



PIT STOP

Test Drive Overview: Credit Cards

(Estimated Time: 20 min)

In this Test Drive, students will use the Face-Off Game to analyze and discuss credit card bills through fun competition. Here are the Pre-Game Teacher Instructions:

- Print two copies of the Sample Surge Credit Card bill, one for each team.
- Print a copy of the Test Drive that contains the rules for the game.
- Follow the instructions to create the teams and assign roles.
- Use the Face-Off PowerPoint presentation to run the game.

DID YOU KNOW?

It is estimated that the average American has \$10,000 in credit card debt. Assuming this debt has an 18 percent interest rate, if only the minimum monthly payment of 2 percent of the balance is paid, it will take the borrower over 30 years and \$35,112.50 to pay off the debt.

CREDIT CARDS

Pit Stop Summary: Chances are your students already have a credit card or will in the near future so it's important to provide them with credit card management strategies.

Navigation Tips: Strategies for managing a credit card:

1. Actively manage account balance.
2. Monitor utilization rates.
3. Pay on time, every time.



Budget Challenge® Road Test for Personal Finance® — Rubber Meets the Road:

Managing the credit card balance, utilization rates and avoiding fees takes work. Students will experience credit card use during the simulation. Have students use the "Navigation Tips" for managing their credit card.

NAVIGATION TIP #1: In life, the goal is to pay the full balance on time, every month. When the balance is not paid in full by the due date, the consumer is carrying a balance, which results in finance fees.

- Throughout the Challenge, students should use their Budget and Cash Flow Spreadsheet (CFS) to determine the amount and timing of credit card payments.
- Finance fees on the credit card are incurred three ways:
 - Assessment of the \$2 minimum finance fee
 - Applying the monthly interest rate to the "Average Daily Non-Cash Advance Balance" (located on the invoice)
 - Initiating and carrying a cash advance in which the fee is based on the Average Daily Cash Advance Balance (on the invoice).



NAVIGATION TIP #2: Actively managing credit card balances is a major component of a healthy budget. For most, in order to avoid a negative impact to their credit score, the goal is to keep the credit card utilization rate roughly under 30 percent.

- In the simulation, the goal is to keep the credit card utilization rate below 75 percent.
- Utilization rate penalty points are charged to the student's Leaderboard Score each day the utilization rate is greater than or equal to 75 percent.
- Daily graduated utilization rates are assessed until the credit card balance is paid below 75 percent.
- If the student exceeds 100 percent of the utilization rate (goes over the credit limit), in addition to the utilization rate penalty, they will incur an over credit limit fee (assessed only once a month) and a daily over credit limit penalty that increases over time.

Terminology Tune-Up:



Credit limit – Maximum amount a credit card company will allow someone to borrow on a single card.

Finance Fees (Interest): Cost of borrowing money. Amount charged by a lender to a borrower for not paying back credit on time.

Credit Utilization Rate: Percentage of available credit used = $\frac{\text{Total Balance}}{\text{Total Credit Limit}}$

Extended Learning Topics

- Secured credit card
- Traditional credit card
- Store credit cards

Test Drive Necessities: Two copies of Credit Card Statement | Face-Off PowerPoint | Computer | Projector | Timing Device



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CREDIT CARDS

NAVIGATION TIP #3: Most credit card contracts include serious consequences for late payments. When a payment is late, the credit card company has the right to increase the interest rate, decrease the credit limit, charge additional fees and report this activity as it negatively affects the individual's credit rating.



- During the challenge, students should pay close attention to due dates.
- Surge Credit Card allows for multiple payments per billing cycle and has a minimum payment of \$15 giving students flexibility in the timing of large payments to their credit card.
- Paying only the minimum payment will likely result in over credit limit and credit utilization penalties.

