Go Figure: Your Credit Is Built on Trust

Overview:
Teens understand that credit and money markets are based on trust and that honorable people honor their debts and protect their reputations.

Materials:

- Worksheet for each student (master provided — you may want to block out answer section before photocopying and distributing)

Handout:

- Go Figure: Your Credit Is Built on Trust

Procedure:

1. Ask students how credit cards work. Say: Credit cards offer convenience, but they're not free or easy money; there are costs to using them. They're a form of borrowing, and all borrowing is based on trust. If you give people reason to believe you won't honor your debts, they won't trust or extend credit to you. Having a clean credit history is important in our society and is another reason to build and maintain a good reputation. When people trust you, you can more easily leverage your time and resources.
2. Explain that by using a credit card, users enter into a contract with the credit card company. Different companies have different terms, and it is the user's responsibility to understand them. For instance, if you don't pay off what you owe each month, you'll be charged a fee based on a percentage of what you owe; this is called a finance charge. The method used to calculate this fee makes a difference in how much you pay.
3. Pass out copies of the handout. Give students 10 minutes to see how this works and answer the questions. While they work, write on the board some or all of the following terms to discuss:

- Annual Percentage Rate (APR). The cost of credit expressed as a yearly rate.
- Periodic Rate. The rate the card issuer applies to the balance to figure the finance charge for each billing period (the annual rate divided by 12).
- Variable Rate. Some card issuers change the APR when specific interest rates (like the prime rate) change. Rate changes raise or lower the amount of the finance charge you will pay on your account (if you carry a balance from month to month).
- Grace Period. The period of time the credit card company will not charge interest on a new

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purchase — as long as the entire balance is paid before the due date.

- Annual Fee. A fixed amount charged each year for the privilege of using the card.
- Transaction Fees and Other Charges. Fees for cash advances, late payments, or over-limit.
- Balance Computation Method for the Finance Charge. How your card issuer figures how much interest to charge if you don't pay your balance off in full.

This lesson is from the *Good Ideas* book, available for purchase from the CHARACTER COUNTS! online store: http://www.charactercounts.org/materials

Information derived from the Federal Trade Commission's "Facts for Consumers" (www.pueblo.gsa.gov/cic_text/money/credit-card/credcard.htm)

McREL standards

Economics

Standard 7. Understands savings, investment, and interest rates.

Level IV, Benchmark 3. Understands that higher interest rates provide incentives for people to save more and to borrow less, and vice versa.

http://www.mcrel.org/Standards-benchmarks/