

# Student Activities



## Lesson Seven

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# Understanding Credit



## lesson 7 quiz: credit knowledge

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choose the correct answer.

1. ——— **A common advantage of using credit is:**
  - a. less impulse buying.
  - b. lower cost for items purchased.
  - c. ability to obtain items now.
  - d. lower chance of overspending.
  
2. ——— **You may pay more for an item bought on credit because of:**
  - a. interest payments.
  - b. sale prices.
  - c. debts.
  - d. financial problems.
  
3. ——— **A common disadvantage of using credit is:**
  - a. having to carry extra cash.
  - b. having a record of your purchases.
  - c. spending more than you should.
  - d. buying now, paying later.
  
4. ——— **If you use credit, you *should*:**
  - a. run up as much debt as you can.
  - b. notify the credit company immediately if your credit card is lost.
  - c. give your credit card number to anyone who asks for it.
  - d. borrow more than you can repay.
  
5. ——— **If you use credit, you *should not*:**
  - a. give your card number over the phone.
  - b. pay debts promptly.
  - c. read and understand the credit contract.
  - d. tell anyone if your credit card is lost.



## lesson 7 quiz: establishing a credit history

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**choose the correct answer.**

1. \_\_\_\_\_ **When you pay all your bills on time, you are showing good:**
  - a. character.
  - b. capital.
  - c. collateral.
  - d. capacity.
  
2. \_\_\_\_\_ **A steady job and regular income are referred to as:**
  - a. character.
  - b. capital.
  - c. collateral.
  - d. capacity.
  
3. \_\_\_\_\_ **Which one of these would not be used to repay a debt?**
  - a. income
  - b. owned property
  - c. collateral
  - d. character references

**Put a check beside the four best ways to build a credit history:**

- \_\_\_\_\_ always pay in cash.
- \_\_\_\_\_ establish a steady work record.
- \_\_\_\_\_ pay all your bills on time.
- \_\_\_\_\_ bounce checks in your checking account.
- \_\_\_\_\_ use your savings to buy items instead of using credit.
- \_\_\_\_\_ make regular payments in a savings account.
- \_\_\_\_\_ apply for a local store credit card and pay regularly.
- \_\_\_\_\_ get a co-signer to pay back your loans.



## how much is a safe debt load?



### directions

Read each of the following scenarios. How much debt can each person safely carry?

1.

Jessie has a monthly net income of \$800.

He pays \$150 a month for rent.

He pays \$80 each month for a credit card bill.

Now, he wants to buy a car.

How much does Jessie have left in his budget for a car payment?

*(Hint: His monthly payment should be less than 10% of his monthly net income.)*

**Answer:** \_\_\_\_\_

**Work:**

2.

Carla has a monthly net income of \$450.

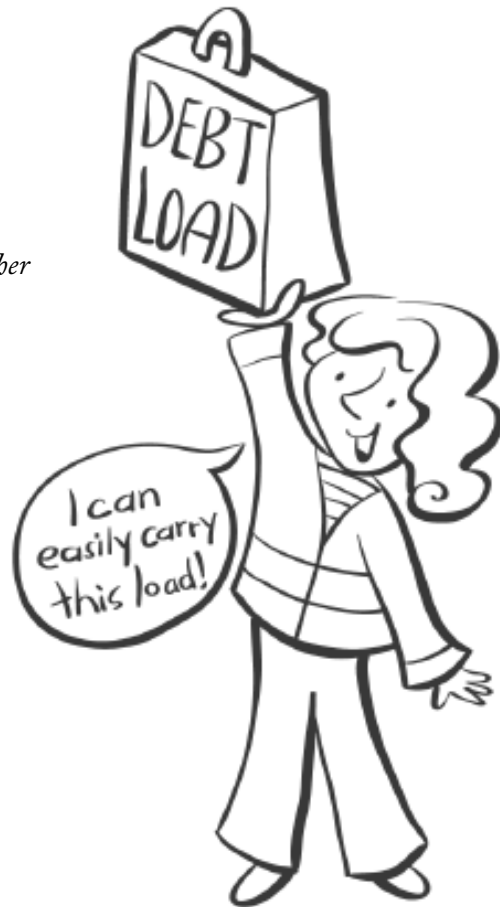
She wants to buy a new bike with a credit card.

