

Money Talks

Should I Be Charging? Leader's Guide

DEALING THE CARDS OF CREDIT

This leader's guide is designed to accompany the *Dealing the Cards of Credit* teen guide. The leader's guide includes: learning objectives, background information, discussion questions, activities with accompanying handouts and visuals, a glossary, and a list of additional resources. The background information is meant to prepare instructors to both teach the unit and to provide lecture material to cover with the teens. It is recommended that each teen receives a copy of the teen guide and reads it *before* participating in the activities outlined in this guide.

The purpose of this unit is to inform teens about credit cards. Credit cards are typically the first form of credit to be used by teens, but unfortunately many fail to realize the self-discipline and good financial sense required to use them properly. Not unlike getting a zero on a class assignment, the effects of misusing credit can be very difficult to correct. This lesson will help teens understand that their actions with a single card can build or destroy their creditworthiness. You have an opportunity as an instructor to arm teens with knowledge of proper card use and warn them about the potential pitfalls they may face, so that credit cards serve them as a beneficial financial tool instead of a financial liability.

BACKGROUND INFORMATION

Excitement – power – control – success...these are all things that teens may feel when they acquire their first credit card. While it is natural to be excited about this milestone, teens need to consider the damage a credit card can cause if used irresponsibly. Teens can realize that credit card debt is one of the most vicious sorts of debt—most credit card users keep acquiring debt even as they make payments. (About.com, n.d.) With just a few poor decisions, they can find themselves paying a heavy price for using plastic.

Overall Learning Objectives

Teens will:

- Learn that credit cards must be used responsibly to build creditworthiness and avoid unmanageable debt
- Explore the advantages and disadvantages of using credit cards
- Identify key features of credit cards
- Determine the best credit card option for their personal needs
- Be able to calculate a manageable debt ratio
- Realize the cost of using credit cards can vary, depending on the APR, fees, and the length of time it takes to repay the debt
- Learn steps to avoid credit card theft and fraud



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Did You Know?

- In 1951, Diners Club issued the first credit card, which was made out of pasteboard, to 200 customers who could use it at 27 restaurants in New York.
(Didyouknow.com, n.d.)
- The first plastic credit card was issued in 1955. But it was only until the establishment of standards for the magnetic strip in 1970 that the credit card became part of the information age.
(Didyouknow.com, n.d.)



- Consumers with a credit card spend up to 33% more than if they shopped with cash.
(NEFE, 2001)

What Is a Credit Card

A credit card is really the access key to a credit account issued by a bank, store, or other company. It allows the owner to charge purchases during the month, then make payments for the charges on a later date. Credit cards are a unique form of credit, in that:

- There is no loan term that states when the charges must be paid back. This means the borrower can pay back the borrowed amount over a varied and extended time and in varied amounts.
- Unlike a loan whose terms are usually constant for the life of it, credit card companies have the right to change their terms as long as they give their customers a 45-day notice before the change takes effect.

Advantages of Using Credit Cards

Credit cards really are quite handy. Similar to other forms of credit, credit cards:

- Help establish a credit history
- Allow someone to have things now while paying for them later
- Can provide emergency funds for unforeseen expenses

In addition, credit cards provide:

- Safety—not having to carry large amounts of cash
- Convenience—the ability to make hotel reservations or purchase things online or over the phone
- A record of purchases
- Consumer protection—e.g., various types of insurances, protection under consumer credit laws

Disadvantages of Using Credit Cards

While there are many compelling reasons for using credit cards, teens must consider that there are some big disadvantages as well. Perhaps one of the biggest disadvantages for many people is *the temptation to overspend*. Credit cards allow many people to say such things as:

- “I can always pay it later.”
- “I’ll pay it back just as soon as I get a better job (raise, bonus, etc.).”

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- “I deserve to treat myself this once.”
- “My credit limit is \$5000 so I should be able to charge that much.”
- “You only live once...”

The amount of interest and fees that can rack up each month is another big disadvantage of using a credit card. Interest costs are so great that a typical credit card purchase ends up costing 112% more than if cash were used! Teens need to realize that paying credit card interest is like buying nothing...a waste of their hard earned money.

Other potential disadvantages to using a credit card are:

- Risk of card theft or loss
- Risk of credit card fraud
- Card fees
- Incorrect information can appear on credit report
- Damage to credit history due to irresponsible use
- Poor credit history results in you paying more to use credit

Types of Credit Cards

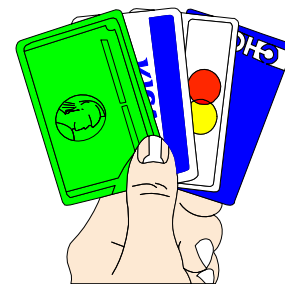
As stated on p.1 of the *Dealing the Cards of Credit* teen guide, there are many types of cards available, some are credit cards, and others are cards that prepare someone for credit cards. Regardless of the type of card teens begin with, it is important that they treat each responsibly to build a credit history.

How To Choose The Right Card

It is important for teens to take the time to shop around for a card that fits their individual needs. Before applying for a credit card, teens need to really think about how they plan to use it and think about the features they want it to have. For example, is a low interest rate or no annual fee more important? If teens plan to pay their bill in full each month,

Did You Know?

- The typical consumer has access to \$12,190 on all credit cards combined. (MyFico.com, n.d.)
- A typical American family today pays about \$1,200 annually in credit card interest. (Bannister, 2004)



- There are about 20,000 different cards available in the United States. (Bannister, 2004)
- A 2004 Nellie Mae study found that 26% of college students were referred to a card company by their parents, 35% responded to a direct mail solicitation from a card issuer, and 18% signed up at a card vendor booth on campus. Most of the others signed up on the Internet or responded to a telephone solicitation. (Associated Press, 2005)



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Did You Know?

%

- The average interest rate on credit cards is 18.9% (Bannister, 2004)



Calculating Monthly Finance Charges Using The Average Daily Balance Method

Average daily balance (\$400)
x
Monthly periodic interest rate (1.5%)
=
Finance charge for the month (\$6.00)

(The monthly periodic interest rate is the annual APR divided by 12).

they may want to consider a card with no annual fee rather than a low interest rate. Or, if they think they may carry a balance, they may want to find a card with the lowest interest rate. With careful shopping they should be able to find a low interest rate *and* no annual fee in one card.

Important things to compare when shopping for a credit card are:

- **Annual Percentage Rate (APR)**—the percentage paid on the unpaid balance. Some cards have a *fixed* rate while others are *variable*. Some cards have low introductory rates, and after a specified period of time, such as 6 months, the rate goes much higher. Credit card companies can change the rate at any time.

It is important to note that there are often *different APRs* for purchases, cash advances, and balance transfers, as well as a penalty APR that will apply if late payments are submitted more than once in a given time frame.

