



We become what we behold. We shape our tools and then our tools shape us.



Marshall McLuhan

Overview

A credit card can be a useful financial tool. It's easy to carry, convenient to use, and offers protection from loss or theft. While credit cards offer convenience and reliability, there are things one should keep in mind when using a credit card. Credit cards offer interest-free loans to those who pay off their entire balance every month. However, those who do not, will have to incur some interest charges. And, if not managed properly, credit card use can get out of hand, so it's important to make sure you use your credit card wisely.

Goal

To analyze the role and importance of the wise use of credit cards in personal finance.

Time Frame

Three 75-minute periods

Lesson 03.04.01

Shopping for credit

Lesson 03.04.02

The wise use of credit cards

Lesson 03.04.03

Protect your credit cards

End-of-unit quiz and answer sheet

Each lesson includes black-line print masters for overheads and activities.



Lesson 01
Shopping for credit

.01

Overview

What is APR? What is a grace period? What are transaction fees? These and other questions will be answered in this lesson as students learn about credit cards. Most people do not realize that different types of credit cards exist (e.g., bank cards, store cards, and travel and entertainment cards). As students start to shop for their first (or next) credit card, this lesson will make them aware of various costs and features.

Goal

Develop skills to compare and evaluate the terms and conditions of various credit cards.

Objectives

Identify and distinguish between the three types of credit cards.

Understand credit card costs and features.

Understand how to shop for a credit card.

Discover excellent on-line sites to compare credit cards.

Develop skills in short presentations.

Timeline

Classroom discussion	10 minutes
Classroom discussion (Overhead A)	10 minutes
Student activity (Activity A)	40 minutes
Class presentations (Activity A)	15 minutes

Instructions

Classroom discussion

Ask the students for some examples of credit cards and how they are used. Ask the students what the difference is between the credit cards. Ask the students if they can organize the credit cards into three types. Broadly speaking, there are three types of credit card accounts. They are bank cards (such as Visa and MasterCard), store/priority cards (such as the Bay and Sears) and travel/entertainment cards, also called charge cards (such as American Express or Diner's Club). For more information on types of credit cards, go to: www.practicalmoneyskills.ca—select: Students, select: Credit Cards, select: Credit Cards 101.

Ask students how they would use a credit card and if they would pay the credit card bill in full each month and avoid interest charges or repay the bill over time and pay interest charges.

Discuss with students Overhead A, Shopping for a credit card. Have students go to www.practicalmoneyskills.ca to become familiar with the section Credit card—Glossary of Key Terms before starting Activity A.

Student activity

Once students have an understanding of credit card costs and features, using Activity A, Shopping for credit, ask teams of students to shop for three credit cards (two major credit cards and one from a local department store). When they've finished their research, ask them to answer a series of questions about their findings using Activity A, Shopping for credit. The Financial Consumer Agency of Canada Web site www.fcac.gc.ca/eng/default.asp is an excellent site to compare credit cards. Students can compare, Student Cards (regular-rate), Student Cards

(low-rate), and Standard Credit (regular-rate and low-rate). Select: Site map, select: Credit card, select: Getting the most from your credit card, select: Four steps to choosing a credit card, select: Flowchart. Another excellent site is The Money Belt www.themoneybelt.gc.ca—select: English, select: Compare credit cards, select: Credit card interactive tool. Answer questions. Select: View credit card results. When all the teams have finished their research and completed the questions, have each team explain to the class how they determined which credit card they would recommend for purchasing a high definition TV (question 9). Have the class critique the logic each team used to arrive at their decision.

Note taking

Have students take notes on the three types of credit card accounts and Overhead A.

Teacher Notes

Preparation of required materials, prior to lesson (handouts, overheads and activity pages).

Familiarize yourself with the Web resources provided to facilitate the discussions.

Required Materials

Overhead A, Shopping for a credit card
Activity A, Shopping for credit (two pages)

Assessment and Evaluation

Have students hand in the results from their research and the answers to the questions for Activity A.

Record a communication mark related to class and group participation.

Supplemental Activities

Check out this awesome Web site www.themoneybelt.gc.ca/home

Check out the library—on the shelf, dictionary, and other resources.

