Lesson 6.5: Credit Cards – Total Frenemy?

Lesson Author

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Standards and Benchmarks

See page 8.

Lesson Description

Credit cards can be a useful financial tool, but they can also lead to costly mistakes when used without careful planning. In this lesson, students explore both the benefits and risks of credit card use by examining how credit card debt builds over time and exploring the incentives credit card companies use to attract customers. Students will compare credit card offers by examining key terms in a Schumer Box then apply those ideas to shopping for a credit card based on different consumer goals and financial situations. They will also analyze a credit card statement to identify spending and repayment habits. The lesson concludes with students evaluating a real-world credit use scenario and developing advice for responsible credit card use. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Annual Percentage Rate (APR)
Benefit
Cost
Credit
Credit card
Incentive
Interest
Interest Rate
Revolving credit
Schumer box

Objectives

Students will be able to:

- explain how credit cards work, including how interest and payments affect the total cost of borrowing.
- compare credit card offers using key terms and disclosures.
- analyze credit card statements to identify financial habits and borrowing costs.
- apply responsible credit card practices to make informed financial decisions.

Compelling Question

How can consumers use credit cards wisely while avoiding common pitfalls?

Time Required

90 minutes

Materials

- Credit Cards - Total Frenemy? Lesson 6.4 Slides
- Visual 6.5.1: Decision Spectrum
- Handout 6.5.2: Video Questions, one copy for each student
- Handout 6.5.3: Schumer Box Cards, print two-sided and cut apart, one set per pair of students
- Handout 6.5.4: Shopping for a Credit Card, one copy for each student
- Handout 6.5.5: Sample Credit Card Statement, one copy for each student
- Handout 6.5.6: Reading a Credit Card Statement, one copy for each student
- Handout 6.5.7: Assessment, one copy for each student
- Sticky notes
- Tape

Preparation

- Print and cut apart enough two-sided copies of Handout 6.5.3: Schumer Box Cards for each pair of students.

- Tape the three signs from Visual 6.5.1: Decision Spectrum across one wall of the classroom - YES on the left, IT DEPENDS in the middle, and NO on the right - to create a decision spectrum.

Procedure

1. Display Slide 2 and provide the definition of **credit**: the granting of money or something else of value for a promise of future repayment. Provide the definition of a **credit card**: a card that represents an agreement between a lender - the institution issuing the card - and the cardholder.

2. Explain that using a credit card is one form of credit and involves borrowing with a **revolving line of credit**. A revolving line of credit is credit you can use over and over again. As you pay back what you borrowed, that credit becomes available to use again.

3. Display Slide 3 and use the visual examples to explain there are different types of credit cards. Explain that some are major credit cards, issued by banks, that can be used anywhere credit cards are accepted. Others are store-branded credit cards, issued by retailers, that are typically intended for use primarily at that specific store. Explain that store-branded cards may offer special perks or discounts for cardholders, such as additional discounts when the store credit card is used, but they often come with higher interest rates.

4. Display Slide 4 and explain that credit cards charge an **interest rate** and are subject to **APR.** Explain the concepts on the slide to students.

5. Display Slide 5 and explain to students that they will begin the lesson with a quick “Agree or Disagree” activity to explore common ideas and misconceptions about credit cards.

6. Tell students you will read a series of statements aloud. If they agree with the statement, they should stand up. If they disagree, they should remain seated. Remind students the purpose is not to get every answer correct, but to consider what they already know about credit cards.

7. Display Slide 6 and read the first statement: Credit card interest rates are usually much higher than car loans. Invite a few students to explain their thinking before revealing the answer on Slide 7 and briefly discussing the related facts and key information on the slide. Repeat this process with Slides 8–18 for each of the remaining statements.

8. Tell students that many of the statements they just discussed connect to an important idea: understanding how credit cards work can help consumers make smarter borrowing decisions.

9. Display Slide 19 and introduce the term frenemy: someone or something that can be helpful in some situations but harmful in others. Explain that credit cards can act like a frenemy because they offer benefits, such as convenience and the ability to make purchases with borrowed money, but can also lead to problems such as debt and interest charges. Emphasize the goal is not to avoid credit cards entirely, but to understand when and how to use them responsibly - which is the focus of this lesson.

