## **Lesson Description**

Students learn about credit card usage and credit card consumer protection laws through class discussion. Students analyze the terms of credit cards and learn about responsible use of credit cards by computing the cost of credit, analyzing credit card disclosures and credit card statements. The students will debate a real-world scenario—the consumer vs. the credit card company—and conduct a credit-card-usage survey as an out-of-class activity. The students use an online calculator to determine the cost of making the minimum payment on credit card accounts.

## Concepts

Collateral

Credit

Credit Card Act of 2009

Credit card

Fair Credit and Charge Card Disclosure Act

Fair Credit Billing Act

Incentives

Interest

Truth in Lending Act

Unsecured loan

## **Objectives**

### Students will:

- Define the terms listed in the Concepts section of the lesson.
- Explain the importance of analyzing credit card disclosure statements.
- Explain the importance of reviewing credit card statements.
- Compare the advantages and disadvantages of using credit cards.
- Identify ways to avoid credit problems.
- Explain the importance of consumer protection laws.
- Identify ways to use a credit card responsibly.

### **Content Standards**

### **National Standards in K-12 Personal Finance**

**Financial Responsibility and Decision Making:** Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions.
  - Eighth-grade expectation 2: Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.
  - Twelfth-grade expectation 1: Explain how individuals demonstrate responsibility for financial well-being over a lifetime.
- **Standard 4:** Make financial decisions by systematically considering alternatives and consequences.
  - Eighth-grade expectation 4: Use a financial or online calculator to determine the cost of achieving a medium-term goal.

**Planning and Money Management:** Organize and plan personal finances and use a budget to manage cash flow.

- **Standard 3:** Describe how to use different payment methods.
  - Eighth-grade expectation 1: Discuss the advantages and disadvantages of different payment methods, such as stored value cards, debit cards and online payment systems
- **Standard 4:** Apply consumer skills to purchase decisions.
  - Eighth-grade expectation 1: Explain the relationship between spending practices and achieving financial goals.

**Credit and Debt:** Maintain creditworthiness, borrow at favorable terms and manage debt.

- **Standard 1:** Identify the costs and benefits of various types of credit.
  - Eighth-grade expectation 2: Explain how interest rate and loan length affect the cost of credit.
  - Eighth-grade expectation 4: Give examples of "easy access" credit.
  - Eighth-grade expectation 5: Discuss potential consequences of using "easy access" credit.
  - Twelfth-grade expectation 2: Define all required credit card disclosure terms and complete a typical credit card application.
  - Twelfth-grade expectation 3: Explain how credit card grace periods, methods on interest calculation, and fees affect borrowing costs.
- **Standard 4:** Summarize major consumer credit laws.
  - Eighth-grade expectation 1: Give examples of protections derived from consumer credit law.

• Twelfth-grade expectation 1: Summarize consumer credit laws and the protections that they provide.

### **National Standards in Economics**

- **Standard 4:** People respond predictably to positive and negative incentives.
  - Benchmark 3, Grade 8: Incentives can be monetary or non-monetary.
  - Benchmark 1, Grade 12: Acting as consumers, producers, workers, savers, investors and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide the highest possible returns to them.
- **Standard 12:** Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.
  - Benchmark 1, Grade 12: An interest rate is a price of money that is borrowed or saved.
  - Benchmark 6, Grade 12: Riskier loans command higher interest rates than safer loans because of the greater chance of default on the repayment of risky loans.

## **Time Required**

180 - 240 minutes

### **Materials**

- Visuals 2.1, 2.2, 2.3 and 2.4
- One yellow highlighter for each student
- A copy of Handouts 2.1, 2.2 and 2.11 for each student
- A copy of Handouts 2.3, 2.4, 2.5, 2.6, 2.7 and 2.8 assembled as a *Credit Card Package* for each student
- Four copies of Handout 2.9 for each student
- Enough copies of Handout 2.10, cut in half to provide one half-sheet copy for each student
- Computers with internet access
- One copy of Handouts 2.2, 2.3, 2.6, 2.7, 2.8 and 2.11— Answer Key for the teacher

### **Procedures**

- Define **credit** as the ability of a consumer to obtain goods or services before payment, based on an agreement to pay later. Explain that using a credit card is one form of credit and choosing and using credit cards are important components of personal finance. Explain that students will learn strategies for handling credit cards responsibly.
- 2. Tell the students that credit card usage is a subject of much interest. The following information is provided by Nellie Mae, a subsidiary of Sallie Mae, the nation's largest student loan provider.
  - In 2006, 92 percent of graduate students had at least one credit card:
  - The average outstanding balance on graduate student credit cards was \$8,612:
  - 67 percent of graduate students obtained their first credit card as an undergraduate student.

(www.nelliemae.com/pdf/ccstudy\_2006.pdf)

- In 2004, 76 percent of undergraduates began the school year with credit cards;
- The average outstanding balance on undergraduate credit cards was \$2,327;
- 56 percent of the undergraduates reported having obtained their first card at age 18.
- Undergraduates reported direct mail solicitation as the primary source for selecting a credit card

(www.nelliemae.com/pdf/ccstudy\_2005.pdf)

- 3. Explain the following information about credit cards.
  - A credit card represents an agreement between a lender—the institution issuing the card—and the cardholder. It is a convenient form of borrowing with a revolving line of credit. This means it can be used repeatedly to buy products or services, up to a specific dollar amount. The credit card company determines this dollar amount based on a credit card holder's credit history.
  - Credit cards can be called "easy access" credit because they are relatively easy to acquire.
  - Credit card holders receive a monthly statement from the credit card issuer
    that includes a list of purchases and payment information from their credit card
    issuer. Credit card holders must pay a minimum amount each month to avoid
    fees. The minimum payment required is determined by the credit card company
    and is printed on the monthly statement.
  - **Interest** is the price of using someone else's money. Credit card holders use the credit card issuer's money to make purchases. If the cardholder does not pay the full statement amount by the due date, the credit card companies add interest to the balance the cardholder owes.

