and payment plans.

Teaching Activity 2: Investigating Credit Card Offers



There is a great variety in credit cards, so it is very important to tell students to shop carefully when searching for a credit card. Use Visual 2-3 to discuss differences in credit cards with your students. Main differences to consider are:

Annual Percentage Rate (APR): This is the cost of credit expressed as an annual rate. It must be calculated by using a formula set by federal law and disclosed to the borrower to aid in comparing different credit plans. Even for people with a similar credit rating, this can vary from credit card to credit card by several percentage points. And if a person has poor or no credit, the APR will be quite a bit higher than for someone with good credit. If you are late or miss payments, the credit card company may increase your interest rate!

Credit Limit: This is the maximum amount that can be charged by the credit card holder. People with a good credit rating typically are eligible for a higher credit limit.

Fees: There are many different kinds of credit card fees that vary considerably from card to card. If you shop carefully for a good credit card, maintain a good credit rating, and pay balances on time, you can avoid many of these fees.

- **Annual fee**: This is a fee charged each year for the privilege of using the card. Some cards charge an annual fee and some do not.
- **Monthly maintenance/participation fee**: This is a monthly participation charge. Many cards do not charge this fee.
- **Application Fee**: This is a fee that may be charged for setting up a credit card account.
- **Late Payment Fee**: This fee is charged if payment does not arrive by the due date.
- **Balance Transfer Fee**: This is a fee charged to move the entire balance from one card to another.
- **Over the Limit Fee**: This fee can be charged if you make charges that exceed your credit limit.
- **Currency Exchange Fee**: This may be charged if you make international purchases.
- **Set-up Fee**: This fee may be charged when you open an account.
- **Minimum Cash Advance Fee**: This fee may be charged if the interest charged on a cash advance doesn't reach a certain minimum amount.

Special Card Benefits: Some cards issue “shopping” points or frequent flyer miles for credit card purchases. These cards often have an annual fee, but they can be very beneficial, especially if you pay off the balance each month. Make sure the annual fee is not greater than the benefits you will earn with the points!

Major Differences in Credit Cards

Annual Percentage Rate (APR): This is the cost of credit expressed as an annual rate. It must be calculated by using a formula set by federal law and disclosed to the borrower to aid in comparing different credit plans. Even for people with a similar credit rating, this can vary from credit card to credit card by several percentage points. If you have poor or no credit, the APR will be quite a bit higher compared to someone with good credit.

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Special Card Benefits: Some cards have benefits such as “shopping” points or frequent flyer miles for credit card purchases. These cards sometimes have an annual fee, but they can be very beneficial, especially if you pay off the balance each month. Make sure the annual fee is not greater than the benefits you will earn using the points!

Different Credit Card Fees

- **Annual fee:** A fee charged each year for the privilege of using the card. Some cards charge an annual fee and some do not.
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- **Set-up Fee:** This fee may be charged when you open an account.
- **Minimum Cash Advance Fee:** This fee may be charged if the interest charged on a cash advance doesn't reach a certain minimum amount.

Investigating Credit Card Offers



Millions of credit cards have been issued in the United States. Almost everywhere you turn, you can see promotions encouraging you to apply for a credit card. But have you ever examined these promotions carefully? You will be surprised at how many differences there are!

Exercise 1: With a classmate, examine the Rate, Fee, and Other Cost Information that your teacher will give you. This is actual information from a real credit card offer. This card offers frequent flyer airline points for each dollar charged to the card.

Discuss the specific terms. Are there any you don't understand? Would you apply for this credit card? Why or why not?

Exercise 2: Collect some other credit card offers people receive in the mail. Collect or write down differences in credit card terms. Then, choose a credit card that would be best if you were applying for your first credit card. Do you think you would qualify?

Exercise 3: Go to Bankrate.com and click on Credit Cards. Under Credit Cards: Compare Rates, you can choose Card Type, Credit Type, or Credit Card Issuer. Experiment with different options. Which card would you apply for? Why?

Do you think you would be eligible for this card? Why or why not?

RATE, FEE, AND OTHER COST INFORMATION

Annual Percentage Rate (APR) for purchases	18.24% variable. ^a
Other APRs	<u>Balance Transfer APR</u> : 18.24% variable. <u>Cash Advance APR</u> : 24.24% variable <u>Default APR</u> : Up to 32.24% variable. See explanation below ^b <u>Overdraft Advance APR</u> : 13.99% fixed (not available in some states)
Variable rate information	The following APRs may vary monthly based on the Prime Rate: ^c <u>Purchase and Balance Transfer APR</u> : The Prime Rate plus 9.99%. <u>Cash Advance APR</u> : The Prime Rate plus 15.99%. <u>Default APR</u> : The Prime Rate plus up to 23.99%.
Grace period for repayment of purchase balances	At least 20 days.
Method of computing the balance for purchases	Average daily balance method (including new purchases).
Annual fee	None first year. After that, \$75.00.
Minimum finance charge	\$1.00
Transaction fee for balance	3% of the amount of each transaction, but not less than \$5.00 nor more than \$99.00.
Transaction fees for cash	3% of the amount of the transaction, but not less than \$10.00.
Late Payment fee	\$15.00 on balances up to, but not including, \$100.00; \$29.00 on balances of \$100.00 up to, but not including, \$250.00; and \$39.00 on balances of \$250.00 and over.
Over-the-Credit-Limit fee	\$39.00
International Transactions	3% of the U.S. dollar amount of the transaction, whether originally made in U.S. dollars or converted from a foreign currency.

a Rates, fees, and terms may change: We reserve the right to change the account terms (including the APRs) at any time for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account. For example, we may change the terms based on information in your credit report, such as the number of other credit card accounts you have and their balances. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. Any changes will be in accordance with your account agreement.

b Your APRs may increase if you default under any Cardmember Agreement you have with us for any of the following reasons: We do not receive, for any payment that is owed on this Account or any other account or loan with us, at least the minimum payment due by the date and time due; you exceed your credit line on this Account, if applicable; or you make a payment to us that is not honored by your bank. Your APRs may increase as of the first day of the billing cycle in which the default occurs. We may consider the following factors to determine the default rate: the length of time your Account has been open; the existence, seriousness and timing of defaults; other indications of your Account usage and performance; and information about your other relationships with us, any of our related companies or from consumer credit reports.

c The "Prime Rate" is the highest prime rate published in the Money Rates column of *The Wall Street Journal* two business days before the Closing Date on the statement for each billing period. Variable APRs are based on the 8.25% prime rate on 09/18/2007.