Additional Web Resources

Financial Consumer Agency of Canada
www.fcac.gc.ca

The Money Belt (Government of Canada)
www.themoneybelt.gc.ca



activity A

Activity A

Shopping for credit

03.04.01

name: _____

date: _____

Credit card costs and features can vary greatly. This exercise will give you a chance to shop for and compare the costs and features of three credit cards.

Directions

Using the attached form, research the costs and features of

- Two major credit cards
- One credit card from a department store

When you're done, answer the following questions

What did you find?

1. Which credit card has the highest annual percentage rate and how much is it?
2. What method is used to calculate the monthly finance charges for the first major credit card?
3. When does the finance charge begin to accrue on the credit card from the local department store?
4. Do any of the cards have annual fees?
If so, which one(s) and how much is the fee?
5. Is there a transaction fee on any card?
If so, how much is it?
6. Is there a minimum finance charge on either of the major credit cards?
If so, how much is it?
7. Does the first major credit card charge a fee for late payments?
If so, how much is it?
8. What is the grace period on the credit card from the local department store?
9. Jamel wants to buy a new HDTV that costs \$1,200. According to his budget, he can afford payments up to \$120 per month. Of the three credit cards you've found, which would you recommend Jamel use to purchase the HDTV? Why?



activity A

Activity A Shopping for credit (continued)

03.04.01

name: _____

date: _____

Use the following form to compare three credit cards.

	Card one	Card two	Card three
Type of account: Credit card, charge card			
Company name, address, phone			
Web site			
Locations where card is accepted			
Annual fee (if any)			
Grace period			
Annual percentage rate (APR)			
Finance charge calculation method			
Credit limit			
Minimum payment			
Other fees: Late payment			
Other features			



overhead A

Overhead A

Shopping for a credit card

03.04.01

Costs

- Annual percentage rate (APR) or finance (interest) charges
- Grace period
- Annual fees
- Transaction fees

Features

- Credit limit
- Minimum payment
- Minimum personal income
- How widely the card is accepted?
- What services and features are available?
 - Rewards program?
 - Travel insurance?
 - Purchase protection and extended warranty?



Lesson 02
The wise use of credit cards

.02

Overview

Included in this section is a discussion of the methods for calculating finance charges. Students will have an opportunity to calculate the total cost of items bought on credit and reflect on the decisions to use credit. Students will be given an opportunity to analyze the information contained on a credit card statement, see what kind of information it contains and learn what they can do if they notice an error on their consumer credit account. This lesson will identify for the students the credit card do's and don'ts and the advantages and disadvantages of credit cards.

Goal

To help students understand that by using credit wisely, they can capitalize on the advantages and diminish the disadvantages.

Objectives

Calculate the total cost of items bought with a credit card.

Learn how to use an on-line cost-of-credit calculator.

Read and interpret a credit card statement.

Explain what you can do if you notice an error on your consumer credit account.

Identify credit card do's and don'ts.

Explain the advantages and disadvantages of credit cards.

Timeline

Classroom discussion (overheads A and B)	15 minutes
Student Activity A	20 minutes
Student Activity B	15 minutes
Classroom discussion (Overhead C)	10 minutes
Classroom discussion (Overhead D)	15 minutes

Instructions

Classroom discussion

Using Overhead A, Calculating finance charges, and Overhead B, Examples of finance charges, explain cash advances, average daily balance, adjusted balance, previous balance, and past-due balance.

Student activity

Using the cost-of-credit calculator at www.practicalmoneyskills.ca—select: Students, select: Cost of Credit. Have students calculate the total cost of items bought on credit by completing Activity A, How much does it really cost? Have students answer the questions. Discuss their answers. Was anyone surprised at his or her answers? Would they have made different choices about buying the items? This can be a good time to talk about values, needs versus wants, and budgeting, and the pros and cons of using credit.

Student activity

Using the credit card statement provided, Activity B, The statement, have students answer the questions. As students are doing the assignment help them to understand the terminology, for example, APR, credit limit, statement date, past due, due date, minimum payment, available credit, etc. When students are finished, show an overhead of the Activity B answer sheet.

Classroom discussion

Using Overhead C, Dealing with billing errors, discuss what you can do if you notice an error on your consumer credit account.