- A credit card is an unsecured loan. This means that it is a loan that is not backed with collateral. Collateral is property required by a lender and offered by a borrowee as a guarantee of payment on a loan. It is a borrower's savings, investments or the value of the asset purchased, which the lender can seize if the borrower fails to repay a debt.
- From the lender's perspective, an unsecured loan is quite risky. This means that the possibility that the borrower may not repay is very high. Therefore, the interest rate on credit cards is often high.
- 4. Explain that there are different kinds of credit cards. Some are major credit cards and can be used at any business that accepts credit cards. These credit cards are issued by banks. The credit card companies manage credit card services for banks, such as accepting and approving credit card applications, approving credit card purchases and advertising credit cards and their features. Credit card companies make money from charging a fee with each credit card transaction. Mastercard and Visa are major credit card companies. Ask students to name some advantages of these cards. (Answers may vary but should include using one card for all purchases, having only one bill to pay, not having to carry a lot of money and still being able to make purchases, being able to buy something now and pay for it later.)
- 5. Explain that some retailers have a store-branded credit card. This is a strategy to encourage shoppers to spend more in their stores. These retail credit cards typically charge higher interest rates than other cards, but may give special discounts for card users. Ask students to name some retail credit cards. (Accept any major retail store such as Target, Sears, and J.C. Penney.)
- 6. Display Visual 2.1: Did You Know. Discuss the facts displayed on the visual:
  - Approximately what percentage of Americans "threw currency away" in 2007 because of the way in which they used their credit cards? (the 40% that carried a balance on their cards)
  - Why has the total amount of money charged in credit card penalty fees increased? (There has been a rise in credit card debt. More people have failed to pay their credit cards according to the terms of the card.)
  - Why would credit card companies continue to send credit card offers to customers who were already deeply in debt? (Answers may vary but should include discussion about the fact that credit card companies earn a fee for each credit card transaction and they earn interest when cardholders fail to pay the entire balance each month.)
  - Which group of customers do you think credit card companies prefer—the
    60 percent that pay the balance in full each month or the 40 percent that carry
    a balance from month to month? (Credit card companies prefer the 40 percent
    group because they earn revenue for the interest charged to those who don't
    pay off their balances.)
- 7. Define **incentives** as perceived benefits that encourage certain behaviors. Inform

the class that credit card companies are competitive, and they often offer incentives to entice consumers. The incentives may be promotional low interest rates, special store discounts, reward programs that allow card holders to accumulate and redeem points for merchandise, free air travel or cash rewards. Consumers have many choices, and not all credit cards have incentives.

- 8. Display *Visual 2.2: Top Incentives for College Students to Use Credit Cards.* Point out the top four incentives for college students to use a credit card according to the 2006 survey cited on the visual.
- 9. Conduct a class survey of incentive preferences using the same four incentive options. Record the results of the survey, convert the results into percentages and ask the students how and why the results differ from those of the college survey. (Answers may vary but should include differences in personal preference. For example, one consumer may be interested in free airline tickets because of frequent visits to family and friends in other cities, while another consumer never flies and would prefer a discount at a local store.)
- 10. Point out that incentives are a marketing technique for credit card companies and retail stores, and before choosing a credit card, it is very important for consumers to consider the terms of credit as well as the incentives. All credit cards do not have the same terms. It is the consumer's responsibility to know and understand the terms.
- 11. Ask the students how consumers can make wise decisions about which credit card to choose when there are many credit cards being offered with different incentives and terms. (Accept any answers given and close the discussion by stating that this lesson will provide answers.)
- 12. Explain that the **Truth in Lending Act** helps consumers make credit card decisions. This federal law mandates disclosure of information about the cost (terms) of credit. Creditors must display both their finance charges and annual percentage rate on forms they use. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects consumers against unauthorized use of their credit cards. If a card is lost or stolen, the maximum amount a consumer must pay is \$50. The **Fair Credit and Charge Card Disclosure Act** mandates a box on credit card applications that describes key features and costs. The **Fair Credit Billing Act** is an addition to the Truth in Lending Act that requires prompt credit for payments made. It also allows consumers to dispute billing errors on a credit card and withhold payment for damaged goods.

- 13. Tell the students that the **Credit Card Act of 2009** established new credit card rules and amended previous acts with regulations prohibiting unfair credit card practices. This law:
  - requires changes on credit card disclosures,
  - places restrictions on credit card companies with limits on fees and rate increases, and
  - requires consistency in payment dates and times.
- 14. Explain that one issue addressed in the new rules is the over-the-credit limit fee. The rule states that consumers must tell the credit card company if they want the company to allow transactions that would take the consumers' accounts over the credit limit. The company may not charge an over-the-limit fee unless the cardholder has told the credit card company to allow over-the-credit limit purchases on his or her account. If the cardholder has not told the credit card company to allow over-the-limit transactions, any transaction that would cause an account to go over the credit limit will be rejected.
- 15. Explain that another important change resulting from the Credit Card Act of 2009 involves consumers under the age of 21. The law states that consumers under the age of 21 must demonstrate that they are able to make payments or they must have a co-signer to open a credit card account.
- 16. Explain that laws and practices regarding credit cards are subject to change based on consumer demand and the competitive credit card market. Credit card holders are responsible for knowing what the current laws are. When changes are made, credit card issuers notify cardholders of the changes. Consumers are responsible for reading the notifications and information and acting accordingly.
- 17. Give each student a copy of *Handout 2.1: Sample Credit Card Disclosure*. Point out that although the information in the handout is included with the credit card information consumers receive with their credit cards; many consumers do not read the information.
- 18. Give each student a yellow highlighter. Tell students to read Handout 2.1 and highlight any information that would be important in choosing and using a credit card.
- 19. After the students have finished highlighting their copies of the handout, ask them to share with the class what they highlighted and why.
- 20. Distribute a copy of *Handout 2.2: Credit Cards and Law* to each student. Instruct the students to read the information in the box and answer the questions in the second page by writing their answers on the handout.

- 21. After the students have finished answering the questions on Handout 2.2, ask students to share their answers. Use Handout 2.2—Answer Key to check their answers.
- 22. Discuss the following questions about the terms of credit cards:
  - What are the consequences to consumers if they neglect to read and understand the terms of their credit card? (Possible Answers: Without knowing the terms of a credit card, a consumer could end up paying a high interest rate and be charged late fees and over-the-credit limit fees.)
  - How can the terms of a credit card affect the amount of currency a consumer has to spend on other things? (Possible Answers: High interest rates and fees will add to the cost of the charges made. The end result of paying high interest rates and fees is less currency available for other things.)
- 23. Tell students that using a credit card and making payments on the card are a package deal—charging and paying.
- 24. Distribute a "Credit Card Package" to each student. Divide the class into pairs.

  Instruct each pair of students to work together to complete the Credit Card Package.
- 25. When all pairs of students have completed their Credit Card Packages, discuss their results:
  - How could John Doe have avoided problems with fees and charges on his account? (He could have paid his account by the due date.)
  - What were some advantages of using a credit card? (convenience, a loan that allows consumers to buy now and pay later, paying one bill instead of several)
  - What were some disadvantages of using a credit card? (If the full amount is not paid by the due date, interest charges are added to the balance. If the terms of the credit card are not met, late fees and penalties are added.)
  - How does using a credit card compare with using cash? (A credit card is more convenient to carry and use than cash. There are times when a credit card is required. For example, renting a car and making a hotel reservation require a credit card.)
  - Did John end up throwing currency away? (Yes, John threw money away because of interest charges, late fees and over-the-credit limit fees.)

