Slides 02.11: Credit vs Debit and What Interest Costs

Lesson 2.11, one day, 12 slides. Rates marked [update].

Slide 1: Do now

- A store lets you take a $500 phone home today.
- You pay $25 a month on a store credit card.
- Guess: what does the phone cost you in total?
- Write a number. Notes: Five guesses on the board. Most say $500. The real number is over $600.

Slide 2: Debit

- Your money. From your checking account. Right now.
- No bill. No interest.
- Stolen card: your account drains.
- Does not build a credit score. Image: a debit card with an arrow from a piggy bank to a store.

Slide 3: Credit

- The bank's money. Borrowed.
- A bill comes every month.
- Interest if you do not pay it all.
- You can dispute a charge. It builds a credit score. Image: a credit card with an arrow from a bank building to a store, and a bill coming back.

Slide 4: Three words

- Credit: borrowing money with a promise to pay it back.
- Debt: what you owe.
- Interest: the price of borrowing.
- Fill in Part A.

Slide 5: What a loan is

- A set amount. A set time. A set rate.
- Car loan. Student loan. Mortgage.
- A credit card is a loan you can keep taking.
- The rate is the APR: percent per year.

Slide 6: The formula

- I = P x r x t
- interest = amount borrowed x rate as a decimal x years
- $500 at 5 percent for 1 year: $500 x 0.05 x 1 = $25

- Total owed: $525
- Copy it.

Slide 7: Three rates you will meet [update]

- 5 percent: a good car loan.
- 15 percent: a credit union card.
- 24 percent: a typical bank credit card.
- As decimals: 0.05, 0.15, 0.24.
- Part B and C. Pairs. Calculators. 10 minutes.

Slide 8: The minimum payment trap

- $500 at 24 percent is 2 percent a month.
- Month 1: $500 + $10 = $510, pay $25, owe $485.
- Month 2: $485 + $9.70, pay $25, owe $469.70.
- $25 a month: 26 months. $144.94 interest. $644.94 total.
- $50 a month: 12 months. $63.50 interest. $563.50 total.
- Paid in full: $500. Notes: Do months 1 to 3 on the board before the reveal. Then ask for the recommendation in two sentences.

Slide 9: Your credit score, in one paragraph

- A number from 300 to 850. It says how well you have paid people back.
- Up: pay on time every month; use a small part of your limit.
- Down: pay late; max out a card; apply for too much at once.
- Who looks: a landlord, a car lender, sometimes an employer.
- Nobody has one until they borrow. A first card paid in full every month is how most people start.

Slide 10: Think about it

- “No interest for six months.” What happens in month seven?
- “Never get a credit card” vs “get one at 18 and pay it off every month.” Who is right, for whom?
- What is the middle school version of a credit score?

Slide 11: How far off were you?

- Your guess: $_____. The real number: $644.94.
- The store is counting on you not doing this math.
- Now you can.

Slide 12: Exit card

- 3 differences between credit and debit
- 2 things that move a credit score
- 1 number: the $500 phone at $25 a month
- Tomorrow: the same formula, but the bank pays you.