Classroom discussion

Before showing the students Overhead D, Credit card

do's and don'ts, see how many of the do's and don'ts, advantages and disadvantages of credit cards the students can come up with.

Note taking

Have students make notes from overheads A, C, and D, or provide a handout.

Have students make notes on the terminology used in the lesson. Have students go to www.practicalmoneyskills.ca—select: Consumer, select: Credit Card, select: Glossary of Key Terms, for help.

Teacher Notes

Preparation of required materials, prior to lesson (handouts, overheads and activity pages).

Familiarize yourself with the on-line cost of credit calculator.

Required Materials

Overhead A, Calculating finance charges

Overhead B, Examples of finance charges

Overhead C, Dealing with billing errors

Overhead D, Do's and don'ts of credit

Activity A, How much does it really cost? (two pages and answer sheet)

Activity B, The statement (two pages and answer sheet)

Assessment and Evaluation

After you have explained and demonstrated the content, activities A and B could be used as a formative or summative assessment.

Notebook check.

Supplemental Activities

Using computer software, have students in groups of three create a brochure with suggestions for selecting and using a credit card. The brochure can include, types of cards, terminology, costs and features, fraud and theft, advantages and disadvantages etc.

Additional Web Resources

Practical Money Skills

www.practicalmoneyskills.ca



activity A

Activity A

How much does it really cost?

03.04.02

name: _____

date: _____

Directions

Answer the following questions. You'll see for yourself how much items bought with credit can actually cost.

Questions

Dimitri wants to buy a computer for \$650 and pay for it using a credit card that has an annual percentage rate of 19% and a periodic interest rate of 1.58%.

If Dimitri pays the minimum monthly payment of \$21.45. . .

1. How long will it take him to pay for the computer?
2. What is the total amount Dimitri will pay for the computer?
3. What is Dimitri's total cost of using credit?

If Dimitri makes monthly payments of \$60. . .

4. How many months will it take for Dimitri to pay off the computer?
5. What is the total amount Dimitri will pay for the computer?
6. What is Dimitri's total cost of using credit?

Karen took a cash advance on her credit card for \$1,500. The credit card she used charges an annual percentage rate of 21% and a periodic interest rate of 1.75%.

If Karen pays the cash advance back at a rate of \$60 per month. . .

7. How long will it take Karen to pay for the cash advance?
8. What is the total amount Karen will end up paying for the cash advance?
9. How much interest will Karen pay?

If Karen pays the cash advance back at a rate of \$120 per month. . .

10. How long will it take Karen to pay for the cash advance?
11. What is the total amount Karen will end up paying for the cash advance?
12. How much interest will Karen pay?

activity A

Activity A How much does it really cost? (continued)

03.04.02

name: _____

date: _____

Marie just used her new credit card to buy a bike for \$400. Her budget allows her to pay no more than \$25 each month on her credit card. Marie has decided not to use the credit card again until the bike is paid off. The credit card she used has an annual percentage rate of 21% and a periodic interest rate of 1.74%.

If Marie pays \$25 each month on her credit card. . .

13. How long will it take Marie to pay for the bike?
14. What is the total amount Marie will end up paying for the bike?
15. How much interest will Marie pay for using her credit card to buy the bike?

If Marie pays the minimum payment of \$20 each month. . .

16. How long will it take Marie to pay for the bike?
17. What is the total amount Marie will end up paying for the bike?
18. How much interest will Marie pay for using her credit card to buy the bike?

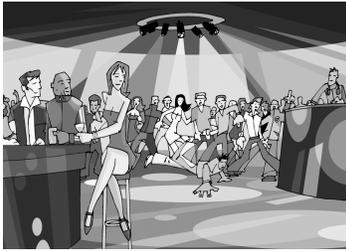
Gary has just used his credit card to buy a new watch. He got the watch on sale for \$235. The regular price was \$290. He used a credit card that has an annual percentage rate of 20% and a periodic interest rate of 1.67%.

If Gary makes the minimum monthly payment each month of \$20. . .

19. How much will Gary end up paying for his new watch?
20. How long will it take Gary to pay for his watch?
21. What is the total amount of interest Gary will end up paying?