26. After discussing the completed Credit Card Packages, ask each student to refer to their completed copy of *Handout 2.7: Number Search*. Example:

NUMBER SEARCH					
\$35	30	\$35	\$27	\$0	
2	10.99%	14.99%	25	8.99%	
T\$1.50	\$19	FREE	\$64	15.99%	
\$475	21.99%	60	\$500	\$29	
28.99%	\$25	\$100	6	1	

- 27. Explain that they will use this handout to play a game similar to bingo. Review the rules as follows:
  - Listen to the guestions read from Handout 2.6.
  - Refer to your completed Handout 2.6 to identify the correct answer to the question and then mark an "X" through the answer on your Number Search grid. To win the game, you must have a vertical, horizontal or diagonal row of "X" answers on the grid.
- 28. Play several rounds. (Optional: Give small prizes to winners.)
- 29. Tell students as a homework project, they will be collecting data related to credit card usage by people they know. Provide each student four survey forms from *Handout 2.9: Credit Card Survey*. Tell the students that each of them should collect data by interviewing four adults, using a separate survey form for each interview, and asking each adult all of the questions on the handout. Tell the students that to protect the adults' confidentiality, they should not put the adults' names on the survey forms. Tell the students to bring their completed surveys to class on a specific date.
- 30. When the students return to class with their completed survey forms, display *Visual 2.3: Credit Card Survey Results*. Divide the class into small groups. Have the members of each group combine the data from their surveys and report the results to the class. As results are reported, record the data on Visual 2.3.

- 31. Ask students to assume the role of a news reporter. Tell them their assignment is to use data and information the entire class collected in the survey to write a news story on the use of credit cards in their local area. The students should convert the data to percentages for their report. Stress the importance of objectivity and confidentiality in this news story to protect the survey participants.
- 32. Explain that people have different views about credit cards. Some consumers may think the terms of a credit card are fair and accept the responsibility to abide by those terms. Others may argue that the disclosures are too complicated to understand and credit card issuers charge unfairly high interest rates and fees. Emphasize that regardless of an individual consumer's point of view, credit card companies are in business to make a profit, and a company's views may not always coincide with that of credit card users.
- 33. Distribute copies of the Consumer's Side column of *Handout 2.10: Different Views* to half the class and copies of the Other Side column of the handout to the remaining half of the class. Ask the students to refer to the source at the bottom of their column and explain to the students that the columns were adapted from an actual newspaper article.
- 34. Ask each student to assume the role of the author of the column he or she has been given. Tell the students to read the column silently and use highlighters to highlight facts important in defending the viewpoint expressed in their column.
- 35. Divide the class into groups of four, so that two students in each group have the Consumer's Side column and the other two students in each group have the Other Side column. Each student should discuss the column information with the group and defend the views in his or her column.
- 36. Display *Visual 2.4: Different Views*. Allow each group of students to present one fact or statement for each side of the visual. Record the facts and statements the groups present on the visual as they are shared. (Optional: To do this activity as a simulation, call on two or three students to represent each side. Assign a student to serve as a judge or choose several students to serve as an arbitration panel. Tell the students to present their view or case in front of the judge or panel, who will determine which side presents the most persuasive case.)
- 37. Give each student a copy of *Handout 2.11: Minimum or Fixed*. Tell the students to use an online calculator to complete the chart and determine the effects of paying different amounts on a credit card account. An online calculator can be found at http://federalreserve.gov/creditcardcalculator/

38. After the students have completed the chart in Handout 2.11, discuss their findings using the answer key. The discussion should include the length of the loan and total interest paid on the loan.

### Closure

- 39. Review the important content in the lesson by asking the following questions:
  - What is credit? (the ability of a consumer to obtain goods or services before payment, based on an agreement to pay later)
  - What are credit cards? (a convenient form of borrowing with a revolving line of credit)
  - What is interest? (Interest is the price of using someone else's money.)
  - When do credit card holders pay interest? (when they don't pay the balance on the card in full each month)
  - Why do credit card holders pay interest? (because they are borrowing from credit card conpanies, they are using someone else's money—the credit card companies'.)
  - What are incentives? (Incentives are perceived benefits that encourage certain behaviors.)
  - What is an unsecured loan? (a loan not backed by collateral)
  - What is collateral? (property required and offered as a guarantee of payment on a loan)
  - Is a credit card a secured or unsecured loan? (unsecured)
  - Why are interest rates higher for unsecured loans? (These are riskier loans. The lender has no guarantee of property if the loan isn't repaid.)
  - Why is it important to analyze credit card disclosure statements? (to be aware of interest rates charged and any penalties or fees that might be charged; so that you know whether or not your interest rate might change and when and why)
  - Why is it important to review credit card statements? (to make sure that transactions listed are accurate, to ensure that payments are credited, to ensure that any interest or fees charged are appropriate)
  - What are the advantages and disadvantages of using credit cards? (Advantages: convenience, a loan to buy now and pay later, paying one bill instead of several. Disadvantages: If the full amount is not paid by the due date, interest charges are added to the balance. If the terms of the credit card are not met, late fees and over-the-credit limit fees are added.)
  - Why are there laws regarding credit cards? (to protect consumers)

 How can consumers avoid credit problems? (by being responsible, by reading the information provided about the credit card, by charging only what they can afford to pay in full when the statement arrives)

### **Assessment**

- 40. Tell students that they will again take the role of news reporters. Tell them that their assignment is to write an article titled "Tips on Using Credit Cards without Throwing Away Your Currency." In the article, students should emphasize that using credit cards is a package deal—charging and paying.
- 41. Ask students to find information about the new credit card rules at www.federalreserve.gov/consumerinfo/wyntk\_creditcard rules.html.

Divide the class into four groups and give each group a different topic:

- New statements
- New disclosures
- Increase in rates or other fees
- Changes to billing and payments

After students have found information, each group will become the "expert" group and teach the class the information learned.

## **Extension Activities**

1. Instruct the class to make a collage on a bulletin board in the classroom, using the disclosure information from credit card offers. Tell the students to place the caption "READ BEFORE USING" on the bulletin-board collage.

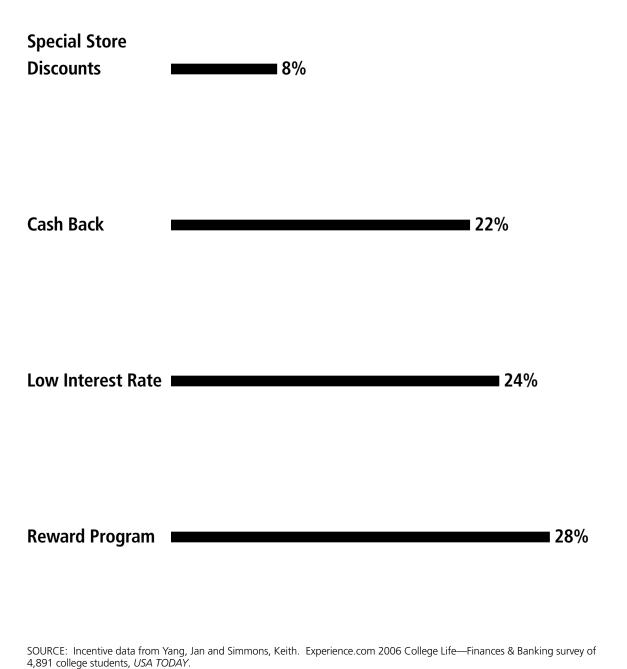
### Visual 2.1: Did You Know

Did you	know	that
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- The average American's credit card debt has risen from \$2,966 in 1990 to \$9,840 in 2007?
- Most Americans have four credit cards in their wallet?
- About 60 percent of all U.S. consumers always or usually pay off their credit card bills in full each month?
- About 40 percent of Americans carry a balance on their cards from month to month?
- In 2007, credit card issuers imposed \$18.1 billion in penalty fees on credit card holders—up more than 50 percent since 2003?
- During the first quarter of 2008, 30 percent of credit card mailings were specifically targeted to customers who already were deeply in debt?
- There are more than 6,000 major credit card issuers?