- **Balance Calculation Methods**—methods for calculating the amount of interest charged on an outstanding credit card balance. The most common method is the **Average Daily Balance Method**, when interest is paid on the average balance owed during the billing cycle. The creditor figures the balance in the account on each day of the billing cycle, then adds together these amounts and divides by the number of days in the billing cycle.

Other methods include:

- ⇒ **Adjusted Balance:** interest is paid on the opening balance after subtracting the payment or returns made during the month.
- ⇒ **Previous Balance:** interest is paid on the opening balance, regardless of payments made during the month.
- ⇒ **Past-due Balance:** no finance charge is added if the full payment is received within the grace period. If it is not received, a finance charge for the unpaid amount is added on to the next bill.

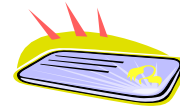
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- **Back Dated Interest Charges**—many cards are now charging interest from the date of purchase if there is an outstanding balance on the bill. Even if the credit card company does not receive the charge until several days later, the date of purchase will be used to calculate interest.
- **Annual Fee**—a set amount paid to use the card that is billed annually. Some companies waive the fee for good customers.
- **Late Payment or Over Credit Limit Fees**—some cards charge these fees immediately while others give up to 30 days or longer to correct a problem. These fees can be from \$15–\$35 each time a payment is late or the credit line is exceeded.
- **Purchases vs. Cash Advances**—some credit card companies are offering special deals on the interest rate for purchases but not cash advances. For example, they may offer 5.9% for purchases while the cash advance rate will stay at 21.8%. When teens see special interest rates offered, encourage them to check the fine print to know for sure what the deal applies to.
- **Cash Advance Transaction Fee**—this is an extra fee charged on each cash advance in addition to the interest rate. The fee usually varies from 2 to 4 percent of the cash advance amount. *Interest on cash advances begins immediately, even if the bill is paid in full each month!*
- **Grace Period**—the number of days until the payment is due from the date the bill is generated. If the bill is not paid in full by this date, a finance charge will be applied to the bill. This period varies from 21 days to 25 days. There is no grace period on any card which is not paid in full every month or when the card is used for cash advances.

Did You Know?

- As of March 2005, there were 901.3 million general purpose credit and debit cards in circulation in the USA, which equals 8.3 per household. (Cardweb.com, 2005)
- Besides the 901.3 million general purpose cards, there are an estimated 636.5 million store and gas payment cards, which equals 14 cards per household. (Cardweb.com, 2005)



- The latest Nellie Mae study of the nation's college students found:
 - ⇒ College students carried an average of four cards in 2004, and their outstanding balances averaged a total of \$2,169.
 - ⇒ More than half of college students got their first credit card at age 18.
 - ⇒ Two-thirds of college undergraduates say they are making only minimum payments on some or all of their credit cards, while 11 percent can't pay even the minimum. (Associated Press, 2005)

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Did You Know?

- Between 1993 and 2000, the credit card industry tripled the amount of credit it offered to customers from \$777 billion to almost \$3 trillion. (Lazarony, 2003)



Other features to consider are:

- What is the credit limit?
- How widely is the card accepted? (e.g., wherever Visa is accepted)
- What services and features are available? (e.g., frequent flier miles, additional warranty coverage on purchases made with card, rebates on purchases made with card)

Credit Card Statements

Credit card statements, which are very similar to those for savings and checking accounts, are sent to the credit holder each month. Key information found on a credit card statement includes: the transactions made during the month, along with beginning and ending account balances; credit card payments; credits; and finance charges. It is important for teens to know that carefully checking their statement every month can help to identify errors in charges and payments. It's also recommended to carefully watch the balance and keep track of the amount of money paid for interest and fees.

Credit Limits / Debt Load

The credit limit a card company initially offers is usually a reflection of creditworthiness. The better someone's credit history is, the higher their credit limit. With a good payment record, the credit limit may be increased whether or not the borrower can actually afford to borrow that much. *It is important that teens understand that **over time, most people have far more credit available to them than they can possibly handle.***

To avoid being overwhelmed by credit debt, it is wise not to have a *total* monthly credit payment that exceeds 20 percent of net monthly income. In addition, a borrower should be able to pay off debts in 2–3 years using 10% of net annual income. This total credit payment figure **DOES NOT** include mortgage payments but **DOES** include all other credit obligations (e.g., all credit cards, auto loans, student loans, etc.).

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Teens may be surprised to find out how little they can safely spend on credit. It is wise for teens to calculate a manageable credit limit for themselves and stay within that limit regardless of a higher credit limit issued by a card company.

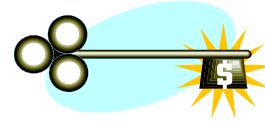
It is advisable that teens refrain from accepting a high credit limit. Having too much credit available may hurt their chances of obtaining a loan down the road. Even if they pay off their balance each month and never plan to reach their credit limit, future lenders see a high credit limit as potential debt that could possibly affect repayment of a loan.

Smart Use of Credit Cards

Adopting the following practices when using a credit card will help teens maintain a good credit history:

- Create a bill paying system to assure that bills will not be late or forgotten.
 - ⇒ Save credit slips received at purchase time and compare with monthly bill statement.
 - ⇒ Place bills in a safe place and mark due dates on the calendar. Specify a certain date to pay bills, such as the day the bill is received or on payday. Note: If teens have an outstanding balance and are paying interest, pay bill as soon as it arrives to reduce the average daily balance and hence the amount of interest paid.
 - ⇒ Save old bills for future reference.
- Pay card balance off in full regularly.
- Avoid endless repayment periods. If paying off the card balance in full is not possible, it is important to *pay as much as possible*. If only the minimum is paid each month (2 to 3% on most credit cards), the payment period is extended for many years. The minimum payment on credit card debt is calculated as a percentage of the current balance. The minimum payment drops as the balance is paid. Due to compounding, it takes a long, long time to pay off a credit card bill when only paying the minimum.

Did You Know?



- The keys to avoid borrowing more than what is affordable are:

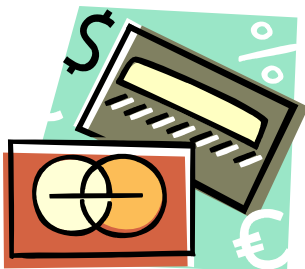
⇒ Monthly credit payments should *total* no more than 15-20% of net monthly income, excluding housing payment, but including credit cards balances, auto loan, student, loan, etc.

AND

⇒ Debt should be able to be paid off within 2-3 years with 10% of net annual income. (Varcoe, 1999)



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- Reduce the number of cards owned to one or two. It is easy to lose track of the total amount charged each month when it is spread between many cards.
- Avoid “*No Minimum Payment Due*” offers. Sometimes credit card companies offer an opportunity to stop making payments for awhile. However, remember that the interest will continue to accrue on the outstanding balance, so the debt grows larger.