If Gary pays \$25 each month, instead of the minimum monthly payment of \$20 each month. . .

22. How much will Gary end up paying for his new watch?
23. How long will it take Gary to pay for his watch?
24. What is the total amount of interest Gary will end up paying?



activity A

How much does it really cost? (answers)

03.04.02

If Dimitri pays the minimum monthly payment of \$21.45. . .

1.	How long will it take him to pay for the computer?	42 months
2.	What is the total amount Dimitri will pay for the computer?	\$892.36
3.	What is Dimitri's total cost of using credit?	\$242.36

If Dimitri makes monthly payments of \$60. . .

4.	How many months will it take for Dimitri to pay off the computer?	12 months
5.	What is the total amount Dimitri will pay for the computer?	\$718.70
6.	What is Dimitri's total cost of using credit?	\$68.70

If Karen pays the cash advance back at a rate of \$60 per month. . .

7.	How long will it take Karen to pay for the cash advance?	34 months
8.	What is the total amount Karen will end up paying for the cash advance?	\$1,989.89
9.	How much interest will Karen pay?	\$489.89

If Karen pays the cash advance back at a rate of \$120 per month. . .

10.	How long will it take Karen to pay for the cash advance?	15 months
11.	What is the total amount Karen will end up paying for the cash advance?	\$1,707.52
12.	How much interest will Karen pay?	\$207.52

If Marie pays \$25 each month on her credit card. . .

13.	How long will it take Marie to pay for the bike?	19 months
14.	What is the total amount Marie will end up paying for the bike?	\$473.39
15.	How much interest will Marie pay for using her credit card to buy the bike?	\$73.39

If Marie pays the minimum payment of \$20 each month. . .

16.	How long will it take Marie to pay for the bike?	25 months
17.	What is the total amount Marie will end up paying for the bike?	\$496.62
18.	How much interest will Marie pay for using her credit card to buy the bike?	\$96.62

If Gary makes the minimum monthly payment each month of \$20. . .

19.	How much will Gary end up paying for his new watch?	\$263.71
20.	How long will it take Gary to pay for his watch?	14 months
21.	What is the total amount of interest Gary will end up paying?	\$28.71

If Gary pays \$25 each month, instead of the minimum monthly payment of \$20 each month. . .

22.	How much will Gary end up paying for his new watch?	\$257.71
23.	How long will it take Gary to pay for his watch?	11 months
24.	What is the total amount of interest Gary will end up paying?	\$22.71



Activity B

The statement

activity B

03.04.02

name: _____

date: _____

A credit card statement provides information such as how and when you've used your credit card, how much you owe, how much interest you're paying to use the card, how much your minimum payment is, and how much credit you have left.

Knowing how to read your credit card statement can also help you catch unauthorized charges and/or billing errors. So, it can pay to know how to read the statement.

Directions

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

1. What is the date of the statement?
2. What is the annual percentage rate (APR)?
3. What is the new balance?
4. What was the previous balance?
5. How many charges were made during the billing cycle?
6. How many credits and payments were made during the billing cycle?
7. Were there any charges for late payments?
If so, how much were the charges?
8. What is the total amount of the credit limit?
9. What is the total amount of available credit?
10. What is the total amount of charges made during the current billing period?
11. What is the account number on the statement?
12. Where should the payment be sent?

Activity B
The statement (continued)

activity B

03.04.02

name: _____

date: _____

		Send Payments to: Box 1234 Anytown, CANADA		
		CREDIT CARD STATEMENT		
Date	Particulars	Debits/Credits		
Jan 25	Payment Thank You		-168.80	
Jan 15	Record Recycler	Anytown, CANADA	14.83	
Jan 15	Beeforama Restaurant	Anytown, CANADA	30.55	
Jan 18	Great Expectations	Big City, CANADA	27.50	
Jan 21	Dino-Gel Petroleum	Anytown, CANADA	12.26	
Feb 09	Shirts 'N Such	Tinyville, CANADA	40.10	
Account Number	Balance On Last Statement	Total Credits	Total Debits	My New Balance
4125-239-412	168.80	- 168.80	+ 125.24	= 125.24
John Doe 211 Elm Street Anytown, CANADA		Interest Rate/APR	Credit Limit	
		17.5%	1,200.00	
		Statement Date	Past Due	
		2/13/___	00.00	
		Due Date	Minimum Payment	
		3/9/___	20.00	
			Amount Paid	
Please make cheque or money order payable to Your First Bank. Include account number on front.				Please retain this portion
General Customer Inquiries: 1-800-555-1234 Report Lost or Stolen Cards: 1-800-555-5678				



activity B

Activity B

The statement (answers)

