

CALCULATE: Understand Your Credit Agreement

The basic details for every credit card can be found in the credit card agreement's Schumer box. Let's complete this activity to illustrate why the fine print details matter so much to your financial future.

- For this activity, we'll use the sample [Schumer box](#) from [nerdwallet.com](#). **Open the document and familiarize yourself with the content.**
- We will also use the [credit card calculator](#) from [creditcards.com](#); **open it in another window.**

We're going to assume you used your credit card to buy a brand new laptop for \$1,100, and then you put the credit card away and work on paying off the laptop. You don't use the credit card for any other purchases.

Use the Schumer box, the calculator, and the laptop scenario above to complete the following questions.

Part I - Review the Schumer box

1. Assume you've got terrific credit: What would be your likely APR for purchases or balance transfers?

2. Assume you've got poor credit: What would be your APR for purchases or balance transfers?

3. What is the annual fee for this credit card?

4. If you are late paying your bill, what is the impact on your annual fee?

5. If you are late paying your bill, what is the impact on your APR?

6. If you are late paying your bill, are there any additional fees? If so, what?

7. How many days do you have to pay off your bill in full to avoid interest on your purchases?

Part II - Use the calculator

Remember the scenario above -- you charged a \$1100 laptop, then stopped spending on your credit card and started paying off your debt.

8. A typical minimum payment for a credit card is 3% of the balance. What would your likely minimum payment be?

9. Assume you've got terrific credit (question 1 above):

- a. How long (in years and months, for example: 50 months = 4 years, 2 months) would it take you to pay off this laptop purchase if you only made the minimum payment?

- b. How much would you pay in interest over the length of your debt?

10. Assume you've got poor credit instead (question 2 above):

- a. How long (in years and months) would it take you to pay off this laptop purchase if you only made the minimum payment?

- b. How much would you pay in interest over the length of your debt?

11. How much money do you save, over the length of the debt, by having a good credit score? What could you, personally, use that money for?

12. Shortly after you purchase the laptop, you receive your first credit card bill and forget to pay it, because it's a new responsibility for you. What's the impact of this mistake on the length of time it takes you to pay off the debt and the total amount of interest you pay? *For simplicity, assume your interest rate remains at the penalty APR for the length of your debt.

BONUS: Review question 7 again. How long would it take you to pay off your debt, and how much total interest would you pay, if you had used the cash advance option instead of charging the laptop?

Part III - Summarize the learning

13. If you use a credit card and don't pay the full balance before the first bill is due, how does your credit score impact the amount of money you ultimately pay for the laptop?

14. Why does the credit card company set the minimum payment so low, at only 3% of your balance?

15. Why is it important to read the fine print in your credit card's Schumer box?