10. Display Slide 20 and provide each student with a copy of Handout 6.5.2: Video Questions. Tell students they will watch a brief video on how credit card debt works and should answer the questions as they watch. Use the provided answer key to review the correct answers after the video ends.

    NOTE: You can click the slide to play the video, or you can open the linked URL in a new window: https://youtu.be/7EZvp0ViSBc?si=sS6UqJWPKVxqdpGJ.

11. Explain that credit card companies often advertise certain **incentives** to attract customers. An incentive is a perceived benefit that encourages certain behaviors - in this case, opening a credit card account. Tell students they will view four billboards and instruct them to look for the incentives being used by credit card companies to attract customers.

12. Display the four billboards on Slides 21-24 then ask students to share what they observed. Record responses on the board or a large piece of chart paper. (*Answers may include: excellent customer service, travel rewards, cash back on purchases, and protection against fraud*.)

13. Ask students if there is anything else not included on the billboards that someone should consider when choosing a credit card. *(Answers will vary.)* Explain that advertisements often highlight benefits but may leave out important costs or terms.

14. Display Slide 25 and introduce the **Schumer Box**. Explain that when people apply for credit, lenders are legally required to provide a clear, standardized summary of the most important borrowing terms and costs. This disclosure helps consumers compare credit options and understand what borrowing will cost before agreeing to it. Key details often include **interest rates**, fees, and repayment terms.

    NOTE: Students may ask more about the law behind the Schumer Box. The box is named after New York Senator Charles Schumer (at the time Congressman Schumer) because he was involved in the legislation that created it. That legislation is known as the 1968 Truth in Lending Act, and its purpose was to protect consumers in transactions with lenders and creditors.

15. Have students work with a partner and provide each pair with Handout 6.5.3: Schumer Box Cards. Explain that each card shows a common credit card feature found in a Schumer Box, with the definition on the back. Instruct partners to read the cards and rank the features from most important to least important when it comes to choosing a credit card. The feature they think matters most should go at the top, and the feature they think matters least should go at the bottom.

16. After pairs finish, invite a few groups to share and explain their rankings. Remind students there is no single correct order; different people may prioritize different features depending on their goals, spending habits, and ability to repay.

17. Provide each student a copy of Handout 6.5.4: Shopping for a Credit Card. Tell students the Schumer Box highlights key costs and terms, but it does not include every detail, such as rewards or card perks. This means it is important to review all card details and compare options before making a decision.

18. Tell students they will now "shop" for a credit card and evaluate which option would be the best fit given different scenarios: someone with little credit history shopping for their first credit card and someone with established credit looking for an additional credit card. Read the instructions then direct students to use www.bankrate.com/credit-cards/ to complete the assignment.

    NOTE: If a reminder would be helpful, explain to students: A credit score is a number that shows how trustworthy you are when it comes to borrowing money. It helps lenders decide whether to lend to you and how much interest to charge. Credit scores usually range from 300 to 850. A higher score means you are seen as a lower risk and usually get better interest rates. A lower score means borrowing costs more, or you may not be approved at all.

19. Bring the class back together and invite students to share the credit card they selected for each scenario and the three features that made it the best fit. Facilitate a brief discussion by asking volunteers to explain how their choices connected to the person's individual goals and situation.

20. Display Slide 26 and place the three signs from Visual 6.5.1: Decision Spectrum across the front wall of the room - YES on the left, IT DEPENDS in the center, and NO on the right. Explain to students that choosing the right credit card is only the first step; responsible use

is just as important. Decisions about using a credit card are not always simple or straightforward. In many situations, the best choice depends on several factors, such as how urgent the purchase is, the ability to repay the balance, and whether other options are available.

21. Have students work with a partner and provide each pair with a small stack of sticky notes (at least five). For each scenario, instruct pairs to discuss whether using a credit card would be a smart financial choice and decide where it belongs on the spectrum: Yes (using a credit card makes sense), No (it would not be a wise choice), or It Depends (the decision depends on important factors). Have students write their reasoning on a sticky note and place it on the decision spectrum accordingly.

