

*Teacher's Guide*

# CREDIT CARDS: HOW MUCH DO THEY COST?

Financial education at school:  
An AMF activity for teachers.



# CLASSROOM ACTIVITY

## CREDIT CARDS: HOW MUCH DO THEY COST?



### Presentation of workshop

<b>Target audience</b>	Secondary V students
<b>Approximate duration</b>	50 minutes
<b>Description</b>	Students calculate how much interest they will pay depending on how they use their credit card.
<b>Objectives</b>	<ul style="list-style-type: none"><li>– Give reasons for using a credit card.</li><li>– Determine how much credit cards costs.</li><li>– Identify the risks associated with a credit card.</li><li>– Learn how old you have to be in Québec for a financial institution to lend you money.</li></ul>
<b>Materials required</b>	<ul style="list-style-type: none"><li>– Board</li><li>– Computer and Internet connection</li></ul>

### Suggested procedure

STEP	ACTIVITY	MATERIALS REQUIRED	APPROXIMATE TIME
1	The teacher presents the theory using the method of his/her choice.	Board	15 minutes
2	Students complete the practical exercise: How much does it cost if I buy something with my credit card?	Workshop - <b>How much does it cost if I buy something with my credit card?</b>  Credit card calculator available on <a href="http://Tesaaffaires.com">Tesaaffaires.com</a>	25 minutes
3	The teacher discusses the results.	Workshop Results	10 minutes

# STEP 1

## THEORY:

### NOTIONS ABOUT CREDIT CARDS

A credit card is a loan contract that lets you make purchases up to a predefined limit.

#### Main advantages and risks

Students can be asked for input:



ADVANTAGES	RISKS
<ul style="list-style-type: none"><li>– Lets you build a credit record.</li><li>– Lets you buy things on-line.</li><li>– Accepted almost everywhere around the world.</li></ul>	<ul style="list-style-type: none"><li>– Can affect your credit record if you don't pay your balance on time.</li><li>– Can encourage you to spend more than you planned.</li><li>– Can be very expensive if you don't pay it off when it is due.</li></ul>

#### What is a credit report?

A credit report is like a report card about your personal finances. You're given points based on your habits.

An institution or business where you apply for a loan will want to look at this report card (with your consent). You can also look at your credit by communicating with the two main credit agencies in Canada: Equifax and TransUnion.

#### How to get a credit card

- You have to be 18 years old (if you're the main cardholder).
- You have to fill out an application form with the credit card company.

#### How credit cards work

Each purchase made with the credit card is added to your account. You have to make a minimum payment by the deadline shown on your statement. If you don't, it can affect your credit record.

#### How to avoid paying interest charges?

You have 21 days to pay for something you buy with your credit card. If you don't pay the entire balance, you pay interest on the full amount of your purchase as of the date you bought it.

**Example: On January 3<sup>rd</sup>, Annie buys a laptop for \$800, tax included. She doesn't buy anything else during the month. On January 6, she receives her credit card statement. The deadline for payment is January 27.**

**Option A:** Annie pays the outstanding balance on her card. She won't pay any interest.

**Option B:** Annie makes a \$75 payment. She'll pay interest on \$800.

**Option C:** Annie makes a \$680 payment. She'll pay interest on \$800.

If you ask for a cash advance on your card (by withdrawing cash from an ATM, for example), you have to pay interest on the full amount as of the withdrawal date. Withdrawal charges may also apply, for example, \$3.50 per withdrawal.

# HOW TO HAVE A GOOD CREDIT REPORT

You have to meet the payment deadlines and, if possible, pay the entire balance on your card by the due date.

## What you shouldn't do:

- Attempt to exceed your credit limit.
- Make payments late.
- Pay less than the minimum payment.
- Accumulate balances on several credit cards.

## Things to consider:

- It's very likely that you'll borrow money at some point during your life (car loan, mortgage, etc.).
- The better your credit, the better your chance of receiving a loan.

## Things to watch out for

<b>Interest rates and reward points</b>	<p>Shop around to find the best interest rate. Credit cards for large stores can charge up to 29.9% interest.</p> <p>A \$1,000 purchase on your credit card represents \$874 in interest if you only make the minimum payment (Source: credit card calculator on Tesaffaires.com).</p> <p>Credit cards with financial institutions generally have lower interest rates (for example, 19.9%).</p>
<b>Reward points</b>	<p>It's nice to get reward points but they aren't worth much if you pay higher interest on your credit card balance.</p>
<b>Insurance</b>	<p>If insurance is offered (life, disability, job security, etc.), check how much it costs and whether you really need it.</p>
<b>Annual fees</b>	<p>Check whether an annual fee is charged and if so, how much it is. Then don't forget to check your statement and pay the amount owed by the due date.</p>
<b>Theft</b>	<p>If your credit card is lost or stolen, notify your credit card company as soon as possible. If you have taken steps to protect your PIN, your liability is normally limited to \$50 (according to the Consumer Protection Act).</p>
<b>Errors</b>	<p>Billing errors may occur. Check your statement every month and report any errors right away.</p>
<b>Debt overload</b>	<p>Recognize the warning signs and ask for help if you need it:</p> <ul style="list-style-type: none"><li>- You spend impulsively.</li><li>- You receive past due notices.</li><li>- You have trouble paying the balance on your card.</li><li>- You don't know how you're going to pay your debts.</li><li>- You transfer your debts from one credit card to another.</li></ul>
<b>Organizations that can help</b>	<ul style="list-style-type: none"><li>- Association coopérative d'économie familiale (ACEF)</li><li>- A budget consulting service</li></ul>



