

Swipe, Borrow, Pay

Read how credit card purchases, interest, and fees affect borrowing costs.

SS.8.FL.4.2 "Identify a credit card purchase as a loan from the financial institution that issued the card. Explain that credit card interest rates tend to be higher than rates for other loans. In addition..."

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline the sentence that explains why a credit card purchase is a loan. Circle the comparison about credit card interest rates, then number the fee examples 1, 2, 3, and 4.

The Cost Behind the Card

- ① When Maya uses her credit card to buy headphones for \$60, the store is paid by the financial institution that issued her card. Maya has not finished paying for the headphones. She now owes \$60 to the card issuer. In this way, a credit card purchase is a loan. Her monthly statement lists the amount borrowed, called the balance, and the date payment is due. If Maya pays the full balance by the due date, she may avoid interest on that purchase, depending on her card agreement.
- ② Interest is the cost of borrowing money. Credit card interest rates, often shown as an annual percentage rate, or APR, tend to be higher than rates for many other loans, such as car loans or home loans. Rates vary with the borrower, the lender, and the loan terms. A higher rate can make an unpaid balance grow faster. If Maya pays only part of her balance, the issuer may charge interest on the amount left unpaid. Reading the card agreement helps her compare borrowing costs before she uses the card.
- ③ Interest is not the only possible cost. A financial institution may charge fees connected to a credit card and its use. For example, a card might have an annual fee for keeping the account open, a late fee when a payment misses the due date, or a cash advance fee for taking cash from the card account. Some cards also charge foreign transaction fees. Fees can be significant, especially when they happen more than once. Maya should check the agreement for fees, interest rate, and payment rules before choosing how to pay.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 When Maya buys the headphones, who pays the store, and who does Maya owe afterward?

2 How do credit card interest rates usually compare with rates for many car loans or home loans? Why can that difference matter?

3 What may happen if Maya pays only part of her balance instead of the full balance?

4 Name three credit card fees from the passage and tell when each one may be charged.

3 YOUR TURN _____ Your own words

Jordan wants to use a credit card to buy a \$120 tablet. Write exactly three sentences explaining why this purchase is a loan, how the interest rate could affect the cost, and one fee Jordan should check or avoid.

PART 1 • READ AND MARK

Underline the sentence that explains why a credit card purchase is a loan. Circle the comparison about credit card interest rates, then number the fee examples 1, 2, 3, and 4. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	When Maya buys the headphones, who pays the store, and who does Maya owe afterward?	The financial institution that issued the card pays the store. Maya then owes \$60 to the card issuer.
2	How do credit card interest rates usually compare with rates for many car loans or home loans? Why can that difference matter?	Credit card interest rates tend to be higher. A higher rate can make an unpaid balance grow faster.
3	What may happen if Maya pays only part of her balance instead of the full balance?	The issuer may charge interest on the amount that remains unpaid.
4	Name three credit card fees from the passage and tell when each one may be charged.	An annual fee may be charged for keeping an account open, a late fee may be charged when payment misses the due date, and a cash advance fee may be charged for taking cash from the card account. A foreign transaction fee is also acceptable.

PART 3 • YOUR TURN (SAMPLE ANSWER)

Using a credit card for a \$120 tablet means the issuer lends Jordan money, and Jordan owes the issuer. Credit card interest rates tend to be higher than rates for other loans, so carrying the balance could raise the tablet's total cost. Jordan can avoid a late fee by paying on time and should check whether the card has an annual fee.

Accept equivalent explanations that identify the issuer as the lender and the cardholder as the borrower. For the open response, accept any accurate fee from the passage and an accurate statement that higher credit card interest can increase the cost of an unpaid balance.