Protecting a Credit Card

Teens need to be aware how important it is to carefully protect their credit card number. To avoid theft or fraud:

- Never lend the card to anyone.
- Never leave the card or receipts lying around.
- Shred old receipts and bills.
- When credit card offers are received through the mail, shred them before throwing them away. Unethical people will pull these offers from the trash, submit them with a changed address, and use the card as their own. It can take several months to learn someone has been fraudulently using a card that the owner didn't even know existed.
- Do not sign a blank receipt.
- Draw a line through blank spaces on charge slips above the total so the amount cannot be altered.
- Keep the card in sight during a transaction. Make sure it is the correct card when it is returned after a transaction.
- Sign the card in ink as soon as it is received.
- Cut up old cards.
- Carry only one or two cards.
- Keep a list of all credit card account numbers in a safe place—someplace other than the wallet. Include on the list, the card number, expiration date, and the phone number and address of the card company for each credit card owned.
- Give card numbers over the phone only with companies that are highly reputable.
- Don't give a credit card number over a cordless or cellular



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phone. Conversations over cordless or cellular phones can easily be listened to by other parties.

- Never put the card number on a postcard or on the outside of an envelope.
- Report lost or stolen cards immediately.
- If purchasing over the Internet, be sure the transaction is kept private by being aware of the computer symbols which indicate a private or public transaction (i.e., broken or whole key).

Lost or Stolen Cards

If a credit card is lost or stolen, it should be reported immediately to the credit card company. The company will cancel the card so that it can't be used by anyone else, and a new one will be issued. As long as it has been reported, liability for any unauthorized purchases is limited to \$50.

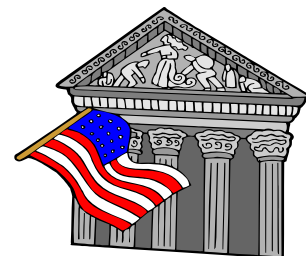
Consumer Credit Card Rights

There are several laws about consumer rights that were covered in the *Keys to Credit* unit. Of these, the following are especially useful for credit card customers:

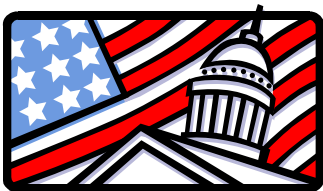
The Truth in Lending Act requires that lenders fully inform consumers about the costs and conditions of borrowing, which include:

- Finance charges in dollars and as an annual percentage rate (APR)
- The amount of the credit line
- Length of grace period before payment must be made
- Minimum monthly payment required
- Annual fees, if any
- Fees for credit insurance, if any, which pays off the balance before the debt is fully repaid

The Fair Credit Billing Act applies only to revolving credit and lays down a procedure for the quick correction of mistakes that appear on credit card accounts. If errors are discovered on the billing statement:



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- Dispute the error in writing within 60 days from the date the bill was mailed.
- The creditor must acknowledge receipt of the letter within 30 days unless the billing error is corrected, and within two billing cycles (or 90 days max) it must correct the error or explain why it believes the amount is correct.
- During the investigation period, the disputed amount does not need to be paid, nor can the creditor report the amount to a credit bureau as delinquent.
- If the cardholder is found responsible for the bill, he/she must be given the usual amount of time to pay it.
- If the cardholder still believes there is an error after the investigation period, the creditor must be notified in writing again.

The Fair Credit Billing Act also allows the cardholder to withhold payment on any damaged or poor-quality goods or services purchased with a credit card as long as he/she has made an attempt to solve the problem with the merchant. The purchase must have been for more than \$50 and must have been made in cardholder's home state or within 100 miles of the cardholder's home address. If there is a dispute, notify the credit card company in writing about why payment is being withheld. Note, if the bill is paid before the dispute is resolved, the cardholder loses the right to make a claim.

The Credit CARD Act provides more protection and clearer terms when dealing with the credit industry. Under the law:

- Creditors must give consumers 45 days notice before increasing their interest rate.
- If a credit card company raises the interest rate on a credit card, the new rate only applies to the new charges.
- Creditors must mail credit card statements 21 days before the payment is due.
- Consumer have until 5 p.m. on due date to make payment.
- Card statements must show how much interest has been paid this year, time needed to pay off the balance making the minimum payment, and payment needed to pay off balance in three years.



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- Credit cannot be issued to anyone under 21 years old unless they have a cosigner or can show proof of income.
- Credit card companies must stay at least 1000 feet away from college campuses.

Warning Signs of Credit Trouble

Some warning signs that spending habits need to be changed are:

- Being able to pay only the minimum due each month
- Needing to use credit cards or cash advances to pay for daily expenses
- Borrowing more money to pay for existing debts
- Unable to pay bills on time
- Applying for new cards while having balances on existing cards
- Spending up to the credit limit
- Being contacted by creditors or collection agencies
- Having no savings for emergencies
- Not knowing how much is owed and being afraid to open monthly credit card statement
- Feeling uncomfortable or stressed about the amount of money that is owed

Consequences of Misuse

Credit card debt can be acquired in a very short amount of time and can create a financial catastrophe that takes many years to clean up. Teens who start out adulthood with credit card debt can:

- Ruin their credit history and prevent them from qualifying for future credit
- Hinder their ability to save money for the future
- Prevent them from renting an apartment or getting a job
- Force them to stay in a situation they hate, such as a job or living situation, because they have more bills to pay than they can handle
- Cause significant stress in their lives



Opening Discussion Questions:

- What are some advantages to using a credit card?
- What are some important features to look for when shopping for a credit card?
- How many credit cards should you have?
- Does using a credit card cost you money?



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ACTIVITY ONE: CREDIT CARDS—WHEN TO USE THEM AND HOW TO CHOOSE THEM

Estimated Activity Time: 45 minutes

In this activity teens will explore sensible credit card use. They will determine whether a credit card might be a useful financial tool or a poor financial choice in different scenarios. Teens will also consider what their personal credit card needs are and how to select a card that will best address their needs.

Getting Ready Checklist

- Copy Handouts #1a and #1b for each teen
- Copy Handout #2a and #2b for each pair
- Computers with online capabilities (optional)

Doing the Activity

1. Go over the following sections on pp. 2–3 of the leader’s guide Background Information with teens: “What is a Credit Card?,” “Advantages of Using Credit Cards,” and “Disadvantages of Using Credit Cards.” Include the following points:
 - A credit card allows the owner to charge now and pay later
 - Credit card companies have a right to change their terms at any time as long as they give their customers 45 days notice
 - Credit cards offer many advantages as well as disadvantages
2. Next, distribute Handouts #1a and #1b to each teen and have them answer the questions based on what *they would personally do* in each scenario. (Handouts #1a and #1b, pp. 31–32)

Learning Objectives

- Teens will consider when using a credit card is a sensible financial choice
- Teens will identify key features of a credit card offer
- Teens will consider their individual credit card needs
- Teens will learn that different credit card terms serve different needs

Supplies Needed

- *Dealing the Cards of Credit* teen guide
- Handout #1a (p. 31)
- Handout #1b (p. 32)
- Handout #2a (p. 33)
- Handout #2b (p. 34)
- Answer Key for Handout #2b (p. 42)
- Computers with online capabilities (optional)

Extend the Lesson Supplies:

- Computers with online capabilities

Related Money Talks Online Games:

- Credit Match Up
- Which Card is Right for Me?