What is the largest monthly payment she can make?

*(Hint: Her monthly payments should be less than 10% of her monthly net income.)*

**Answer:** \_\_\_\_\_

**Work:**





## how much is a safe debt load? (cont.)

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3.

David has a monthly net income of \$1,360.

He has a monthly rent payment of \$450.

He is paying \$116 a month for a student loan.

David would like to buy a new television set using a credit card.

How much can David safely pay each month for his debts?

*(Hint: His monthly payments should be less than 10% of his monthly net income.)*

**Answer:** \_\_\_\_\_

**Work:**

4.

Marsha and Michael have a combined monthly net income of \$3,500.

They pay \$675 a month for rent.

They have an outstanding student loan balance of \$6,000.

They owe a balance of \$1,000 on a new stereo.

How much more debt can they safely take on?

*(Hint: They should not borrow more than 20% of their yearly net income.)*

**Answer:** \_\_\_\_\_

**Work:**

5.

Juanita has a monthly net income of \$2,500.

She pays \$500 a month for rent.

She pays a car insurance premium of \$68.

She also makes a car payment of \$167.

Are these payments within Juanita's safe debt load?

*(Hint: Her monthly payments should be less than 10% of her monthly net income.)*

**Answer:** \_\_\_\_\_

**Work:?**



# shopping for credit



## directions

Compare the costs and features of two different credit cards on the chart below.

CARD ONE: a major credit card

CARD TWO: a credit card from a department store

	CARD ONE	CARD TWO
1. Card name		
2. Locations accepted		
3. Annual fee		
4. APR		
5. Grace period		
6. Minimum payment		
7. Late payment fee		
8. Other features		

### 1. Card name

What is the charge or credit card name?

### 2. Locations

Where are the cards accepted?

### 3. Annual fee

Do the cards have an annual fee?

### 4. APR

How much are the annual percentage rates?

### 5. Grace period

What is the grace period for paying?

### 6. Minimum monthly payment

What is the smallest payment you can make each month?

How is it calculated?

### 7. Late payment fee

Is there a charge for late payments?

How much is it?

### 8. Other features

Do the cards offer any other special features?



# the credit card statement



## directions

Use the credit card statement on the following page to answer these questions:

1. What is the Annual Percentage Rate (APR)?

\_\_\_\_\_

2. What is the new balance?

\_\_\_\_\_

3. What was the previous balance?

\_\_\_\_\_

4. How many charges were made during the billing cycle?

\_\_\_\_\_

5. How many credits and payments were made during the billing cycle?

\_\_\_\_\_

6. Were there any charges for late payments?

\_\_\_\_\_

7. What is the total amount of the credit line?

\_\_\_\_\_

8. What is the total amount of charges made during the current billing period?

\_\_\_\_\_

9. Was there a finance charge for the current billing cycle?

\_\_\_\_\_

10. What is the account number on the statement?

\_\_\_\_\_

name: \_\_\_\_\_

date: \_\_\_\_\_



# the credit card statement

**SEND PAYMENT TO**

 Box 1234  
 Any Town, USA

**CREDIT CARD STATEMENT**

ACCOUNT NUMBER	NAME	STATEMENT DUE	PAYMENT DUE DATE
4125-239-412	John Doe	2/13/09	3/09/09

CREDIT LINE	CREDIT AVAILABLE	NEW BALANCE	MINIMUM PAYMENT DUE
\$1200.00	\$1074.76	\$125.24	\$20.00

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT
463GE7382		1/25	PAYMENT THANK YOU	-168.80
32F349ER3	1/12	1/15	RECORD RECYCLER ANYTOWN, USA	14.83
89102DIS2	1/13	1/15	BEEFORAMA REST ANYTOWN, USA	30.55
NX34FJD32	1/18	1/18	GREAT ESCAPES BIG CITY, USA	27.50
84RT3292A	1/20	1/21	DINO-GEL GASOLINE ANYTOWN, USA	12.26
973DWS321	2/09	2/09	SHIRTS 'N SUCH TINYVILLE, USA	40.10