## STEP 2

### WORKSHOP – HOW MUCH DOES IT COST IF I BUY SOMETHING WITH MY CREDIT CARD?

#### Situation 1

Julie wasn't able to set any money aside this summer and now she has to use her credit card to pay \$550 for books.

Using the credit card calculator on **Tesaffaires.com**, calculate how much interest she'll have to pay if she pays \$50 per month on her loan. At the same time, let her know how long it will take to pay off the entire loan.

**Julie**

Credit card from a major financial institution

Annual interest rate: 19.9%

Minimum amount to be paid each month:  
\$10 or 5% of the balance on her card each month,  
whichever is higher.

**Purchase: \$550**

Payment: \$50 per month.

**Enter your answer here**

Interest charges: \_\_\_\_\_

Time needed to pay it off: \_\_\_\_\_

#### Situation 2

Fred has a credit card from a large store that charges 29.9% interest. He buys a tablet for \$550 at the beginning of the school year and charges it to his credit card.

Using the credit card calculator on **Tesaffaires.com**, calculate how much interest Fred will have to pay if he only makes the minimum payment on his card each month.

**Fred**

Top Electronics Store credit card

Annual interest rate: 29.9%

Minimum amount to be paid each month:  
\$10 or 5% of the balance on his card each month,  
whichever is higher.

**Purchase: \$550**

Payment: minimum payment each month.

**Enter your answer here**

Interest charges: \_\_\_\_\_

Time needed to pay it off: \_\_\_\_\_

# STEP 3

## WORKSHOP RESULTS

### Situation 1: Julie

Enter the following numbers in the [Tesaffaires.com](https://www.lesaffaires.com) calculator, then click on the Calculate A button..

Fill in the four boxes below, then choose A, B or C.

Total balance to be repaid	550 \$	1
Annual interest rate	19.9 %	2
% of required minimum payment	5 %	3
Required minimum payment in \$	10 \$	4

What do you want to know?

A) I want to know how long it would take to pay off my credit card balance in full if I make monthly payments of	50 \$	Calculate A
B) I want to know how much I would have to pay each month to pay off my credit card balance in full in	0 month	Calculate B
C) If I make only the minimum payment every month, how many months would it take and how much would I pay in interest charges?		Calculate C

You'll see the following results:

Your information	Your results
Total balance to be repaid : \$ 550.00	It will take 13 months to repay your debt. (1.1 years)
Annual interest rate : 19.9 %	You will have paid \$ 62.32 in interest charges
Monthly payment : \$ 50.00	

The answer is therefore: Interest charges of \$62.32 and time needed to repay 13 months.



## Situation 2: Fred

Write the following numbers in the [Tesaffaires.com](https://Tesaffaires.com) calculator, then click on the Calculate C button.

Fill in the four boxes below, then choose A, B or C.

Total balance to be repaid	\$ 550	1
Annual interest rate	29.9 %	2
% of required minimum payment	5 %	3
Required minimum payment in \$	\$ 10	4

What do you want to know?

A) I want to know how long it would take to pay off my credit card balance in full if I make monthly payments of	\$ 0	Calculate A
B) I want to know how much I would have to pay each month to pay off my credit card balance in full in	0 month(s)	Calculate B
C) If I make only the minimum payment every month, how many months would it take and how much would I pay in interest charges?		Calculate C

You'll see the following results:

Your information	Your results
Total balance to be repaid : \$550.00	It will take 68 months to repay your debt. (5.7 year(s))
Annual interest rate 29.9%	You will have paid \$427.96 in interest charges.
Monthly payment.	

The answer is therefore: Interest charges of \$427.96 and time needed to repay 68 months (almost 6 years). The teacher can lead a class discussion to find out how students react to the cost of credit. What are other possible solutions for Fred and Julie?

## SUPPLEMENT

Divide the class into groups.

- Ask half the groups to prepare advertising for a credit company. What arguments will be used to persuade young people to use their card?
- Ask the other half to prepare messages telling young people how to avoid debt or misuse of their credit card.

## ADDITIONAL RESOURCES

Other educational tools are available at [tesaffaires.com](http://tesaffaires.com), in the Teachers' section.