03.04.02

A credit card statement provides information such as how and when you've used your credit card, how much you owe, how much interest you're paying to use the card, how much your minimum payment is, and how much credit you have left.

Knowing how to read your credit card statement can also help you catch unauthorized charges and/or billing errors. So, it can pay to know how to read the statement.

Directions

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

1. What is the date of the statement? 2/13/___
2. What is the annual percentage rate (APR)? 17.5%
3. What is the new balance? \$125.24
4. What was the previous balance? \$168.80
5. How many charges were made during the billing cycle? Five
6. How many credits and payments were made during the billing cycle? One
7. Were there any charges for late payments? No
If so, how much were the charges? None
8. What is the total amount of the credit limit? \$1,200
9. What is the total amount of available credit? \$1,074.76
10. What is the total amount of charges made during the current billing period? \$125.24
11. What is the account number on the statement? 4125-239-412
12. Where should the payment be sent? Your First Bank, Box 1234, Anytown, Canada



overhead A

Overhead A Calculating finance charges

03.04.02

Cash advances

You pay interest charges that accrue from the date of the cash advances.

Average daily balance

You pay interest on the average balance owed during the billing cycle. The creditor figures the balance in your account on each day of the billing cycle, then adds together these amounts and divides by the number of days in the billing cycle.

Adjusted balance

You pay interest on the opening balance after subtracting the payment or returns made during the month.

Previous balance

You pay interest on the opening balance, regardless of payments made during the month.

Past-due balance

No finance charge is added if the full payment is received within the grace period. If it is not received, a finance charge for the unpaid amount is added on to your next bill



overhead B

Overhead B

Examples of finance charges

03.04.02

	Average daily balance	Adjusted balance	Previous balance
Monthly	1.5%	1.5%	1.5%
Rate	18%	18%	18%
Previous balance	\$400	\$400	\$400
Payments	\$300	\$300	\$300
<hr/>			
On 15th day	new balance = \$100		
<hr/>			
Average daily balance	\$250*	N/A	N/A
Finance charge	\$3.75 (1.5% x \$250)	\$1.50 (1.5% x \$100)	\$6.00 (1.5% x \$400)

* To figure average daily balance:

$$(\$400 \times 15 \text{ days}) + (\$100 \times 15 \text{ days}) = \$250 \times 30 \text{ days}$$



overhead C

Overhead C

Dealing with billing errors

03.04.02

Collection Agencies Act

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

- You can challenge a billing statement for errors such as charges for unauthorized purchases, charges for items that were never delivered, failure to credit a payment, etc.
- You must notify the creditor of a disputed item within 60 days.
- Creditor must investigate and, within two billing periods, either correct the mistake or explain why the charge is not in error.
- You cannot be billed for or forced to pay the disputed amount until the creditor has finished the investigation.
- If it is determined that you are responsible for the bill, you must be given the usual amount of time to pay it.
- Your credit history is protected during the dispute process.
- Creditor must supply customers with a statement of their rights at the time the account is opened and at least twice a year thereafter.



overhead D

Overhead D

Do's and don'ts of credit

03.04.02

Use your card wisely

Do

- Pay your bills on time.
- Pay at least the required minimum monthly payment shown on your statement.
- Contact your creditors if you're having trouble making payments.
- Shop around for credit.
- Read your statements and other mailings from your credit card company carefully. This way you'll always be up to date about any fee increases or rule changes.
- Read the cardholder agreement carefully.
- Make yourself aware of the penalties for missed payments.
- Request your credit file from the credit bureau at least once a year and make sure it is accurate.
- Deal with companies you know and trust.
- Use a credit calculator to figure out total price when paying with credit.