Previous balance	(+) 168.80	Current Amount Due	125.24
Purchases	(+) 125.24	Amount Past Due	
Cash Advances	(+)	Amount Over Credit Line	
Payments	(-) 168.80	Minimum Payment Due	20.00
Credits	(-)		
FINANCE CHARGES	(+)		
Late Charges	(+)		
NEW BALANCE	(=) 125.24		

FINANCE CHARGE SUMMARY	PURCHASES	ADVANCES	For Customer Service Call: 1-800-xxx-xxxx
Periodic Rate	1.65%	0.54%	For Lost of Stolen Card, Call: 1-800-xxx-xxxx 24Hour Telephone Numbers
Annual Percentage Rate	19.80%	6.48%	

Please make check or money order payable to Your First Bank. Include account number on front.



name: \_\_\_\_\_

date: \_\_\_\_\_



# credit card statement template

**SEND PAYMENT TO**

Box 1234  
Any Town, USA

## CREDIT CARD STATEMENT

ACCOUNT NUMBER	NAME	STATEMENT DUE	PAYMENT DUE DATE
CREDIT LINE	CREDIT AVAILABLE	NEW BALANCE	MINIMUM PAYMENT DUE

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT

Previous balance	(+)	Current Amount Due
Purchases	(+)	Amount Past Due
Cash Advances	(+)	Amount Over Credit Line
Payments	(-)	Minimum Payment Due
Credits	(-)	
<b>FINANCE CHARGES</b>	(+)	
Late Charges	(+)	
<b>NEW BALANCE</b>	(=)	

<b>FINANCE CHARGE SUMMARY</b>	<b>PURCHASES</b>	<b>ADVANCES</b>	<b>For Customer Service Call:</b> <b>1-800-xxx-xxxx</b>
Periodic Rate			<b>For Lost of Stolen Card, Call:</b> <b>1-800-xxx-xxxx</b>
Annual Percentage Rate			<b>24Hour Telephone Numbers</b>

**Please make check or money order payable to Your First Bank. Include account number on front.**



## lesson 7 quiz: credit card features and costs

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choose the correct answer.

1. ——— **Comparing the APR of different credit cards allows you to get the:**
  - a. longest grace period.
  - b. lowest annual fee.
  - c. lowest interest rate.
  - d. lowest minimum payment.
  
2. ——— **The grace period refers to the time:**
  - a. taken to process a credit card application.
  - b. for paying an account without an interest charge.
  - c. allowed to notify the creditor of a billing error.
  - d. used for calculating interest.
  
3. ——— **The smallest amount you can pay on a credit card account without paying interest is called the:**
  - a. late payment fee.
  - b. credit limit.
  - c. annual fee.
  - d. minimum payment.
  
4. ——— **Which of the following is not important when shopping for a credit card?**
  - a. the costs of the card
  - b. the features of the card
  - c. what the card looks like
  - d. how you plan to use the card
  
5. ——— **Which of the following is not included on a credit card statement?**
  - a. the balance in savings and checking accounts
  - b. the previous credit account balance
  - c. the names of stores where purchases were made
  - d. the new credit account balance



## lesson 7 quiz: avoiding financial trouble

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**Put a check in front of the five statements about financial trouble that are true.**

\_\_\_\_\_ A warning sign of financial trouble is not knowing how much you owe.

\_\_\_\_\_ It is a good idea to get a new loan to pay old loans.

\_\_\_\_\_ If you have a high-paying job, you can afford to spend more than 20% of your net income on debt maintenance.

\_\_\_\_\_ It is a good idea to contact creditors immediately if you begin falling behind in your payments.

\_\_\_\_\_ A credit repair company can erase a poor credit history quickly.

\_\_\_\_\_ The National Foundation for Consumer Credit will help you set up a realistic budget, contact your creditors, and plan future expenses.

\_\_\_\_\_ Financial difficulties are commonly caused by overspending.

\_\_\_\_\_ The National Foundation for Consumer Credit offers customers a quick, easy fix for financial problems.

\_\_\_\_\_ You should never admit to a creditor that you cannot pay your bills.

\_\_\_\_\_ Setting up a realistic budget is a good way to avoid financial trouble.