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3. Go over each question with the teens and ask that each share their answer and rationale behind it. Encourage discussion among teens about differing view points. Also, ask them to consider whether their answers and actions would be the same if they were actually in each situation.

Note: There are no definitive answers for this handout, rather this is an exercise to encourage discussion among teens and to get their wheels turning about responsible credit card use.

4. Have teens take the “Which Card for Me?” quiz on p. 2 of the *Dealing the Cards of Credit* teen guide. Review the three types of cards suggested as options on p. 3 (pre-funded card, gasoline or store credit card, and bank credit card).

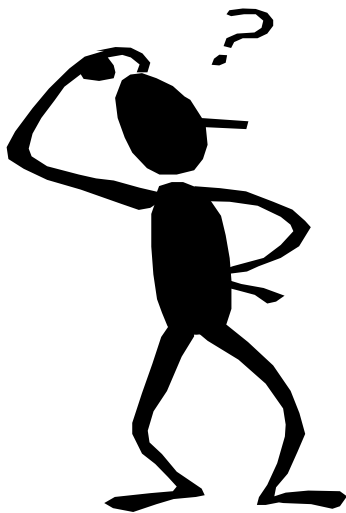


If internet access is available, the activity can be completed online at moneytalks4teens.org by selecting “Games” from the buttons on the left side of the home page.

5. Next, review with teens the “How to Choose the Right Card” section on pp. 3–6 of the Background Information. Take time to thoroughly explain the different credit card terms, including:
 - APR
 - Balance Calculation Method
 - Back Dated Interest Charges
 - Annual Fee
 - Late Payment or Over Credit Limit Fee
 - Purchases vs. Cash Advances
 - Cash Advance Transaction Fee
 - Grace Period
 - Credit Limit


*Note: Have teens discuss **the different APRs** that one card can have and when each would apply.*

\$ % APR



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6. Divide teens into twos and distribute Handouts #2a and #2b to each pair. Instruct teens to carefully examine Cards A–D on Handout #2a and select the best option for each question on Handout #2b. (Handouts #2a and #2b, pp. 33–34)
7. When the teens have completed the exercise, go over the answers shown on Answer Key #2b as a group. Encourage the groups to share the answers they selected and *why* they chose them. (Answer Key for Handout #2b, see p. 42.)
8.  *Extend the Lesson—Online Credit Card Search*
Provide teens the opportunity to search online for a credit card that will suit their own needs. Encourage them to find at least three that look promising and compare them to find the best deal.

If teens have a particular bank or credit union they want to get their card from, have them search those institutions' websites to see what they offer. Other helpful sites that will compare different types of cards from various companies are:

- <http://www.creditcards.com/>
- <http://www.creditcardcenter.com/>
- <http://www.cardratings.com/>
- <http://www.eyeoncredit.com>
- <http://www.bankrate.com/>

~The assessment tools provided with each leader's guide are intended for the leaders to use at their discretion. Depending on the group of teens, the leaders may want to use the assessments as additional activities, homework, or as a means to determine a formal grade for completing the unit.

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ACTIVITY TWO: HOW MUCH DEBT IS SAFE?

Estimated Activity Time: 45 minutes

In this activity, teens will learn basic guidelines to follow to prevent themselves from getting into financial trouble with credit. Teens will work together to calculate maximum monthly credit card payments, as well as determine how much total debt is manageable.

Getting Ready Checklist

- Copy Handout #3a for each teen
- Copy Handouts #3b and #3c for each group
- Copy Answer Key #3b and #3c to display using a projector
- Set up projector

Doing the Activity

1. Review with teens the “Credit Card Statements” and “Credit Limit / Debt Load” sections on pp. 6–7 of the leader’s guide Background Information. Emphasize that:
 - Credit card owners should carefully check their card statement each month for errors
 - Over time, most people have more credit available than they can safely handle
 - Total monthly credit payments should not exceed 20% of new monthly income
 - A borrower should be able to pay off debts in 2–3 years using just 10% of net annual income
 - Having too much credit available may hurt one’s chances of obtaining a loan later on

Explain that *just because a credit card company tells them they CAN spend up to \$1000, does not mean they SHOULD*. Remind them that a credit card company is not looking out for their customers’ financial well-being, rather they want to profit on the interest their customers pay. It is up to the teens to know what amount of credit card debt they can safely handle.

Learning Objectives

- Teens will understand the importance of using credit within responsible limits
- Teens will understand that they must consider ALL credit debt (credit cards and loans) when determining how much credit card debt they can safely carry
- Teens will know how to calculate what their maximum monthly credit payment should be
- Teens will be able to calculate what the maximum debt they can safely manage is

Supplies Needed

- Handout #3a (p. 35)
- Handout #3b (p. 36)
- Handout #3c (p. 37)
- Answer Key for Handout #3b (p. 43)
- Answer Key for Handout #3c (p. 44)
- Projector

Note to instructor

While the math required to complete this activity may seem tedious, it is helpful for teens to learn how to calculate safe debt ratios and maximum monthly payments.

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2. Distribute a copy of Handout #3a to each teen. Discuss the two guidelines and ask each teen to use their own financial figures to calculate the maximum monthly payment and total debt load they can safely handle.

Remind them that these are guidelines for TOTAL credit debt, which *includes ALL credit cards and loans* (e.g., auto loan, student loan). (Handout #3a, p. 35)

3. Divide teens into groups of two. Distribute Handouts #3b and #3c to each group and explain to them that they will calculate the maximum debt for each question. Remind them to factor any existing debt into their answers. (Handouts #3b and #3c, pp. 36–37)
4. When teens have completed the handouts, have them discuss their findings as a group. Encourage them to address the following questions: Who has too much debt? What could these individuals do to lower their debt? Then, display Answer Keys for Handouts #3b and #3c and go over each answer. (Answer Keys for Handouts #3b, #3c, see pp. 43–44.)
5. After addressing any questions the teens may have, ask them if they are surprised at how much or little debt an individual can safely carry. Are any of them already concerned about their debt levels? Do they have friends and family that use credit cards too freely?

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ACTIVITY THREE: WHAT AFFECTS CREDIT CARD COSTS?

Estimated Activity Time: 45 minutes

In this activity, teens will learn how the amount of a monthly payment and the APR can significantly impact their credit costs. Teens will be able to see in dollars how paying a little extra on their credit card balance can result in huge savings, and similarly, how a lower APR can reduce their costs dramatically.