Don't

- Buy on instalment without having evaluated all other possibilities.
- Give personal information or your credit card account number over the phone or the Internet unless you're dealing with a company you trust.
- Be misled into thinking small payments will be easy.
- Accept or use any form of credit until you understand and are comfortable with its terms and conditions.
- Wait to report unauthorized transactions on your account.
- Exceed the credit limit on your credit card
- Lend your card to anyone.

Advantages of using credit cards

1. Ability to use item while paying for it
2. No need to carry cash
3. Use of card builds credit history
4. Quick source of funds in an emergency
5. No extra charge if bill is paid in full each month
6. Consumer protection

Disadvantages of using credit cards

1. Card can be lost or stolen
2. Credit card fraud possible
3. Must pay interest charges/card fees
4. Need to establish credit worthiness before getting card
5. Wrong information may appear on credit record
6. Easy to allow bill to get too high



Lesson 03
Protect your credit cards

.03

Overview

Once again, students are reminded of guidelines related to determining safe debt loads.

The "20-10 rule" is a good rule of thumb for understanding how much credit you can afford.

Most credit card companies have programs like the Visa Zero Liability policy, where cardholders are protected from unauthorized transactions made on their cards, provided that they can establish, to the satisfaction of their bank, that they didn't make the purchase.

This lesson will focus on the following: 1) What protection do consumers have related to credit use? 2) How do you protect yourself against credit card fraud? 3) What to do if your card is lost or stolen? and 4) What to do if you are denied credit?

Goals

To help students understand their rights and responsibilities regarding credit cards.

To help students identify ways to secure their credit card use.

Objectives

Determine safe personal debt loads.

Understand the importance of record keeping in protecting yourself.

Understand how to protect yourself against credit card fraud.

Explain what to do if your card is lost or stolen.

Explain what to do if you are denied credit.

Timeline

Classroom discussion (Overhead A)	10 minutes
Student Activity A	20 minutes
Classroom discussion (overheads B and C)	25 minutes
Quiz	20 minutes

Instructions

Classroom discussion

Using Overhead A, How much can you afford? explain the 20-10 guideline of limiting debt.

Student activity

Using Activity A, How deep can they go? have students determine safe debt loads for several consumers. Have students answer the questions then choose four students to demonstrate on the blackboard how they arrived at their answer. When they're done, as a class, review the answers and the formulas used.

Classroom discussion

Using Overhead B, How you can protect yourself, explain how to protect your credit cards, and what to do if you lose or have your credit card stolen. Using Overhead C, What to do if you are denied credit, explain the procedures to follow if you feel you have been denied credit without valid reasons or have been discriminated against.

Quiz

Have students complete the Quiz, Credit Cards

Note taking

Provide handouts of the overheads for student notebook.

Teacher Notes

Preparation of required materials, prior to lesson (handouts, overheads and activity pages).

Preview the *Feature Videos by the Bank of Canada*.

Required Materials

Overhead A, How much can you afford?

Overhead B, How you can protect yourself

Overhead C, What to do if you are denied credit
Activity A, How deep can they go? (and Answers)
Quiz (and answer sheet)

Assessment and Evaluation

Quiz on credit cards.

Supplemental Activities

Don't miss out on this: Go to

www.themoneybelt.gc.ca. Check out the *Feature Videos by the Bank of Canada*. Learn how to fight fraud—identity fraud, payment card fraud, banknote counterfeiting, cheque and money order fraud.

Have a security person from a financial institution or a law enforcement person talk to the class about credit card fraud and theft.

Go to the *Toronto Star* Web site and find the article, "Credit card companies open new retail horizons," by Ellen Roseman. Learn about the future of credit cards, RFID (radio frequency identification), PayPass, Visa payWave, cell phone payment.

Additional Web Resources

The Money Belt (Government of Canada)

www.themoneybelt.gc.ca

Service Canada—Youth and Money

www.youth.gc.ca

Toronto Star

www.thestar.com

CBC.ca

www.cbc.ca/news/background/identity-theft



activity A

Activity A

How deep can they go?

03.04.03

name: _____

date: _____

Directions

Read each of the following scenarios and determine if the purchase can be made and how the decision will affect the credit load.