22. Using Slides 27-31, read each scenario aloud. After each round, review selected responses and invite pairs to explain their thinking. Use the discussion to reinforce that credit decisions involve weighing both **benefits** and **costs**, and that responsible credit use requires careful evaluation rather than automatic spending.

    a. *Laptop Purchase: Many students may choose yes. This is a planned purchase, and you already have the money to pay it off in full. Using a credit card can provide rewards, fraud protection, or purchase protection without creating debt if paid on time. However, if a student feels they may lack the discipline to pay off the balance in full when it's due, they may choose no or it depends.*

    b. *Concert Tickets: Many students may choose no. Buying something you can't afford can lead to debt and interest charges if you can't pay it off quickly. The concert tickets may end up costing far more than you value them.*

    c. *Spending Money/Cash Advance: Many students may choose no. Cash advances usually come with high fees and higher interest rates. This is one of the most expensive ways to borrow money.*

    d. *Car Repair: Many students will choose yes since the car repair is necessary for transportation to work. Using a credit card may make sense if there are no better options. However, some students may choose no or it depends since interest can make the repair more costly. These students may suggest carpooling to work or using public transportation until you can afford to pay for the repair in full.*

    e. *New Outfit for a Job Interview: This scenario may be more evenly split among yes, no, and it depends. A professional outfit may help make a good impression and could be seen as an investment in your future. However, it's still important to avoid spending beyond your means or creating debt for something that may not be necessary.*

23. Tell students that since they have explored how credit cards work and how to use them responsibly, they will take a closer look at a sample credit card statement. Provide each

student a copy of Handout 6.5.5: Sample Credit Card Statement and Handout 6.5.6: Reading a Credit Card Statement and review the instructions on Handout 6.5.6.

Closure

24. Display Slide 32 and instruct students to answer the discussion questions.

    a. How do credit card companies use incentives to encourage people to open an account, and why is it important for consumers to look beyond those incentives? (*Credit card companies use incentives such as cash back, rewards points, travel perks, sign-up bonuses, or store discounts to make credit cards more appealing. Consumers should look beyond these incentives because the card may also have high interest rates, annual fees, or penalty fees that could cost more than the incentives are worth.)*

    b. What are two important terms or conditions in a Schumer Box that consumers should compare before choosing a credit card? Why do they matter? *Answers will vary but may include:*

        1. *APR (Annual Percentage Rate): Determines how much interest is charged if a balance is carried. A higher APR means borrowing costs more.*
        2. *Annual fee: Some cards charge a yearly fee just for having the card.*
        3. *Late payment fee: Shows how much a consumer may be charged for missing a payment.*
        4. *Grace period: Explains how long a consumer has to pay before interest is charged on purchases.*
        5. *Cash advance fee: Helps consumers understand the extra cost of borrowing cash with a credit card.)*

    c. What information on a credit card statement can help cardholders avoid unnecessary interest or fees? (*Payment due date helps avoid late fees; statement balance / new balance helps determine how much to pay; minimum payment due shows the smallest payment that can be made without being penalized, but paying only the minimum may increase interest costs; interest charges helps cardholders see the cost of carrying a balance; and, transaction history helps monitor spending and catch any fraudulent transactions.)*

    d. What habits are most important for using a credit card responsibly? (*Answers will vary, but strong responses should focus on paying on time, managing balances, understanding costs, and monitoring for fraud.)*

Assessment

25. Provide each student a copy of Handout 6.5.7: Assessment. Instruct students to read the story of Adrian's first credit card experience and answer the questions that follow.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 5: Managing Credit

Credit allows people to purchase and enjoy goods and services today, while agreeing to pay for them in the future, usually with interest. There are many choices for borrowing money, and lenders charge higher interest and fees for riskier loans or riskier borrowers. Lenders evaluate creditworthiness of a borrower based on the type of credit, past credit history, and expected ability to repay the loan in the future. Credit reports compile information on a person's credit history, and lenders use credit scores to assess a potential borrower's creditworthiness. A low credit score can result in a lender denying credit to someone they perceive as having a low level of creditworthiness. Common types of credit include credit cards, auto loans, home mortgage loans, and student loans. The cost of postsecondary education can be financed through a combination of grants, scholarships, work-study, savings, and federal or private student loans.

