

1040  
ACTIVITY

Finance & Investment – Choosing a Credit Card



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## ACTIVITY

**CHOOSING A CREDIT CARD**

## SUBJECT

**Personal Finance - Credit**

## OUTCOMES

Learners will be able to:

- explain the advantages and disadvantages of credit cards
- evaluate credit card choices
- learn to use credit cards responsibly

## SKILL LEVEL

Middle School – High School – Post Secondary – Adult

## ACTIVITY

Obtain credit card applications from three different sources, preferably from the three types of credit cards – bank cards, retail cards, and travel and entertainment cards. Evaluate each card on the worksheet. Explain and compare the costs involved with each card.

## OVERVIEW

Credit is a contract based on your promise to pay in the future for goods and services you receive today. Credit cards can play an important role in personal financial planning: you can purchase the products and services you need when you need them; credit cards are helpful in emergencies; and you can become a better money manager as you learn to use credit responsibly.

There are disadvantages, however, to using credit: it is easy to buy beyond your means; it is very easy to buy on impulse and forget you are spending future income, money that you do not yet have; and if you only pay the minimum balance each month, it may take you years to pay off the balance, because of the high interest rates charged by credit card companies.

**Types of Credit and Credit Cards**

There are two basic types of credit: secured and unsecured. Secured credit means that the product you purchased, such as a car, appliance or furniture, serves as collateral to guarantee the debt. If you do not make a payment, the creditor can legally take possession of the product.

Unsecured credit is based on your promise and signature to repay the debt without committing your savings or other collateral as a guarantee. Credit cards can be either secured or unsecured. Most credit cards are unsecured.

INSTRUCTOR



Types of credit cards:

- *Bank cards*, such as MasterCard, Visa, Discover and Optima. These credit cards are sponsored by individual banks and can be used to pay for a variety of goods and services. Each bank decides credit limits, annual fees, terms and conditions.
- *Company or Retail Store cards*, such as Sears, J.C. Penney, Shell or Mobil. These cards are used in the retail store or gas station and have no annual fee.
- *Travel and Entertainment cards*, such as American Express or Diner's Club. They are usually not available to students because they are used by businesses and consumers for travel and entertainment expenses and have an annual fee.

### Credit Record

The way you use a credit card will affect your credit history. Your credit history is maintained by credit bureaus in the form of a credit report. This credit report is a record of your credit use. Your credit history will be reviewed by employers, insurance companies, apartment managers and businesses for consumer products, such as cars or furniture, and your record follows you wherever you go. It is important to know what terms and conditions you have agreed to and the interest charges that will be added to your bill, if you cannot pay the balance each month.

### Choosing A Credit Card

Credit card companies will actively market to you as soon as you are 18 years old. They know that consumers tend to stick with their first credit card and college students have good employment prospects. Before you choose a credit card to use, you will need to carefully evaluate all the terms and conditions for each card you are considering, especially if you know that sometimes you will not be able to pay the full balance.

### Credit Card Evaluation

The following factors should be considered to help you select the best credit card:

- The credit card interest rate – look for a low interest rate but remember that the interest rate is not fixed.
- All charges and costs – some companies add in other fees, such as late payment fees if your payment arrives after the due date, or transaction fees every time you use the card.
- Services and features available – such as rebates, cash-back incentives or extended warranties. Consider the value of these features against the charges and costs associated with the card.

### DISCUSSION QUESTIONS

1. What are the advantages and disadvantages of credit?
2. What are the two types of credit and how are they used?
3. Why would someone want or need to have a credit card?
4. What costs are involved with credit cards?
5. Why is it important to consider different types of credit cards?



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# ACTIVITY WORKSHEET

## CHOOSING A CREDIT CARD

Finding the best credit card for your needs involves comparison of all the costs, terms and conditions.

This worksheet will help you analyze the important factors and select the right credit card for you.

 Name  
 \_\_\_\_\_

 Score  
 \_\_\_\_\_

 Date  
 \_\_\_\_\_

### INSTRUCTIONS

Obtain credit card applications from three different sources, preferably from the three types of credit cards: bank cards; retail cards; and travel and entertainment cards.

Evaluate each card using this worksheet. Explain and compare the costs involved with each card.

#### Card 1

Card name: \_\_\_\_\_ Card type: \_\_\_\_\_

#### Card 2

Card name: \_\_\_\_\_ Card type: \_\_\_\_\_

#### Card 3

Card name: \_\_\_\_\_ Card type: \_\_\_\_\_

|                                    | <b>CARD 1</b> | <b>CARD 2</b> | <b>CARD 3</b> |
|------------------------------------|---------------|---------------|---------------|
| Annual Fee                         | _____         | _____         | _____         |
| Annual Percentage Rate (APR)       | _____         | _____         | _____         |
| Grace Period From Date Of Purchase | _____         | _____         | _____         |
| Late Payment Fees                  | _____         | _____         | _____         |
| Cash Advances                      | _____         | _____         | _____         |
| Transaction Fee                    | _____         | _____         | _____         |
| Other                              | _____         | _____         | _____         |
| Rebates                            | _____         | _____         | _____         |
| Bonuses - Rewards                  | _____         | _____         | _____         |
| Other                              | _____         | _____         | _____         |