Getting Ready Checklist

- Copy Handouts #4a and #4b for each teen

Doing the Activity

1. Begin the lesson by reminding teens that a big disadvantage of using a credit card is the amount of money they may pay in interest and fees each month. As stated in the “Disadvantages of Using Credit” section of the leader’s guide Background Information, interest costs are so great that a typical credit card purchase ends up costing a whopping 112% more than if cash were used! Teens need to realize that paying credit card interest is like buying nothing...a waste of their hard earned money.
2. Go over the “Smart Use of Credit Cards” section on pp. 7–8 of the leader’s guide Background Information. It is critical to emphasize to teens that **the single most important thing they can do to minimize credit card costs is to make the largest payment possible ON TIME each month.** Mention these other tips:
 - Create a bill paying system to make sure that all bills are paid on time
 - Pay off full balance due or as much as possible each month
 - Only own one or two credit cards
 - Avoid “No Minimum Payment Due” offers

Learning Objectives

- Teens will understand that it is best to pay their credit card balance in full every month
- Teens will know that making the largest monthly payment possible will reduce their credit costs
- Teens will know that the higher their APR is, the higher the cost of using credit will be

Supplies Needed

- Handout #4a (p. 39)
- Handout #4b (p. 40)

Extend the Lesson

Supplies:

- Computers with online capabilities

Related *Money Talks*

Online Games:

- Credit Match Up

Note to instructor:

While the math required to complete this activity may seem tedious, it is necessary for teens to know how to calculate how different APRs and monthly payments will affect their credit costs.

Dealing the Cards of Credit

ANSWER KEY for HANDOUT #4a


1. 5 years 3 months
[63 mos. ÷ 12 mos. per yr. = 5 yrs. and 3 mos.]
2. \$642.64
[\$1700.76 (\$75 payment) - \$1058.12 (\$100 payment) = \$642.64]
3. \$1086.22
[\$75 + \$75 = \$150 monthly payments. \$1700.76 (\$75 payment) - \$614.54 (\$150 payment) = \$1086.22]
4. 2 years 7 months
[31 mos. ÷ 12 mos. per yr. = 2 yrs. 7 mos.]
5. \$4700.76
[\$3000 (borrowed) + \$1700.76 (total interest paid) = \$4700.76]
6. YES!

ANSWER KEY HANDOUT #4b

1. \$347.93
[\$1248.88 (15.5% APR) - \$900.95 (12.5% APR) = \$347.93]
2. 5 years 3 months
[63 mos. ÷ 12 mos. per yr. = 5 years 3 months]
3. 4 years 1 month
[49 mos. ÷ 12 mos. per yr. = 4 years 1 month]
4. \$4700.76
[\$3000 (borrowed) + \$1700.76 (total interest paid) = \$4700.76]
5. YES!

3. Pass out a copy of Handout #4a to each teen. Explain that they will be investigating how the amount of their monthly payment can affect how much money they will throw away on credit card debt. (Handout #4a, p. 39).
4. When teens have finished, go over the answers (see sidebar on this page) to check for understanding. Are the teens surprised that paying as little as \$25 more each month can save them hundreds of dollars in interest? Encourage teen comments.
5. Next, distribute Handout #4b to each teen. Have teens discuss how the different APRs will affect the amount of interest paid.

Again, go over the answers with the teens (see sidebar on this page for answers). Ask teens why it is so important to shop around for a credit card. (Handout #4b, p. 40)

6.  *Extend the Lesson—Online Calculators*
Explain to teens that an online credit card calculator is a useful financial tool they can use to show exactly how much their debt will cost them. By simply entering the amount of the debt, the average monthly payment and interest rate, the calculator can compute credit costs.


Suggest that teens use a credit card calculator to help them make financial decisions **BEFORE** acquiring debt. The calculators are also useful for finding out how to reduce their costs and best manage existing debt.

Ask teens to go online to experiment using an online credit card debt calculator. Some helpful sites are:

- <http://bankrate.com>
- <http://beginnersinvest.about.com/od/creditcalculators/>
- http://www.youngmoney.com/calculators/credit_card_and_debt_management_calculators
- <http://www.cardratings.com/creditcarddebtcalc.html>

Dealing the Cards of Credit



7.  *Extend The Lesson—Credit Match Up Game*
Ask teens to go online to moneytalks4teens.org to play the *Credit Match Up Game* by selecting “Games” from the buttons on the left side of the home page.

The object of the game is to show teens the importance of paying off debt as quickly as possible so they don't have to pay as much interest. Ask teens to note the credit tips and find out if teens were successful at getting their debt paid off without having to pay interest.

-The assessment tools provided with each leader's guide are intended for the leaders to use at their discretion. Depending on the group of teens, the leaders may want to use the assessments as additional activities, homework, or as a means to determine a formal grade for completing the unit.

Dealing the Cards of Credit



ACTIVITY FOUR: COMPARING CREDIT CARD OFFERS

Estimated Activity Time: 45 minutes

In this activity, teens will have an opportunity to compare real credit card offers and identify the best deal. Teens will also be differentiating legitimate offers with those that are scams or are have deceptive wording.

Getting Ready Checklist

- Copy Handout #5 for each pair

Doing the Activity

1. Begin the lesson by reviewing “Keeping Clear of Credit Scams” on p. 4 of the *Dealing the Cards of Credit* teen guide. Remind teens to avoid offers that:
 - Seem too easy
 - Claim to fix bad credit
 - Instruct applicants to call a toll phone number
 - Do not mention any fees
 - Do not report to credit bureaus
 - Have application, processing, or annual fees
 - Have high interest rates

Also, explain to teens that a credit card scam can simply have misleading wording, including ones in which the introductory APR is made to look as if it is the true APR or those whose rebates and rewards are given more emphasis while rates are hidden in small print. (*Dealing the Cards of Credit* teen guide)

2. Divide the students into pairs and distribute Handout #5 to each group. (Handout #5, p. 41)

Learning Objectives

- Teens will be able to identify important terms of a credit card offer
- Teens will understand what features to compare for the best credit card deal
- Teens will be able to identify a credit card scam

Supplies Needed

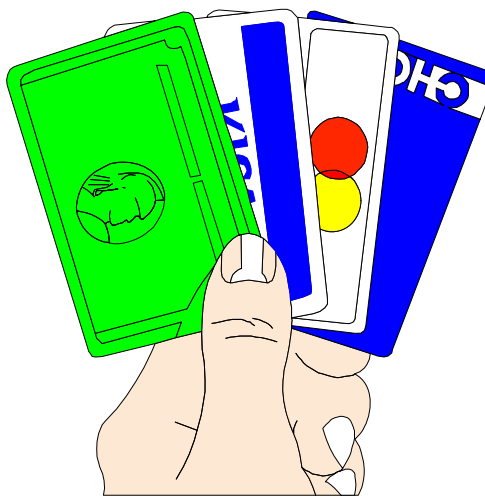
- *Dealing the Cards of Credit* teen guide
- Handout #5 (p. 41)
- Credit card offers brought in by teens or instructor

Related *Money Talks* Online Games:

- Credit Match Up
- Which Card is Right for Me?

