

# Credit Card Scenarios

## Why pay more? Alan's story

Alan uses his Visa card mainly for emergencies. But a new TV catches his eye, and in a moment of weakness he buys it. The TV cost \$3,000. But Alan can only afford to pay \$100 each month on his Visa bill.

What does it cost to buy the TV this way? Here's how the math works out:

<b>Yearly interest rate on Visa card</b>	18%
<b>Monthly payment</b>	\$100
<b>Time it takes to pay</b>	3 years
<b>Total interest Alan pays</b>	\$1,015.40

With so much interest, Alan pays more than \$4,000 for his \$3,000 TV.

## Alan's other options

**Tip:** Alan would have paid even more if he had used a department store card with a higher interest rate. Some cards charge 28% interest a year. If Alan had bought the TV on a store card like that, it would take him more than four years to pay off the debt – and he would pay more than \$2,200 in interest!

But if Alan had used a [line of credit](#) to pay off his credit card bill, he would pay a lot less. Assuming a fixed interest rate of 7% (though line of credit interest rates often change), Alan would have paid only \$307.41 in interest. And he would have paid off the TV a lot faster.

This chart compares the costs of Alan's different options:

<b>If he uses this card:</b>	<b>He pays interest at:</b>	<b>For this long:</b>	<b>So the \$3,000 TV costs:</b>
Visa/Mastercard/AMex	18% a year	41 months	\$4,015.40
Department store	28% a year	52 months	5,219.85
Line of credit	7% a year	34 months	3,307.41

What would you do if you were Allan? (write on the back)

## CREDIT CARD OPTIONS

		
No Yearly Fee	\$75.00 Yearly Fee	\$100.00 Yearly Fee
15% Interest Rate	18% Interest Rate	18% Interest Rate
No incentives	1% Air Rewards Cash Back on all purchases	2% Cashback on all purchases.

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[Google Credit Card Interest Calculator or click on this link if online:](#)

Choose the best card for each person:

1. Jimmy is an avid traveller. He spends on average \$5000.00 per month on his credit card and always pays his credit card on time. Which card is best for him?
2. Carlita has just left college and has moved out of home to live on her own. She is working on full time but is planning a trip to Hawaii next year. She is very good at saving money and prefers to use cash but likes the convenience of a credit card. She spends on average 1000.00 on her credit card every year and always pays her bill on time.
3. Amir has just moved out to live on his own. He spends on average \$1000.00 per month on his credit card. He only makes the minimum payment per month. By the end of the year, the amount owing on his credit card is almost \$8000.00. Which card is best for him? Are there any other options available to Amir to help him with his credit card?
4. Harrison has worked for 5 years now and on average puts \$3000.00 per month on his credit card. He usually pays his bill on time but is late 3 months a year and therefore has to pay interest for three months. He is afraid to fly and therefore has never flown. Which card is best for him?

5. Jacqueline rarely uses her credit card. She on average has a \$500.00 bill that she sometimes pays on time but has paid interest on it in the past. She loves to travel and is planning a trip to Orlando. Which card is best for her?
  
6. Which card would do you think would be the best for you when:
  - a. You are 16 years old?
  - b. 20 years old?
  - c. 40 years old?