SOURCE: Weiss, Gary. "Don't Get Clobbered by Credit Cards!" Parade Magazine, August 10 2008.

## **Visual 2.2: Top Incentives for College Students To Use Credit Cards**



# **Visual 2.3: Credit Card Survey Results**

Total	number surveyed
1.	Do you use a credit card? Yes No
2.	How many credit cards do you carry in your wallet?
3.	Do you have a store-brand card or major credit card?
	Store-brand card Major credit card Both
4.	How many times a week do you use a credit card?
	Fewer than five times More than five times
5.	What would you estimate is the average dollar amount of each transaction on your credit card
	\$10 or less more than \$10 but less than \$50 \$50 or more
6.	What incentives does your credit card offer?
7.	What are the advantages of using a credit card?
8.	What are the disadvantages of using a credit card?
9.	Do you know the interest rate that you pay on your credit card?Yes No
10.	Do you always or usually pay off the full balance on your credit card(s) each month? Yes No

## **Visual 2.4: Different Views**

The Consumer's Side	The Other Side

## **Handout 2.1: Sample Credit Card Disclosure Information**

Credit Card Disclosure Inform	nation			
Annual percentage rate (APR) for purchases	8.99%, 10.99%, or 12.99% introductory APR for one year, based on your creditworthiness.  After that, your APR will be 14.99%. This APR will vary with the market based on the Prime Rate			
APR for balance transfer	15.99% This APR will vary with the market based on the prime rate.			
APR for cash advances	Your cash APR may vary monthly. The rate will be determined by adding 14.99% to the U.S. prime rate.			
Penalty APR and when it applies	28.99% This APR will be applied to your account if you:  1. make a late payment, 2. go over the credit limit, 3. make a payment that is returned or, 4. do any of the above on another account that you have with us.  How long will the penalty APR apply? If your APRs 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				
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 web site of the Federal Reserve Board at www.federal reserve.gov/creditcard.			
Fees				
	Set-up and Maintenances Fees			
Annual fee	\$20			
Account set-up fee	\$20 (one-time fee)			
Participation fee	\$12 annually (\$1 per month)			
Additional card fee	\$5 (if applicable)			
	Transaction Fees			
Balance transfer	Either \$5 or 3% of the amount of the transaction, whichever is greater (maximum fee: \$100)			
• Cash advance Either \$5 or 3% of the amount of each cash advance, whichever is great				
Foreign transaction	2% of each transaction in U.S. dollars			
	Penalty Fees			
• Late payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000			
Over-the credit limit	\$29			
<ul> <li>Returned payment</li> </ul>	\$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.

### Handout 2.2: Credit Cards and Law

**Directions:** Use the information in the box below and refer to Handout 2.1 to answer the questions on the next page.

Using a credit card is a convenient way to buy now and pay later. It is a type of loan that must be repaid. Most credit cards are unsecured, which means no collateral is required. Interest charges, late fees and other penalties can be incurred according to the terms of a credit card, and different cards have different terms.

By federal law, credit card companies must provide a credit card disclosure form that specifically explains the terms of the card. These are some of the important laws that protect consumers:

- The Credit Card Act (2009) provides new credit card rules and amends previous acts with regulations prohibiting unfair credit card practices and changes in what is required on credit card disclosures. The act puts restrictions on credit card companies by limiting fees and rate increases and requiring consistency in payment dates and times.
- The Fair Credit and Charge Card Disclosure Act (1988) is part of the Truth in Lending
  Act. It requires lenders who offer a credit card to disclose the APR, the amount of any
  annual fee and requires that all credit card applications include a box describing key
  features and costs.
- The Fair Credit Billing Act (1974) is an addition to the Truth in Lending Act that requires
  prompt credit for payments and error corrections on consumer credit cards. It also allows the cardholder to dispute billing errors on a credit card and withhold payment for
  damaged goods.
- The Truth in Lending Act (1968) mandates disclosure of information about the cost of credit. Both the finance charges and the annual percentage rate must be displayed prominently on forms and statements used by creditors. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects the credit card owner against unauthorized use of a credit card. If a credit card is lost or stolen, the maximum amount a credit card owner is liable for is \$50.

It is because of these and other federal laws that credit card disclosures continue to be revised for clarification and consumer protection. However, it is a credit card holder's responsibility to know what the disclosure form says.

SOURCE: www.federalreserve.gov/creditcard/regs.html

## Handout 2.2: Credit Cards and Law—Part II

Answer the following questions by referring to Handout 2.1 and Handout 2.2—Part I.

1.	What is the APR for purchases after one year?
2.	What is the APR for balance transfers?
3.	What is the APR for cash advances?
4.	How much is the fee for late payment?
5.	What is the over-the-credit-limit fee?
6.	What is the returned payment fee?
7.	Which sections of the credit card disclosure form are affected by the Fair Credit and Charge Card Disclosure Act?
8.	What part of the credit card disclosure is required because of the Truth in Lending Act?
9.	What act requires consistency in payment dates and times and places new limits on fees and rate increases?
10.	Why are federal laws regarding credit cards important? Write a paragraph with supporting details to defend your answer.

## Handout 2.2: Credit Cards and Law—Answer Key

**Directions:** Use the information in the box below and refer to Handout 2.1 to answer the questions on the next page.

Using a credit card is a convenient way to buy now and pay later. It is a type of loan that must be repaid. Most credit cards are unsecured, which means no collateral is required. Interest charges, late fees and other penalties can be incurred according to the terms of a credit card, and different cards have different terms.

By federal law, credit card companies must provide a credit card disclosure form that specifically explains the terms of the card. These are some of the important laws that protect consumers:

- The Credit Card Act (2009) provides new credit card rules and amends previous acts with regulations prohibiting unfair credit card practices and changes in what is required on credit card disclosures. The act puts restrictions on credit card companies by limiting fees and rate increases and requiring consistency in payment dates and times.
- The Fair Credit and Charge Card Disclosure Act (1988) is part of the Truth in Lending Act. It requires lenders who offer a credit card to disclose the APR, the amount of any annual fee and requires that all credit card applications include a box describing key features and costs.
- The Fair Credit Billing Act (1974) is an addition to the Truth in Lending Act that requires
  prompt credit for payments and error corrections on consumer credit cards. It also allows the cardholder to dispute billing errors on a credit card and withhold payment for
  damaged goods.
- The Truth in Lending Act (1968) mandates disclosure of information about the cost of credit. Both the finance charges and the annual percentage rate must be displayed prominently on forms and statements used by creditors. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects the credit card owner against unauthorized use of a credit card. If a credit card is lost or stolen, the maximum amount a credit card owner is liable for is \$50.