Dealing the Cards of Credit

3. Next, pass out two or three credit card offers to each group. Ask them to carefully read each offer and complete Handout #5 with the information.
4. Tell teens to put those offers that appear to be scams in a separate pile. Have them make notes on the offer or circle the items that they found suspicious.
5. When Handout #5 is complete, have each pair report their findings.
 - ⇒ One teen can present the credit card that they found to be the best offer and explain why it's the best offer.
 - ⇒ The other teen can report on the scams that they found and explain why they thought it was a scam.



-The assessment tools provided with each leader's guide are intended for the leaders to use at their discretion. Depending on the group of teens, the leaders may want to use the assessments as additional activities, homework, or as a means to determine a formal grade for completing the unit.

Dealing the Cards of Credit



Additional Resources

- The *Federal Reserve* has an interactive website to help consumers better understand the credit card protections provided by the Credit CARD Act of 2009.
<http://www.federalreserve.gov/creditcard>
- *FirstGov for Consumers* is a "one-stop" link to a broad range of federal information resources available online. It's *Your Money* section contains many topics, including credit and consumer protection. The site is a "work-in-progress" and is updated often.
<http://www.consumer.gov/yourmoney.htm>
- *Money Talks* is a financial literacy website for teens available in both English and Spanish,. It contains downloadable versions of money management teen guides, interactive games, simple exercises, videos and links to other financial websites. Teachers/leaders have access to a special section of the site containing leader's guides for each unit, research articles, and additional links.
<http://moneytalks4teens.org>
- *MyMoney.Gov* is the Federal Government's website dedicated to helping Americans understand more about their money – how to save it, invest it, and manage it - to meet personal goals.
<http://www.mymoney.gov>
- *myFICO.com*, the consumer division of *Fair Isaac Corporation*, is an informative site that answers questions about credit scoring.
<http://www.myfico.com>
- *National Endowment For Financial Education (NEFE) Teen Resource Bureau* is a website supported by NEFE designed for preparing teens about money issues.
<http://www.ntrbonline.org>
- *Public Broadcasting System* offers a site that is devoted to a Frontline Report on credit cards. It offers an option that allows the user to enter his/her balance and pick an interest rate to see approximately how many months it will take to settle the debt.
<http://www.pbs.org/wgbh/pages/frontline/shows/credit/etc/calculator.html>
- *Practical Money Skills for Life* is a website developed by VISA designed to help teachers, parents and students practice better money management for life.
<http://www.practicalmoneyskills.com>

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Credit Glossary

Annual Fee A set amount paid annually to use a credit card. Many credit cards come without an annual fee or will waive it for good customers.

Annual Percentage Rate The cost of credit as a yearly rate. There may be more than one APR that applies to a card depending on the type of transaction (purchase, cash advance, balance transfer, penalty). Some cards have a low introductory rate, and after a specified period of time the rate goes much higher.

Balance Calculation Method The method for calculating the amount of interest that will be paid for having an outstanding balance on a credit card. The most common method is the Average Daily Balance Method. Others methods are Adjusted Balance, Previous Balance, and Past-due Balance.

Balance Transfer At a cardholder's request, credit card company A will pay the balance the cardholder has with company B, and the balance will then be put onto the cardholder's account with company A. Consumers usually transfer balances when applying for a new card, to take advantage of low introductory APRs. Balance transfers usually incur transaction fees and may have a different APR that applies to the balance transfer amount.

Cash Advance An immediate cash loan from a consumer's credit card account. Cash advances may carry a higher APR than purchases as well as a fee per transaction. Grace periods normally do not apply to cash advances.

Cash Advance Fee This is an extra fee charged on each cash advance in addition to the higher interest rate. The fee usually varies from 2–4 percent of the cash advance amount.

Credit Money that a lender gives to a borrower on condition of repayment over a certain period. It allows the cardholder to get something now and pay for it later.

Creditworthiness A history of responsible use of money and credit. Creditworthiness indicates to lenders or other businesses that the loan applicant will repay money that he/she borrows.

Credit Contract A legally binding agreement which names the borrower, the lender, and the conditions of the loan.

Credit History A record of how a person borrows and repays debts.

Credit Glossary *cont.*

Credit Limit The maximum amount of charges a cardholder may apply to the account.

Finance Charge The total dollar amount credit will cost.

Grace Period The number of days until the payment is due from the date your bill is generated. Grace periods range from 21–30 days, with an average of 23 days, and they often apply only to purchases, not cash advances or other transactions. On most cards, grace periods only apply if the previous month's balance is paid in full and on time.

Identity Fraud (or Theft) Occurs when someone uses your personal information, such as your name, Social Security number, credit card number, or other identifying information, without your permission to commit fraud or other crimes.

Interest Payment for the use of money, calculated as a percentage of the money borrowed and paid over a specified time.

Late Payment Fee A fee for sending payment passed the due date.

Over the Limit Fee A fee for going over the credit card balance limit.

Minimum Finance Charge The minimum amount that will be charged on the unpaid balance.

Penalty APR A much higher, punitive interest rate that credit card companies may apply to cardholders who have exceeded their credit limits, made one or more late payments, or are otherwise in "bad standing."



This publication has been anonymously peer reviewed for technical accuracy by University of California scientists and other qualified professionals. This review process was managed by the ANR Associate Editor for Youth Development.

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Money Talks—Should I Be Charging? is comprised of two teen guides and leader's guides designed for teens. The goals of these teen and leader's guides are to assist teens in understanding how credit works and how to maintain good credit, how to obtain credit, what to do if they are denied credit, safety tips when using credit cards, and how to avoid credit card scams. Comments regarding these teen and leader's guides can be addressed to: Consumer Economics Department, University of California Cooperative Extension (UCCE), 135 Highlander Hall, Riverside, CA 92521. Author: Susan Cortz, Senior Writer, UC Riverside; Development Team: UCCE Money Talks Workgroup. 2006

Dealing the Cards of Credit



To Charge or Not to Charge... That is the Question

While it is always best not to spend what you don't have, in which scenarios do you think a credit card would serve as a sensible option?

- You have \$250 set aside for school shopping but are concerned about carrying that much money around the mall all day. Is a credit card a sensible option?

Yes No Why? _____

- You need to make a hotel reservation for the road trip that you have been planning.

Yes No Why? _____

- You're broke, but your friends are heading to Hawaii for a surfing adventure and you don't want to be left out.

Yes No Why? _____

- You are a college student and came up short when buying mandatory books for your classes.