Write your answers in the blanks provided. Use the space below each problem to show how you arrived at your answer. (Use the other side of this paper if you need more room.)

1. After paying rent, Laura and Jamie have a combined monthly net income of \$1,200. What is the most they can afford to pay for instalment and credit card debt?

2. Isaac has a monthly net income of \$800. He shares an apartment with friends and pays \$150 each month for rent. Isaac wants to buy a car. Currently, he has only one credit card payment each month for \$80. Given his current income and current fixed expenses, what does Isaac have left in his budget for a car payment?

3. After paying rent, Indra has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card. What is the largest monthly payment she can commit to making?

4. Pete has a monthly net income of \$640. He pays \$120 per month for rent. He has a car payment of \$125 per month. Pete wants to buy new tires for his car. The total cost of the new tires is \$420. If he uses credit to pay for the tires, his minimum monthly payment will be \$40. If Pete buys the tires, what percentage of his net income, after rent, will he have committed to debt payments?



activity A

Activity A

How deep can they go? (answers)

03.04.03

Directions

Read each of the following scenarios and determine if the purchase can be made and how the decision will affect the credit load.

Write your answers in the blanks provided. Use the space below each problem to show how you arrived at your answer. (Use the other side of this paper if you need more room.)

1. After paying rent, Laura and Jamie have a combined monthly net income of \$1,200. What is the most they can afford to pay for instalment and credit card debt?

\$240

$$\underline{\$1,200 \times 20\% = \$240}$$

2. Isaac has a monthly net income of \$800. He shares an apartment with friends and pays \$150 each month for rent. Isaac wants to buy a car. Currently, he has only one credit card payment each month for \$80. Given his current income and current fixed expenses, what does Isaac have left in his budget for a car payment?

\$50

$$\underline{\$800 - \$150 = \$650}$$

$$\underline{\$650 \times 20\% = \$130}$$

$$\underline{\$130 - \$80 = \$50}$$

3. After paying rent, Indra has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card. What is the largest monthly payment she can commit to making?

\$45

$$\underline{\$450 \times 10\% = \$45}$$

4. Pete has a monthly net income of \$640. He pays \$120 per month for rent. He has a car payment of \$125 per month. Pete wants to buy new tires for his car. The total cost of the new tires is \$420. If he uses credit to pay for the tires, his minimum monthly payment will be \$40. If Pete buys the tires, what percentage of his net income, after rent, will he have committed to debt payments?

32%

$$\underline{\text{a) } \$640 - \$120 = \$520 \quad \text{b) } \$125 + \$40 = \$165}$$

$$\underline{\text{c) } \$165 / \$520 = 32\%}$$



overhead A

Overhead A
How much can you afford?

03.04.03

The 20 -10 guideline

Never borrow more than **20%** of your yearly net income.

- If your net income (money after taxes) is **\$400** a month, then your net income in one year is

$$12 \times \$400 = \$4,800$$

- Calculate **20%** of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

- So, you should never have more than **\$960** of debt outstanding.
- Note: Housing debt (e.g., mortgage payments) should not be counted as part of the **20%**.
- Monthly payments shouldn't exceed **10%** of your monthly net income. If your take-home pay is **\$400** a month:

$$\$400 \times 10\% = \$40$$

- Your total monthly debt payments shouldn't add up to more than **\$40** per month.



overhead B

Overhead B

How you can protect yourself

03.04.03

1. Keep records

- Card number
- Keep a list of everything you carry in your wallet; keep the list separate from your wallet or purse.
- Phone number to call if card is lost or stolen
- Until bill arrives, receipts for purchases and returns
- Receipts for merchandise ordered that has not yet arrived but appears on your bill
- Record of telephone or Internet orders and confirmation numbers

2. Protect yourself against fraud

- Always keep card with you or store in a safe place.
- Read material that comes from your credit card company.
- When using card, watch person who is running charges (to be sure duplicate is not made).
- Never give card number over the phone if you did not initiate the call.
- Report lost or stolen cards immediately.
- Carefully read the bills before paying. Compare amount on receipts to amounts on bill. Don't always assume the bill is correct.
- Keep receipts; shred when not needed.
- Destroy unused credit card solicitations.