It is because of these and other federal laws that credit card disclosures continue to be revised for clarification and consumer protection. However, it is a credit card holder's responsibility to know what the disclosure form says.

SOURCE: www.federalreserve.gov/creditcard/regs.html

## Handout 2.2: Credit Cards and Law—Part II—Answer Key

Answer the following questions by referring to Handout 2.1 and Handout 2.2—Part I.

1.	What is the APR for purchases after one year? (14.99%)
2.	What is the APR for balance transfers? (15.99%)
3.	What is the APR for cash advances? (14.99% plus the U.S. Prime Rate)
4.	How much is the fee for late payment? (\$29 if the balance is less than \$1,000; \$35 if the balance is \$1,000 or more)
5.	What is the over-the-credit-limit fee? (\$29)
6.	What is the returned payment fee? (\$35)
7.	Which sections of the credit card disclosure form are affected by the Fair Credit and Charge Card Disclosure Act? (the entire page of Handout 2.1)
8.	What part of the credit card disclosure is required because of the Truth in Lending Act? (the entire page of Handout 2.1)
9.	What act requires consistency in payment dates and times, and places new limits on fees and rate increases? (The Credit Card Act of 2009)
10.	Why are federal laws regarding credit cards important? Write a paragraph with

## Handout 2.3: The Beginning

On March 1, ABC Clothing Store had a special 10-percent-off sale on all merchandise for customers who opened a new credit card account. Knowing that this was a special one-day-only promotion, John Doe opened a credit card account and was approved for a \$500 credit limit. The office clerk explained some of the details of his credit card account, gave him some papers about his account including a credit card disclosure form and told him that he had a great introductory APR of 10.99% for one year! He stuffed everything in his pocket to read later except for the over-the-credit-limit authorization, which he quickly signed and returned. He was ready to shop—not deal with reading papers! And he did lots of shopping. Not only did John buy several things for himself, he also bought several gifts for friends and family. Of course, buying was easy because John had a new credit card. A simple swipe of the card and his signature was all it took to finalize his transactions. According to the sales receipts, the total amount for John's purchases was \$440.04, and the tax was \$34.96. The receipts also included information on his savings. John saved \$48.89 on purchases and \$4.15 in tax.

### Wow! What a savings!

The excitement of the sale day and the month of March quickly passed. John Doe's credit card statement arrived in the mail on April 6. Busy with other things, John put the unopened statement aside and had a passing thought about the papers that he had stuffed in his pocket when he opened the account. He'd read them later when he paid the credit card bill.

On Monday, April 26, he remembered his credit card statement. After opening the statement, John immediately accessed his account online on April 26 and made the minimum payment due. The post date for the payment was April 27. John was pleased; his payment was only \$19.

# Read the information above and refer to Handouts 2.4 and 2.5 to find answers to these questions:



2. How much did John save on purchases and tax according to the sales receipts?

## Handout 2.3: The Beginning—Answer Key

On March 1, ABC Clothing Store had a special 10-percent-off sale on all merchandise for customers who opened a new credit card account. Knowing that this was a special one-day-only promotion, John Doe opened a credit card account and was approved for a \$500 credit limit. The office clerk explained some of the details of his credit card account, gave him some papers about his account including a credit card disclosure form and told him that he had a great introductory APR of 10.99% for one year! He stuffed everything in his pocket to read later except for the over-the-credit-limit authorization, which he quickly signed and returned. He was ready to shop—not deal with reading papers! And he did lots of shopping. Not only did John buy several things for himself, he also bought several gifts for friends and family. Of course, buying was easy because John had a new credit card. A simple swipe of the card and his signature was all it took to finalize his transactions. According to the sales receipts, the total amount for John's purchases was \$440.04, and the tax was \$34.96. The receipts also included information on his savings. John saved \$48.89 on purchases and \$4.15 in tax.

### Wow! What a savings!

The excitement of the sale day and the month of March quickly passed. John Doe's credit card statement arrived in the mail on April 6. Busy with other things, John put the unopened statement aside and had a passing thought about the papers that he had stuffed in his pocket when he opened the account. He'd read them later when he paid the credit card bill.

On Monday, April 26, he remembered his credit card statement. After opening the statement, John immediately accessed his account online on April 26 and made the minimum payment due. The post date for the payment was April 27. John was pleased; his payment was only \$19.

# Read the information above and refer to Handouts 2.4 and 2.5 to find answers to these questions:

- 1. What incentive was offered to John Doe to open a new credit card account? (The store offered a 10 percent discount on purchases if John opened a credit card account.)
- 2. How much did John save on purchases and tax according to the sales receipts?  $(\$48.89 \text{ on purchases} + \$4.15 \text{ in } \tan = \$53.04 \text{ saved})$

## Handout 2.4: John's Credit Card Disclosure Information

Credit Card Disclosure Inform	nation
Annual percentage rate (APR) for purchases	8.99%, 10.99%, or 12.99% introductory APR for one year, based on your creditworthiness.  After that, your APR will be 14.99%. This APR will vary with the market based on the Prime Rate
APR for balance transfer	15.99% This APR will vary with the market based on the prime rate.
APR for cash advances	Your cash APR may vary monthly. The rate will be determined by adding 14.99% to the U.S. Prime Rate.
Penalty APR and when it applies	28.99% This APR will be applied to your account if you:  1. make a late payment, 2. go over the credit limit, 3. make a payment that is returned, or 4. do any of the above on another account that you have with us.  How long will the penalty APR apply? If your APRs 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 \$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 web site of the Federal Reserve Board at www.federal reserve.gov/creditcard.
Fees	
	Set-up and Maintenances Fees
• Annual fee	\$20
Account set-up fee	\$20 (one-time fee)
Participation fee	\$12 annually (\$1 per month)
Additional card fee	\$5 (if applicable)
	Transaction Fees
Balance transfer	Either \$5 or 3% of the amount of the transaction, whichever is greater (maximum fee: \$100)
• Cash advance Either \$5 or 3% of the amount of each cash advance, whichever is great	
Foreign transaction	2% of each transaction in U.S. dollars
	Penalty Fees
Late payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000
Over-the credit limit	\$29
Returned payment	\$35

# Handout 2.5: John Doe's April Statement

Minimum Payment D Payment Due Date . <b>Late Payment War</b>	Oue	\$19.00 04/24/XX
Current Balance		
If you make no additional charges using this card and each month you pay only the minimum payment	You will pay off the balance shown on this statement in about  2 years  1 year	And you will end up paying about this much in interest \$64
	late fee and your AP APR of 28.99%.  Minimum Paymen minimum payment e and it will take you I For example:  If you make no additional charges using this card and each month you pay  only the minimum payment	late fee and your APRs may be increased APR of 28.99%.  Minimum Payment Warning: If you n minimum payment each period, you will and it will take you longer to pay off you For example:  If you make no additional charges using this card and each month you pay  only the minimum payment  2 years

