

THE CHALLENGE

James received a credit card with a \$5,000 limit and quickly maxed it out on electronics, clothes, and dinners. Unable to pay the full balance, he started making only minimum payments. Two years later, James still owes \$4,200 and has paid over \$1,500 in interest alone—on purchases he barely remembers.

What mistakes did James make, and how could he have avoided this debt trap?

Learning Objectives

- Understand how credit card interest and minimum payments work.
- Calculate the true cost of carrying a credit card balance over time.
- Develop responsible credit card usage strategies that build credit without creating debt.

CORE CONCEPTS

Term	Definition
APR	Annual Percentage Rate; the yearly interest charged on unpaid credit card balances.
Minimum Payment	The smallest payment to keep your account in good standing—usually 1-3% of balance.
Grace Period	Time (usually 21-25 days) to pay your balance in full before interest is charged.
Credit Utilization	The percentage of available credit you're using; below 30% is recommended.
Cash Advance	Withdrawing cash from your credit card; has higher interest rates and no grace period.

Background: Credit cards can be powerful financial tools when used wisely. Pay your balance in full each month, and you get a **free short-term loan** plus rewards and credit-building benefits. But carry a balance, and you'll pay 18-25% interest on every purchase. The minimum payment trap is real: paying only the minimum means most of your payment goes to interest, and it can take decades to pay off a balance. The key is using credit cards strategically—never spending more than you can afford to pay off monthly.

APPLY IT

PART A: CREDIT CARD SCENARIO ANALYSIS

For each scenario, predict the outcome and explain your reasoning.

Scenario 1: Sarah's Strategy

Sarah uses her credit card for all regular purchases, never charging more than \$500/month on a \$3,000 limit. She pays her balance in full every month before the due date.

Interest paid: _____ (\$0 / some / significant)

Credit score impact: _____ (positive / negative / neutral)

Because: _____

Scenario 2: John's Minimum Payments

John has a \$2,000 balance at 18% APR. He makes only the \$40 minimum payment each month and continues using the card for small purchases.

Time to pay off: _____ (months / years / decades)

Total interest paid: _____ (less than / equal to / more than balance)

Because: _____

Hint: The grace period only applies if you pay in full. Once you carry a balance, interest accrues immediately on new purchases.

PART B: MINIMUM PAYMENT MATH

See the true cost of making only minimum payments on a \$2,000 balance at 18% APR.

Payment Strategy	Monthly Payment	Time to Pay Off	Total Interest
Minimum only (\$40)	\$40	9+ years	\$2,200+
Double minimum (\$80)	\$80	32 months	\$523
Fixed \$150/month	\$150	15 months	\$236
Interest Saved vs. Minimum			

3. How much interest would John save by paying \$150/month instead of the minimum?

Show your work:

Interest saved: \$ _____

4. Why does paying the minimum cost MORE than the original balance in interest?

PART C: YOUR CREDIT CARD STRATEGY

5. List THREE rules you would follow to use a credit card responsibly.

6. If you had a \$1,000 credit limit, what maximum balance should you maintain to keep good credit utilization?

CHECK YOUR UNDERSTANDING

1. What happens if you pay your credit card balance in full during the grace period?

- ☐ A. You pay the APR rate on purchases
- ☐ B. You pay no interest on purchases
- ☐ C. Your credit limit decreases
- ☐ D. You lose your rewards points

2. Explain why a cash advance is worse than a regular credit card purchase.

3. **Calculation:** Sophia's credit limit is \$2,500. What's the maximum balance she should carry to stay at 30% utilization?

Show your work:

Maximum balance: \$_____

4. James (from The Challenge) maxed out his \$5,000 card. What TWO specific mistakes did he make, and what should he have done differently?

5. Reflection: Some people say "cash is king" and credit cards are dangerous. Others say credit cards are powerful tools. What's your view, and how would you use credit cards responsibly?
