



Junior Achievement *Save, USA*

Compare Interest Rates

High School Lesson

You use your credit card to buy a computer for \$2,000. If you make payments of \$50 a month, it should be paid for in 40 months, right? After all, $\$50 \times 40 \text{ months} = \$2,000$.

Unfortunately, when you make a credit-card purchase, you do not just pay the original purchase price. You also have to pay interest. If the annual interest rate on your credit card is 15%, and you only pay the minimum payment, it will take you 56 months to pay it off. You will end up paying \$2,000 for the computer plus \$800 in interest.

Here's How It Works

When you use a credit card to buy a \$2,000 computer at HiTech Tony's, Tony gets paid immediately. In effect, when you sign the credit-card receipt, you are getting a loan from the credit-card company. Your signature means you agree to pay the credit-card company \$2,000, plus interest. Interest is the price you pay for using the bank's money. Interest rates are expressed as percentages; you might pay 6%, 18%, or more on a credit card.

Some people use the same credit card for years, never looking for a better rate. However, you can often find better deals by shopping around. Just as you look for the best deal on a new computer,

stereo, or television, you should shop around for the best deal when you choose a new credit card.

Here are some things to look for when you're in the market for a credit card:

- **What is the interest rate?** Be careful here; some cards offer an introductory rate that is very low, but after 30 or 60 days the rate jumps up. Be sure to read the fine print.
- **Is there a grace period?** The grace period is the number of days during which you pay no interest after a purchase is made. Some cards offer 20-day grace periods; some offer more. Caution: if you have an outstanding balance, there is no grace period. That means you begin to pay interest the minute you charge something. If you have a 20-day grace period, you start paying interest on the 21st day, so don't wait until the end of the month to pay your bill.
- **What is the annual fee?** Fees range from zero to as much as \$50 a year. Look for a card that has no fee.
- **What about other fees?** Many credit-card companies charge more than \$25 if your payment is even one day late. Be sure to read the offer carefully to find any hidden fees.



Activity for High School

You and your family probably get a pile of credit-card applications in the mail every week. Find six credit-card offers and compare them by using the chart below:

Name of Card	Interest Rate	Grace Period	Annual Fee	Other Fees

Based on the information you've gathered, evaluate the cards. Which would you choose? Why? The Bankrate.com website calculates how long it will take to pay off a credit card: <http://www.bankrate.com/brm/calc/creditcardpay.asp>



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