Transactions					
Reference Number	Transaction Date	Post Date	Description of Transaction or Credit	Amount	
67985645	03/01	03/02	ABC Clothing	\$475.00	
		Fees			
			Late fees	\$0.00	
			Balance transfer fees	\$0.00	
			Cash advance fees	\$0.00	
			Total fees for this period	\$0.00	
20XX Totals Year-to-Date		Int	erest Charged		
Total fees charged in 20XX  Total interest charged in 20XX		Interest charged on purchases		\$0.00	
		Interest charged on cash advances		\$0.00	
		Total interest for this period		\$0.00	

Notice of Change to Your Interest Rates Important Changes to Your Account Terms						
		Revised terms as of // APR for purchases				
	Interest Charge Calculation					
Your Annual Percentage Rate (APR) is the annual interest rate on your account.						
Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge			
Purchases	10.99%	\$475.00	\$0.00			

## Handout 2.5: John Doe's April Statement, (cont.) What if I want CCC Bank to permit transactions that exceed my credit limit on this account? From time to time, there are emergencies that require additional funds. If you want CCC Bank to permit and authorize transactions that exceed your credit limit on this account, you must complete the authorization form below and return it to CCC Bank. If you fail to complete and return the form, transactions that cause you to exceed your credit limit will be denied. Over-the-credit-limit fees apply. (See Disclosure Information.) By opting in to allow transactions that take you over your credit limit, we will impose only one fee per billing cycle. You can revoke your opt-in at any time. CCC Bank reserves the right to reject transactions that are deemed unreasonable. Detach and return to CCC Bank Authorization for transactions that exceed credit limit I authorize and request that CCC Bank permit and authorize transactions that exceed my credit limit. I understand that over-the-credit-limit fees apply and only one fee per billing cycle will be imposed. Printed Name: \_\_\_ Date: \_\_ Account Number: \_\_\_ Detach and return with payment Credit Card Company **Payment Information** 123 Credit Street Account Number: ......123456789 Anytown, USA New Balance Total:....\$475.00 Payment Due Date:.....04/24/XX John Doe Total Minimum Payment Due ......\$19.00 123 Payment Avenue Enter Payment Amount Bottom Line, USA Enclosed .....\$\_\_\_\_\_

### Handout 2.6: Number Search

# Refer to Handout 2.4 and Handout 2.5 to find answers to these questions about John's account.

- 1. What is the APR on purchases?
- 2. How much is the minimum payment?
- 3. What is the current balance on his credit card?
- 4. What is John Doe's credit limit on this card?
- 5. How much more can John Doe charge on this card?
- 6. How much did John Doe owe on this card before this statement?
- 7. If the minimum payment is made by the due date, what amount will be written in the Previous Balance section of the next statement issued?
- 8. If the balance is paid in full, what amount will be paid?
- 9. How much is John's balance transfer fee?
- 10. When did the credit card company post charges to this account?
- 11. How many days are in the billing cycle?
- 12. What is the amount of the late fee if the balance on the card is less than or equal to \$1,000?
- 13. What is the amount of the late fee if the balance on the card is more than \$1,000?
- 14. What is the amount of an over-the-credit limit fee?
- 15. What is the APR after the first year?
- 16. What is the lowest APR on this credit card for the first year introductory offer?
- 17. What is the APR for a balance transfer?
- 18. What is the APR for cash advances?
- 19. What is the penalty APR?
- 20. If the penalty APR is applied, how many consecutive on-time payments must be made to remove this penalty APR?
- 21. How many days after the close of each billing cycle must the payment due date be?
- 22. If John is charged interest, what is the minimum amount he would be charged?
- 23. What is the penalty fee for a returned payment?
- 24. What is John's annual fee for this card?.
- 25. What is the maximum fee for a balance transfer?
- 26. The introductory offer is good for how many years?
- 27. If John pays \$45 each month on this account and makes no additional charges, how many years will it take him to pay off this credit card?
- 28. If John makes no additional charges using this card and continues to make the minimum payment on time each month, how many years will it take John to pay off this credit card?
- 29. How much interest will John end up paying on this card if he makes no additional charges and continues to make the minimum payment each month?
- 30. How much interest will John end up paying on this card if he makes no additional charges and makes a monthly payment of \$45?

## Handout 2.6: Number Search—Answer Key

# Refer to Handout 2.4 and Handout 2.5 to find answers to these questions about John's account.

- 1. What is the APR on purchases? (10.99%)
- 2. How much is the minimum payment? (\$19)
- 3. What is the current balance on this credit card? (\$475)
- 4. What is John Doe's credit limit on this card? (\$500)
- 5. How much more can John Doe charge on this card? (\$25)
- 6. How much did John Doe owe on this card before this statement? (\$0)
- 7. If the minimum payment is made by the due date, what amount will be written in the Previous Balance section of the next statement issued? (\$475)
- 8. If the balance is paid in full, what amount will be paid? (\$475)
- 9. How much is John's balance transfer fee? (\$0, because John did not transfer a balance)
- 10. When did the credit card company post charges to this account? (March 2)
- 11. How many days are in the billing cycle? (30)
- 12. What is the amount of the late fee if the balance on the card is less than or equal to \$1,000? (\$29)
- 13. What is the amount of the late fee if the balance on the card is more than \$1,000? (\$35)
- 14. What is the amount of the over-the-credit limit fee? (\$29)
- 15. What is the APR after the first year? (14.99%)
- 16. What is the lowest APR on this credit card for the first year introductory offer? (8.99%)
- 17. What is the APR for a balance transfer? (15.99%)
- 18. What is the APR for cash advances? (the U.S. Prime Rate plus 14.99%)
- 19. What is the penalty APR? (28.99%)
- 20. If the penalty APR is applied, how many consecutive on-time payments must be made to remove this penalty APR? (6)
- 21. How many days after the close of each billing cycle must the payment due date be? (25)
- 22. If John is charged interest, what is the minimum amount he would be charged? (\$1.50)
- 23. What is the penalty fee for a returned payment? (\$35)
- 24. What is John's annual fee for this card?. (\$20)
- 25. What is the maximum fee for a balance transfer? (\$100)
- 26. The introductory offer is good for how many years? (1)
- 27. If John pays \$45 each month on this account and makes no additional charges, how many years will it take him to pay off this credit card? (1)
- 28. If John makes no additional charges using this card and continues to make the minimum payment on time each month, how many years will it take John to pay off this credit card? (2)
- 29. How much interest will John end up paying on this card if he makes no additional charges and continues to make the minimum payment each month? (\$64)
- 30. How much interest will John end up paying on this card if he makes no additional charges and makes a monthly payment of \$45? (\$27)

## **Handout 2.7: What's the Number (Game Card)**

**Directions:** Select answers from Handout 2.6 to fill in the spaces on the game card in any random order. You may use each number only once on the game card.