Yes No Why? _____

- You have a weekly tradition of going golfing with friends at an expensive golf course. Some weeks you are short on cash, but tradition is tradition!

Yes No Why? _____



Dealing the Cards of Credit

6. You had a tire blowout on the way to work and need to replace it.

Yes No Why? _____

7. You broke your arm and need money to cover your medical insurance deductible.

Yes No Why? _____

8. You use your credit card to pay for day-to-day expenses that you have budgeted for.

Yes No Why? _____

9. You see a stereo that is way out of your price range, but it's on sale for a great deal.

Yes No Why? _____

10. Your dog is very ill and needs to see a veterinarian.

Yes No Why? _____

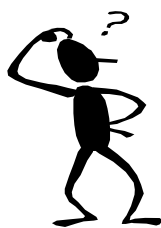
11. Your Grandpa passes away and you need to buy an airline ticket to get to his funeral.

Yes No Why? _____

12. You've had a bad day and think a shopping spree is just what you need to cheer yourself up.

Yes No Why? _____

Dealing the Cards of Credit



If You Charge... Which Credit Card Is Best?

TERMS	CARD A	CARD B	CARD C	CARD D
Annual Percentage Rates				
• Purchases	12.5%	14.5%	15.5%	18.5%
• Cash Advance	19%	15.5%	18.5%	21.5%
• Penalty	19.5%	17%	20%	22%
Grace Period	25 days	25 days	25 days	25 days
Annual Fee	\$30	\$40	\$0	\$50
Cash Advance Fee	3% Up to \$20 max.	2% Up to \$20 max.	3.25% Up to \$20 max.	4% Up to \$20 max.
Additional Fees				
• Late Payment Fee	\$20	\$10	\$25	\$30
• Over-the-Limit Fee	\$15	\$10	\$25	\$30
Minimum Finance Charge	\$.50	\$1	\$2	\$2



Dealing the Cards of Credit

If You Charge...Which Credit Card Is Best?



Do you plan to use your credit card for planned purchases only? Do you plan to pay off your balance in full each month or do you think you may carry a monthly balance? These are always things to consider when choosing which card might be best for you.

Directions: Choose which card would be BEST for each question below.

1. Which card would be best if you always paid off your balance in full each month? _____ Why? _____

2. Which card would be best if you usually carried a balance but never got cash advances and were very good about making your payments on time? _____
Why? _____

3. Which card would be best if you regularly got cash advances and had a history of sending in your payments late? _____ Why? _____

4. Which card is a waste of money for any credit card user? _____
Why? _____

Dealing the Cards of Credit



How Much Debt Is Safe?

The following guidelines will help you look at your use of credit. If your debts are greater than the guidelines recommended you may be headed for financial problems. Remember, these guidelines are not only for credit card debt, rather for ALL non-mortgage debt (e.g., credit cards, student loans, auto loans, etc.). How do your spending habits compare?

1. It is recommended that your monthly credit payments (not including mortgage debt) not exceed 20% of your net monthly income. Note: 15% is considered manageable for most people.

$$\begin{array}{rcccl} \$ \underline{\hspace{2cm}} & \times & .20 & = & \$ \underline{\hspace{2cm}} \\ \text{Your Net Income} & & & & \text{Max Monthly Credit Payment} \end{array}$$

Example—If you make \$1000 a month, your monthly credit payment should not exceed \$200.00. [\$1000 x .20 = \$200]

2. It is recommended that you be able to pay off your debts in two or three years using only 10% of your net annual income.

$$\begin{array}{rcccl} \$ \underline{\hspace{2cm}} & \div & \$ \underline{\hspace{2cm}} & = & \underline{\hspace{2cm}} \\ \text{Total Loan Balance} & & \text{10\% of Annual Net Income} & & \text{Years To Repay} \\ & & (\text{Net Income} \times .10) & & \end{array}$$

Example—If you have \$2400 in debt and make \$1000 a month, it will take you 2 years to repay. [\$2400 ÷ (\$1000 x 12 x .10) = 2]

How Much Debt Is Safe?



Using guideline #1 on Handout #3a, calculate the maximum monthly credit card payment.

1. Kelly works part-time at a coffee house. She lives at home, has no debt, and earns a net monthly income of \$525. What is her recommended maximum monthly credit card payment?
2. Sam works as an office assistant and has a net monthly income of \$1,925 a month. He has a \$200 car payment. What is his recommended maximum monthly credit card payment?
3. Christine works part-time as a lifeguard at the YMCA. Her net annual income is \$7,800. She still lives with her parents but has a monthly student loan payment of \$120. What is her recommended maximum monthly credit card payment?
4. Jose is a server at T-Bone Steakhouse and has a net annual income of \$12,000. He has a monthly loan payment for his motorcycle that is \$120 a month, and monthly payment of \$140 for electronics on a Computer Town USA store card. What is his recommended maximum monthly credit card payment?

Dealing the Cards of Credit



How Much Debt Is Safe?

Using guideline #2 on Handout #3a, find out who has a safe debt load and who does not.

1. Nick lives at home, has no loan obligations, and has a net annual income of \$12,000. He loves to shop and has accumulated a credit card balance of \$4,800! Does he have too much debt?
2. Sarah works part time at a coffee house. She lives at home and has never carried a balance on her credit card or has had any outstanding debt. She earns a net monthly income of \$525. She really wants to spend a month touring Europe with a group of friends. She knows she will probably need about \$1,500 for the trip, but doesn't have much saved. She doesn't want to pass up this opportunity and wants to use her credit card, which also has a \$1,500 limit. The good news is that she has 4 weeks of paid vacation due to working overtime. Can Sarah handle a \$1,500 balance?
3. Peter is a graphic designer who earns a net monthly income of \$2,200. Due to missing two unpaid months of work after an injury, Peter used up his savings and charged almost everything to cover his expenses. He owes: \$4,000 on his truck and has a total of \$2,600 on his credit cards. Is Peter in debt trouble?

Dealing the Cards of Credit



**HOW DOES YOUR MONTHLY PAYMENT
AFFECT THE AMOUNT OF INTEREST YOU
THROW AWAY ON CREDIT CARD DEBT?**



TOTAL DEBT: \$3,000

APR	MONTHLY PAYMENT	LENGTH OF TIME TO PAY OFF	TOTAL INTEREST PAID
18.5	\$75	63 months	\$1,700.76
18.5	\$100	41 months	\$1,058.12
18.5	\$125	31 months	\$775.18
18.5	\$150	25 months	\$614.54

1. How many years will it take to pay off the debt when paying only \$75 a month?

2. How much can you save by paying \$100 a month instead of \$75 a month?

3. How much interest can you save by doubling your \$75 payment?

4. How many years will it take to pay off the debt when paying \$125 a month?

5. What would your total debt be if you paid \$75 a month?

6. Does it pay to make the largest monthly payment as possible?



HOW DOES THE APR AFFECT THE AMOUNT OF INTEREST YOU THROW AWAY ON CREDIT CARD DEBT?