Benchmarks Grade 8

2. Financial institutions advertise loan costs to potential borrowers using the Annual Percentage Rate (APR), expressed as an annual percentage of the loan principal. Low introductory rates offered to attract customers may increase later.

3. The longer a loan repayment period and the higher the interest rate, the larger the total amount of interest paid by a borrower.

4. Credit cards typically charge higher interest rates on balances due compared with rates on other types of loans.

7. Borrowing increases debt and can negatively affect a person's finances.

Benchmarks Grade 12

1. Borrowers can compare the cost of credit using the Annual Percentage Rate (APR) and other terms in the loan or credit card contract.

2. Loans that are secured by collateral have lower interest rates than unsecured loans because they are less risky to lenders.

12. Consumer credit protection laws govern disclosure of credit terms, discrimination in borrowing, and debt collection practices.

Visual 6.5.1: Decision Spectrum (page 1 of 3)

YES

Visual 6.5.1: Decision Spectrum (page 2 of 3)

NO

Visual 6.5.1: Decision Spectrum (page 3 of 3)

IT

DEPENDS

Handout 6.5.2: Video Questions

Credit Card Debt Explained

1. How does a credit card work?

2. Why is it usually a smart idea to pay your full credit card balance each month?

3. What does the term “outstanding balance” mean on a credit card account?

4. Why can it take much longer to pay off credit card debt if you only make the minimum payment?

5. The video recommends being a “deadbeat” credit card user. What does that mean?

Handout 6.5.3: Schumer Box Cars (page 1 of 2)

Purchase APR	**Balance Transfer APR**
Cash Advance APR	**Penalty APR**
Minimum Interest Charge	**Grace Period**
Annual Fee	**Transaction Fees**
Penalty Fees	

Handout 6.5.3: Schumer Box Cars (page 2 of 2)

The interest rate charged when you carry a balance from regular purchases instead of paying your full bill. A higher annual percentage rate (APR) means borrowing costs more.

The interest rate charged when you move debt from one credit card to another. Some cards offer a lower temporary rate to help pay off debt faster.

The interest rate charged when you use your credit card to take out cash. This rate is usually higher than the rate for regular purchases.

A higher interest rate that can happen if you break the card's rules, like making late payments. This makes borrowing more expensive.

The smallest amount of interest the credit card company will charge if you carry a balance, even if the interest you owe would normally be less.

The amount of time you have to pay your balance in full before interest starts being charged. Paying during the grace period can save you money.

A fee some credit cards charge each year just for having the card, whether you use it or not.

Extra charges for certain actions, like transferring a balance, taking out cash, or making purchases in another country.

Extra charges for breaking card rules, such as paying late, having a payment returned, or going over your limit.

Handout 6.5.4: Shopping for a Credit Card

Instructions: Use www.bankrate.com/credit-cards/ to explore credit card options and recommend the best credit card for each scenario. Justify your answer by identifying and explaining the three features you think are most important for each person.

Scenario 1: Dev wants to open his first credit card. He would like to start building credit history while keeping costs low.

Recommended Card: ____

Justification:

Scenario 2: Talia has an established credit history and already uses a credit card responsibly. She would like a second credit card to earn rewards and save money on purchases.

Recommended Card: ____

Justification:

Handout 6.5.5: Sample Credit Card Statement (page 1 of 2)

BEST BANK

Credit Card Statement

Name: John Doe
Address: 1 Main Street, Anytown, USA
Account Number: 12345-67-8901

For Lost or Stolen Card, Call:
1-800-XXX-XXXX

Payment Information

Date: 05/30/26
Payment Due Date: 6/21/26
New Balance: $1,498.25
Minimum Payment: $25

Account Summary		Payment Information	
Previous Balance	$ 482.42	New Balance	$1,498.25
Payment, Credits	-$350.42	Payment Due Date	6/02/26
Purchases	$1,258.56	Minimum Payment Due	$25
Cash Advances	$100		
Balance Transfers	$0		
Fees Charged	$5		
Interest Charged	$2.69		
New Balance	$1,498.25		