What's the Number					
		FREE			

## **Handout 2.8: The May Statement and More**

John Doe did not make any new purchases with his credit card during the month of April. He received a new statement on May 1. There are several blank numbered boxes on *Handout 2.8: The May Statement*. Fill in these boxes and answer the following questions.

1. If John pays his balance in full on the May statement, how much will the March 1 purchase have cost him?

2. If John pays his balance in full on the May statement, how much did he save by shopping on the March 1 sale day instead of paying the regular price?

# Handout 2.8: The May Statement and More, (cont.)

Summary of Account Activity	Payment Information
Previous Balance       1         Payments       \$19.00         Other Credits       \$0.00         Purchases       \$00.00         Balance Transfers       \$0.00         Cash Advances       \$0.00         Past Due Amount       \$0.00         Fees Charged       \$64.00         Interest Charged       \$4.76         New Balance       3	New Balance
4-0-0-0	For example:
Credit Limit	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 about this much in interest
Call Customer Service 1-800-xxx-xxxx	only the minimum payment 2 years \$78
Lost or Stolen Credit Card. 1-800-xxx-xxxx	\$45 1 year \$33

Transactions				
Reference Number	Transaction Date	Post Date	Description of Transaction or Credit	Amount
04272010		04/27	payment	\$19.00
		Fees		
			Late fees	\$29.00
			Over-the-limit fee	\$35.00
			Cash advance fees	\$0.00
			Total fees for this period	<b>5</b> \$
20XX Totals Year-to-Date	6	Int	erest Charged	
Total fees charged in 20XX \$64.00 Total interest charged in 20XX		Interest char	ged on purchases	\$4.76
		Interest char	Interest charged on cash advances	
lotal interest charged in 20	<i>/</i> //	Total intere	Total interest for this period	

Notice of Cha	ange to Your Interest Rates	Important Changes to Your A	Account Terms			
Revised terms as of // APR for purchases						
	Interest Charge Calculation					
Your Annual Percentage Rate (APR) is the annual interest rate on your account.						
Type of Balance Annual Percentage Rate (APR) Balance Subject to Interest Rate Interest Cha						
Purchases	7	\$520.00	8 \$			

Handout 2.8: May Statement and More, (cont.)					
What if I want CCC Bank to pe	ermit transactions that exceed on this account?				
From time to time, there are emergencies that require additional funds. If you want CCC Bank to permit and authorize transactions that exceed your credit limit on this account, you must complete the authorization form below and return it to CCC Bank. If you fail to complete and return the form, transactions that cause you to exceed your credit limit will be denied. Over-the-credit limit fees apply. (See Disclosure Information.) By opting in to allow transactions that take you over your credit limit, we will impose only one fee per billing cycle. You can revoke your opt-in at any time. CCC Bank reserves the right to reject transactions that are deemed unreasonable.					
	ırn to CCC Bank ons that exceed credit limit				
I authorize and request that CCC Bank permit and an I understand that over-the-credit-limit fees apply and Printed Name:  Date:  Account Number:   9	only one fee per billing cycle will be imposed.				
Detach and retu	rn with payment				
Credit Card Company 123 Credit Street Anytown, USA  Payment Information Account Number:					
John Doe 123 Payment Avenue Bottom Line, USA	Payment Due Date:				

## Handout 2.8: The May Statement and More—Answer Key

John Doe did not make any new purchases with his credit card during the month of April. He received a new statement on May 1. There are several blank numbered boxes on *Handout 2.8: The May Statement*. Fill in these boxes and answer the following questions.

- 1. If John pays his balance in full on the May statement, how much will the March 1 purchase have cost him? (\$19 paid on the April statement + \$524.76 on the May statement = \$543.76)
- 2. If John pays his balance in full on the May statement, how much did he save by shopping on the March 1 sale day instead of paying the regular price? (According to the sales receipts, the total amount for John's purchases was \$440.04 and the tax was \$34.96. The receipts also included information on his savings: John saved \$48.89 on purchases and \$4.15 in tax. The regular price would have been \$475.00 + \$48.89 + \$4.15 = \$528.04. If he pays the amount in full on his May statement, using his credit card cost him \$543.76. He did not save anything, but lost \$15.72. [\$43.76 \$528.04 = \$15.72].)

# Handout 2.8: The May Statement and More—Answer Key

Summary of Account Activity	Payment Information		
Previous Balance.       1 \$475.00         Payments.       \$19.00         Other Credits.       \$0.00         Purchases.       \$00.00         Balance Transfers.       \$0.00         Cash Advances.       \$0.00         Past Due Amount.       \$0.00         Fees Charged.       \$64.00         Interest Charged.       \$4.76         New Balance.       3 \$524.76	New Balance		
	For example:		
Credit Limit	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 about this much in interest		
Call Customer Service 1-800-xxx-xxxx	only the minimum 2 years \$78		
Lost or Stolen Credit Card. 1-800-xxx-xxxx	\$45 1 year \$33		

Transactions				
Reference Number	Transaction Date	Post Date	Description of Transaction or Credit	Amount
04272010		04/27	payment	\$19.00
		Fees		
			Late fees	\$29.00
			Over-the-limit fee	\$35.00
			Cash advance fees	\$0.00
			Total fees for this period	<b>5</b> \$64.00
20XX Totals Year-to-Date	<b>6</b> <i>\$4.76</i>	Int	erest Charged	
Total fees charged in 20XX \$64.00 Total interest charged in 20XX		TInterest charg	Interest charged on purchases	
		Interest charg	ged on cash advances	\$0.00
iotai interest Charged III 20	J///	Total interes	Total interest for this period	

Notice of Cha	ange to Your Interest Rates	Important Changes to Your Account Terms				
		Revised terms as of // APR for purchases				
	Interest Charge Calculation					
Your Annual Percentage Rate (APR) is the annual interest rate on your account.						
Type of Balance Annual Percentage Rate (APR) Balance Subject to Interest Rate Interest Charge						
Purchases	7 10.99%	\$520.00	<b>8</b> \$4.76			

	to permit transactions that exceed limit on this account?
and authorize transactions that exceed your of zation form below and return it to CCC Bank that cause you to exceed your credit limit will Information.) By opting in to allow transaction one fee per billing cycle. You can revoke you transactions that are deemed unreasonable.	t require additional funds. If you want CCC Bank to permit credit limit on this account, you must complete the authorial If you fail to complete and return the form, transactions be denied. Over-the-credit limit fees apply. (See Disclosure ons that take you over your credit limit, we will impose only ropt-in at any time. CCC Bank reserves the right to reject
0	and return to CCC Bank
	nsactions that exceed credit limit
·	t and authorize transactions that exceed my credit limit. ply and only one fee per billing cycle will be imposed.
Printed Name:	
Date:	
Account Number: _ <b>9</b> <i>123456789</i>	
0 /	
<b>X-</b>	
Detach a	nd return with payment
Credit Card Company 123 Credit Street Anytown, USA	Payment Information  Account Number:123456789  New Balance Total:\$524.76
John Doe 123 Payment Avenue Bottom Line, USA	Payment Due Date:

# **Handout 2.9: Credit Card Survey**

1.	Do you use a credit card?Yes No
2.	How many credit cards do you carry in your wallet?
3.	Do you have a store-brand card or major credit card? Store-brand card Major credit card Both
4.	How many times a week do you use a credit card? Fewer than five times More than five times
5.	What would you estimate is the average dollar amount of each transaction on your credit card \$10 or less more than \$10 but less than \$50 \$50 or more
<b>5</b> .	What incentives are offered by your credit card?
7.	What are the advantages of using a credit card?
3.	What are the disadvantages of using a credit card?
9.	Do you know the interest rate that you pay on your credit card?Yes No
10.	Do you always or usually pay off the full balance on your credit card(s) each month?