TOTAL DEBT: \$3,000

APR	MONTHLY PAYMENT	LENGTH OF TIME TO PAY OFF	TOTAL INTEREST PAID
9.5	\$75	49 months	\$621.66
12.5	\$75	53 months	\$900.95
15.5	\$75	57 months	\$1,248.88
18.5	\$75	63 months	\$1,700.76

1. What is the difference in interest paid between a 15.5% APR and a 12.5% APR?

2. How many years will it take to pay off the debt by paying \$75 a month at 18.5% APR?

3. How many years will it take to pay off the debt when paying \$75 amount at 9.5%

4. What would your total debt be if you paid \$75 a month at 18.5% APR?

5. Does it pay to shop around for the lowest APR possible?

CAN YOU BELIEVE.....?

If you made 2% minimum payments on \$3,000 of credit card debt with an 18.5% APR, it would take 50.083 years to pay off and cost \$9,452.83 in interest.



Dealing the Cards of Credit



A CREDIT CARD COMPARISON



	Card One	Card Two	Card Three
Financial Institution			
Card Name			
APR now			
APR increase (yes, no)			
How soon?			
Future APR			
Annual Fee			
Grace Period Length			
Credit Limit			
Additional Fees: Late payment			
Over limit			
Cash advance			
How is interest calculated?			
Is this a scam?			

If You Charge...Which Credit Card Is Best?

1. Which card would be best if you always paid off your balance in full each month? **C** Why? *If you always paid your bills in full and on time, it will cost nothing to use Card C because it has no annual fee. While the APR and fees are higher than card A and B, they are not as significant as the annual fee because they won't apply when you pay in full every month. Note: It is always best to get the lowest APR possible without an annual fee, in the event that you have a balance occasionally.*
2. Which card would be best if you usually carried a balance but never got cash advances and were very good about making your payments on time? **A** Why? *Getting the lowest purchase APR as possible will save you the most money. The cash advance APR is not an issue if you don't get cash advances and the fees will not apply if you pay your bills on time. Note: It is always best to get the lowest APR and lowest annual fee as possible for additional savings.*
3. Which card would be best if you regularly got cash advances and had a history of sending in your payments late? **B** Why? *Card B offers a fairly low APR for purchases, but just as important, offers the lowest APR for cash advances. It is important to always check the fine print for all APRs. Card B also has lower cash advance fees and late fees than the other cards.*
4. Which card is a waste of money for any credit card user? **D** Why? *Card D offers high APRs and fees. With some careful shopping, you are sure to be able to find a card with better terms. Note: If your credit rating is so low that this is the only type of card you qualify for, it might be best not to open a new account. Rather, work on changing your spending and savings habits, so that in time, you can qualify for a card with better terms.*

 Dealing the Cards of Credit



How Much Debt Is Safe?

1. Kelly works part-time at a coffee house. She lives at home, has no debt, and earns a net monthly income of \$525. What is her recommended maximum monthly credit card payment?

\$105 [$\$525 \text{ net monthly income} \times .20 = \$105 \text{ max monthly credit payment}$]

2. Sam works as an office assistant and has a net monthly income \$1,925 a month. He has a \$200 car payment. What is his recommended maximum monthly credit card payment?

\$185 [$\$1,925 \times .20 = \$385 \text{ total credit payment}$. $\$385 \text{ total credit payment} - \$200 \text{ motorcycle payment} = \$185 \text{ remaining for a max monthly credit card payment}$]

3. Christine works part-time as a lifeguard at the YMCA. Her net annual income is \$7,800. She still lives with her parents but has a monthly student loan payment of \$120. What is her recommended maximum monthly credit card payment?

\$10 [$\$7,800 \text{ net annual income} \div 12 \text{ months} = \$650 \text{ monthly net income}$. $\$650 \text{ monthly net income} \times .20 = \$130 \text{ total credit payment}$. $\$130 \text{ total credit payment} - \$120 \text{ loan payment} = \$10 \text{ remaining for a max monthly credit card payment}$.]

4. Jose is a server at T-Bone Steakhouse and has a net annual income \$12,000. He has a monthly loan payment for his motorcycle that is \$120 a month, and a monthly payment of \$140 for electronics on a Computer Town USA store card. What is his maximum recommended monthly credit card payment?

\$-60 *He already has too much debt!* [$\$12,000 \text{ net annual income} \div 12 \text{ months} = \$1,000 \text{ net monthly income}$. $\$1,000 \text{ net monthly income} \times .20 = \$200 \text{ total credit payment}$. $\$200 \text{ total credit payment} - \$120 \text{ motorcycle loan} - \$140 \text{ store card debt} = -\$60 \text{ remaining for a max monthly credit card payment}$.]

How Much Debt Is Safe?

1. Nick lives at home, has no loan obligations and has a net annual income of \$12,000. He loves to shop and has accumulated a credit card balance of \$4,800! Does he have too much debt?

Yes—it would take him over 4 years to pay off with 10% of his income.
***[\$12,000 net annual income X .10 = \$1,200 (10% of annual income)
\$4,800 total debt ÷ \$1,200 (10% annual income) = 4 years to pay off]***

2. Sarah works part time at a coffee house. She lives at home and has never carried a balance on her credit card or has had any outstanding debt. She earns a net monthly income of \$525. She really wants to spend a month touring Europe with a group of friends. She knows she will probably need about \$1,500 for the trip, but doesn't have much saved. She doesn't want to pass up this opportunity and wants to use her credit card, which also has a \$1,500 limit. The good news is that she has 4 weeks of paid vacation due to working overtime. Can Sarah handle a \$1,500 balance?

Yes—she would be able to pay it off in less than 3 years. ***[\$525 net monthly income X 12 months = \$6,300 net annual income. \$6,300 net annual income X .10 = \$630 (10% of net annual income). \$630 (10% of net annual income) X 3 years = \$1,890. Sarah can borrow up to \$1,890 and pay it back in three years.]***

3. Peter is a graphic designer who earns a net monthly income of \$2,200. Due to missing two unpaid months of work after an injury, Peter used up his savings and charged almost everything to cover his expenses. He owes: \$4,000 on his truck and has a total of \$2,600 on his credit cards. Is Peter in debt trouble?

Yes and No—He cannot allow himself to acquire more debt until he pays his existing debt back. ***\$6,600 will take him exactly 3 years to pay back if he pays back 10% of his net annual income a year. [\$2,200 X 12 = \$26,400 net annual income \$26,400 X .10 % = \$2,640 (10% of annual net income). \$4,000 truck loan + \$2,600 total credit card balance = \$6,600 total debt. \$6,600 total debt ÷ \$2,640 (10% annual income) = 2.5 years to pay off.]***