Transaction Activity

Date	Description	Category	Amount
5/3/2026	Campus Bookstore (Textbooks & Supplies)	Education	$214.87
5/6/2026	FreshMart Grocery	Groceries	$126.42
5/9/2026	Fuel Express	Transportation	$58.19
5/14/2026	ConcertHub Tickets (2 tickets)	Entertainment	$312.50
5/18/2026	TechZone Electronics (Tablet Purchase)	Electronics	$546.58
5/24/2026	ATM Cash Advance	Cash Advance	$100.00

Handout 6.5.5: Sample Credit Card Statement (page 2 of 2)

BEST BANK
Credit Card Statement

Opening/Closing Date	04/25/26 – 05/24/26
Credit Access Line	$12,000
Available Credit	$10,501.75
Cash Access Line	$2,000
Available for Cash	$1,900
Past Due Amount	$0
Balance Over the Credit Access Line	$0

Finance Charge Summary	Purchases	Advances
Periodic Rate	1.65%	0.54%
Annual Percentage Rate (APR)	19.80%	6.48%

Handout 6.5.6: Reading a Credit Card Statement

Instructions: Review the sample credit card statement using Handout 6.5.4 and answer the questions below.

Part A: Find the Facts

1. What is the new balance?

2. Did this person pay in full last month? How do you know?

3. What is the minimum payment and when is it due?

4. How much available credit remains?

Part B: Analysis

5. What evidence suggests this cardholder is using their credit card responsibly?

6. What is one habit or pattern that could be risky?

7. What advice would you give this cardholder based on this statement?

Handout 6.5.7: Assessment (page 1 of 2)

Instructions: Read the story of Adrian's first credit card experience and answer the questions that follow.

The Story of Adrian's First Credit Card

Adrian is a 19-year-old college sophomore who recently opened his first credit card after seeing an ad that offered 3% cash back on dining and a $100 sign-up bonus. He had been using a debit card up to this point, but he thought a credit card would help him build his credit history and give him more flexibility with his spending.

At first, Adrian was careful. He used his card for predictable expenses like gas, groceries, and his monthly streaming subscriptions—things he knew he could afford. He kept track of his spending using his banking app and made sure he stayed well below his $2,000 credit limit. When his first statement arrived, he paid the full balance before the due date and was pleased to see that he was not charged any interest.

A few months later, Adrian started to feel more comfortable using his card. When his friends planned a weekend trip, he used his credit card to book the hotel so he could earn rewards, even though he didn't have enough money in his checking account to cover the full cost right away. He told himself he would pay it off over time.

That same month, Adrian received an offer for a store credit card at his favorite clothing retailer. The cashier told him he could save 20% on his purchase if he signed up, so he opened the account and used it immediately. He didn't pay much attention to the interest rate, assuming he would just pay it off quickly.

When Adrian's statement arrived, he noticed that his balance was higher than usual. Instead of paying the full amount, he chose to make the minimum payment, which was much lower than he expected. He liked that it gave him more room in his budget that month, but he didn't fully understand how much interest he would end up paying over time.

Over the next few weeks, Adrian continued to use his card for everyday purchases, including meals out and online shopping. His balance grew, and at one point, he was using nearly 75% of his available credit. He began to feel a little stressed when he checked his account but avoided looking too closely at the details.

One day, while reviewing his statement more carefully, Adrian noticed a charge from an online store he didn't recognize. He immediately contacted the credit card company to report the charge and was relieved to learn that he would not be responsible for paying it while it was being investigated.

(continued on next page...)

Handout 6.5.7: Assessment (Page 2 of 2)

After talking with his academic advisor about budgeting and financial planning, Adrian decided to make some changes. He started tracking his spending more closely, set a goal to pay more than the minimum each month, and made a plan to avoid opening new credit accounts just for short-term discounts. He also began checking his statements regularly to monitor for errors or suspicious activity.

1. What smart credit card habits does Adrian demonstrate?

2. What risky credit card habits does Adrian demonstrate?

3. Based on Adrian's experience, what advice would you give to someone who has just opened their first credit card?