3. Unauthorized charges

- If a card is reported lost before being used, you cannot be held responsible for any charges.
- If a card is used before loss is reported, you are usually liable for no more than \$50.00.
- Bank that issued credit card will take legal action against unauthorized user.

4. Disputes about merchandise or services

- In some circumstances, you have the right to withhold payment for merchandise or services from the credit issuer.

If your card is lost or stolen, report it promptly to your credit card provider. Each card provider will have their own procedures to follow if your card is lost or stolen in Canada or while away out of the country.

Lost or stolen Visa card

First, call your issuing financial institution. If you can't remember which one issued your card, call the Visa International Global Customer Assistance Service toll free, 24 hours a day at (800) 847-2911. If you are out of the country, call (410) 581-9994 collect.



overhead C

Overhead C

What to do if you are denied credit

03.04.03

If you think the reasons for the denial are valid. . .

- **Ask the creditor if you can provide additional information or arrange alternate credit terms.**
- **Apply to another creditor whose standards may be different.**
- **Do the things you need to do to improve your credit worthiness (pay bills on time, increase income, reduce spending, obtain a secured card, etc.) and then reapply.**

If you are not sure whether the reason for the denial is valid. . .

- **Ask the creditor to explain why you were denied.**
- **Review your credit history.**
- **If you find your credit history contains errors, take steps to correct the errors.**

If you believe the reason for the denial is invalid and that the creditor has discriminated against you. . .

- **Notify the Human Rights Commission or Consumer Affairs department in your province. They will investigate and report back to you.**
- **If you can afford it, hire a lawyer to file suit against the creditor. If the court determines the creditor did discriminate, the creditor will be required to pay you actual damages plus punitive damages.**



Credit cards

quiz

Quiz

03.04.

name: _____

date: _____

True/False (5 marks)

1. ____ A priority credit card is usually accepted by one type of store or company.
2. ____ The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
3. ____ The annual fee for a credit card is set by the government.
4. ____ APR measures the interest rate charged by a credit card.
5. ____ If someone uses your lost or stolen credit card and you report it immediately, you are usually liable for no more than \$50.

Multiple Choice (4 marks)

- | | |
|---|--|
| <p>6. ____ A credit card issued through a credit union would be an example of a _____ card.</p> <p>A. bank
B. travel and entertainment
C. store
D. priority</p> | <p>8. ____ Comparing the APR among several credit cards allows you to obtain the</p> <p>A. longest grace period
B. lowest annual fee
C. lowest interest rate
D. least expensive method of calculating interest</p> |
| <p>7. ____ The grace period refers to the time</p> <p>A. taken to process a credit card application
B. for paying an account without an interest charge
C. allowed to notify a creditor of a billing error
D. used for calculating interest</p> | <p>9. ____ If a billing error occurs on a credit statement, a consumer has ____ days to notify the creditor.</p> <p>A. 30
B. 60
C. 90
D. 120</p> |

Case Application (6 marks)

Jack uses his credit card for almost all purchases. He charges gas purchases, clothing, food, and other living expenses. What is your opinion of this money management habit?



True/False (5 marks)

1. t A priority credit card is usually accepted by one type of store or company.
2. f The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
3. f The annual fee for a credit card is set by the government.
4. t APR measures the interest rate charged by a credit card.
5. t If someone uses your lost or stolen credit card and you report it immediately, you are usually liable for no more than \$50.

Multiple Choice (4 marks)

6. A A credit card issued through a credit union would be an example of a _____ card.
A. bank
7. B The grace period refers to the time
B. for paying an account without an interest charge
8. C Comparing the APR among several credit cards allows you to obtain the
C. lowest interest rate.
9. B If a billing error occurs on a credit statement, a consumer has ___ days to notify the creditor.
B. 60

Case Application (6 marks)

Jack uses his credit card for almost all purchases. He charges gas purchases, clothing, food, and other living expenses. What is your opinion of this money management habit?

 If Jack pays off his balances each month, his use of credit cards may be a convenient
 money management technique that provides complete records of all of his spending.
 However, if this habit results in overspending and paying more, due to interest, Jack
 needs to assess his financial activities.