Name\_\_Thomas Hughes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Date\_\_\_\_\_\_\_\_\_\_Period\_\_2\_\_\_\_\_

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|  | Credit Cards 101  What You Should Know |  |

Directions Part 1: Please read the article, "Credit Cards 101"at <http://www.pbs.org/inthemix/shows/creditcard101.html> and answer the questions below to review the basics of credit cards.

1. How old do you have to be to get a credit card?  What requirements do you need, besides age, to obtain a credit card?

You must be 18 and have some sort of income

1. What are some benefits of using credit cards?

* Credit cards offer protection against theft of your cash.
* You can buy things even if you don’t have the money
* Builds up your credit score for the future

1. What are some consequences of using a credit card?

* Makes it easy to spend to much and you wont be able to repay when the time comes
* Tempting to buy on impulse as you are spending money you don’t have
* If you don’t pay off the balance all at once it will accumulate interest.

1. What is credit history?

Credit history is sort of a record of how you spend your money and whether you are capable of managing it well or not.

1. How does your credit history affect what credit cards you can get and your APR?

If you already have bad credit history with a certain bank or company, other ones will be a lot less likely to accept you as you have shown that you cannot handle and manage your money well.

6. How do you think people can get into credit card debt?

With a credit card it becomes easy to make large purchases as you technically aren’t purchasing with your own money. And a lot of large or excessive purchases can add up and if you don’t pay off your debt(s) at the end of each month, interest will accrue and the debt will continue to increase.

1. Do you feel that consumers are being protected?

You usually have a 30 day grace period on new purchases to pay them off. Also credit score stops people who are ineligible from borrowing money that they cannot pay back.

Directions Part 2:

Let’s assume that you will accumulate some credit card debt in your lifetime. Use the link <http://www.creditcardnation.com/calculator.html> to calculate the dangers of using credit irresponsibly. For the Debt-Zapper Calculator please enter a Debt ($) amount of $3,000 at an interest rate of 10%. Please calculate how long it will take you to pay off this debt at the following monthly payments: $30, $50, and $125. **Be sure to label your answers.**

* $30 – 216 Months
* $50 – 84 Months
* $125 – 27 Months

Using the “Estimate the Finance Period & Total Cost” please enter $3000 as your credit card debt. While most people can payoff their credit card debt over a fairly short period of time, please look at what can happen when you get way behind on your payments. Compare the upper left hand side of the chart with the lower right hand side. Keep in mind that if you are late with your payments your interest rate can go as high as 30%. Go ahead and put 30% in the last column. What are the differences you see?

Comparing the 30% interest rate to a 5.9% interest rate, a $3,000 debt can end up costing you anywhere from $3,096 (5.9%) to $27,000 (30%) by the time you pay it off.

Using the next calculator (Estimate the Time) please take a look at how much of a monthly payment you will need to make to avoid such a high finance charge over the life of the loan. Even at $100 a month you are still looking at a minimum of almost 3 years to pay off a $3000 credit card debt. **Given this information, please explain your general feeling about how you will use credit cards in the future.**

If I were to own a credit card, I would attempt to treat it like a debit card, only spending money that I know I have and am willing to pay off the debt by the end of the grace period.

Final question: If you want to attend college you will probably have around $20,000 in loans, and currently the Stafford Loan amount is a fixed 6.8% rate. How long would it take you to pay back these loans at the following monthly payments? $125, $175, and $200. **Be sure to label your answers.**

**$125 – 420 Months**

**$175 – 185 Months**

**$200 – 148 Months**