\_\_\_\_\_ Yes

\_\_\_\_ No

### Handout 2.10: Different Views

#### The Consumer's Side

Wesley Wannemacher of Lima, Ohio, charged \$3,200 on a credit card in 2001 to help pay for his wedding. That put him \$200 over his credit limit. Wannemacher told a U.S. Senate panel that he had paid \$6,300 over the last six years, nearly double his initial debt, and still has a balance of \$4,400.

Millions of consumers have been caught in spiraling debt as credit card issuers have flooded them with solicitations and then squeezed them with record-high fees and high interest rates.

For years, Congress ignored consumer outcries, but now some changes have been made. Still, some of the policies remain:

- Many card issuers hit consumers with penalty rates of up to 32.24 percent for a variety of infractions, mostly late payments. The sky-high interest rates can apply to the customers' entire balance, not just new charges.
- Some issuers impose these rates on cardholders who pay them on time, but are late paying another creditor.
- Many issuers impose fees of up to \$39 for paying even one minute late or going over a credit limit.
   In one of the most abusive practices, the fee is imposed repeatedly every month the customer remains over the limit.

These practices are plainly designed to suck consumers dry. Issuers surely have a right to rein in those who don't pay their bills, but only in a way that enables customers to get out of debt. Lenders who are so incompetent that they extend credit to people who can't handle it deserve some of the blame and some of the bill.

With all the traps awaiting consumers, issuers should have to disclose every rule and penalty in clear English. Instead, a federal study last fall confirmed what just about every customer knows: The fine-print disclosures are too complicated for many consumers to understand.

After Wannemacher agreed to testify before the Senate he received a call from the credit card company to forgive the \$4,400 balance. Also, one company has dropped the practice of charging over-the-limit fees repeatedly every month a customer remains over the limit. Another issuer announced it would drop the practice of charging higher interest rates because a customer was late paying another creditor. These moves are helpful, but Congress should set some markers to ensure that credit card issuers behave better than loan sharks.

SOURCE: Adapted from editorial article *Today's Debate:* Credit Practices, March 9, 2007, USA TODAY

#### And the Other Side

Credit cards have undergone enormous change in recent years, and we have been listening to consumers and to concerns raised by some members of Congress. We agree there are things that we can and should do better.

It's clear that disclosures of terms and conditions must be updated to reflect modern, multiple-featured cards. The bottom line: Each customer must have disclosures that are concise, clear and comprehensible. We supported a Federal Reserve review of disclosures and some changes have resulted.

It's important to keep credit card trends in perspective. More than half of Americans pay their balances in full every month. Credit card balances make up only about 3 percent of the debt carried by American households, and that percentage has actually dropped in recent years.

According to government studies, intense competition has lowered interest rates, eliminated most annual fees and ensured greater consumer choice.

Credit cards offer convenience, flexibility and safety to consumers and are more widely available than ever before. The benefits to the economy are also clear: Credit cards facilitate online commerce and allow smaller stores to compete with mega-retailers. Because credit cards are so convenient, it's easy for consumers to forget that using a credit card means taking out a loan for which no collateral is offered. This makes a credit card loan riskier for the lender than other loans.

Certainly, a small minority of consumers struggle to manage their debt. That's why the credit card industry has extensive efforts to promote financial literacy. In addition to the American Bankers Association Education Foundation, banks across the country offer education and credit counseling to help increase financial literacy in their local communities.

For consumers, plastic is the most preferred method of payment today. We need to make sure the many benefits of credit cards are not lost as we continue to improve the credit card customer's experience.

SOURCE: Adapted from article written by Ed Yingling, President and CEO of the American Bankers Association, March 9, 2007, *USA TODAY* 

### Handout 2.11: Minimum or Fixed

You have a credit card with a balance of \$990 and an interest rate of 19 percent. By not making any additional charges to this account and making the minimum payment each month, you are working to pay this account off. Although all credit cards do not use the same rate in calculating the minimum payment, it is usually between 2 percent and 4 percent of the total balance. Your minimum payment is based on a 3 percent rate. After analyzing your budget, you have a decision to make. Do you want to continue to make the minimum payment or make a fixed payment of \$40, \$50 or \$60 a month? To complete the chart and help you make your decision use the online calculator at http://federalreserve.gov/creditcardcalculator/Default.aspx

	Minimum Payment	\$40 Payment	\$50 Payment	\$60 Payment
Credit card balance	\$990	\$990	\$990	\$990
Interest rate	19%	19%	19%	19%
Minimum payment rate	3%	3%	3%	3%
Months to pay off debt				
Total amount of interest paid				

- 1. If you make the minimum payment how long will it take you to pay the debt?
- 2. How much interest will you have paid?
- 3. What happens to the amount of time it takes to pay off this debt as you increase your monthly payment?
- 4. What happens to the amount of interest you pay as you increase your monthly payment?
- 5. What choice will you make? Explain your answer.

## Handout 2.11: Minimum or Fixed—Answer Key

You have a credit card with a balance of \$990 and an interest rate of 19 percent. By not making any additional charges to this account and making the minimum payment each month, you are working to pay this account off. Although all credit cards do not use the same rate in calculating the minimum payment, it is usually between 2 percent and 4 percent of the total balance. Your minimum payment is based on a 3 percent rate. After analyzing your budget, you have a decision to make. Do you want to continue to make the minimum payment or make a fixed payment of \$40, \$50 or \$60 a month? To complete the chart and help you make your decision use the online calculator at http://federalreserve.gov/creditcardcalculator/Default.aspx

	Minimum Payment	\$40 Payment	\$50 Payment	\$60 Payment
Credit card balance	\$990	\$990	\$990	\$990
Interest rate	19%	19%	19%	19%
Minimum payment rate	3%	3%	3%	3%
Months to pay off debt	125	32	24	20
Total amount of interest paid	\$878	\$277	\$207	\$167

- 1. If you make the minimum payment how long will it take you to pay the debt? (125 months)
- 2. How much interest will you have paid? (\$878)
- 3. What happens to the amount of time it takes to pay off this debt as you increase your monthly payment? (amount of time decreases)
- 4. What happens to the amount of interest you pay as you increase your monthly payment? *(amount of interest decreases)*
- 5. What choice will you make? Explain your answer. (Answers may vary but should include information on the amount of interest paid and the length of time required to pay off the debt.)

