

# Financial Literacy Lesson: Credit Card Utilization

Grade Levels : 9 - 12th



## Lesson Purpose:

Facilitators should make a point to explain the importance of using a credit card responsibly.

## Objective:

To help students understand the proper way to utilize a credit card to build credit.

## Teacher Lesson Outline:

### Planned to A.T. Introduction Video: What is Credit? ( 4 min)

### Intro (15min)

Walk students through example credit card utilization scenario.

### Activity (25 min)

Put students in groups of 3 - 4. Provide each group with both of the student scenarios and give them time to analyze them together.

### Wrap Up Discussion (5min)

Display each scenario and ask the students to share their observations on the reflection questions. Lead them through the following:



## START : Essential Question(s)

**Q: What is credit card utilization?**

**Q: How does credit card utilization affect your credit score?**

**Q: How can you use a credit card in a responsible way to build your credit?**

## EQ Answers:

**A:** Credit utilization refers to the percentage of your available revolving credit that you're currently using.

**A:** Using a large portion of your available credit can negatively impact your score, as it suggests you might be overextended or struggling to manage your debt.

**A:**

1. Pay on time.

2. Keep your credit utilization below 30%

3. Use your card regularly but make sure to pay it off regularly.

## Education Standards Addressed:

5.1

Students analyze APR, late fees, nonpayment fees, minimum payments, interest accumulation.

5.2

Lesson shows how utilization, missed payments, and balances impact credit scores and borrowing cost.

3.2

Students identify key credit score factors (utilization, payment history, amounts owed).

3.3

Students learn responsibilities of credit card use and consequences of misuse.

3.4

Students interpret score changes month to month using real scenarios.

# Teacher Resource



## Credit Card Statement Analysis:

1. Display and read the example scenario. Then walk students through examining the changes in the credit score from month to month. Point out the following:
  - Card Limit and APY
  - Balance each month
  - Credit Score
  - Payment Made vs. Minimum Payment Required
  - How the payment effects the final score

## Wrap Up Questions

1. **How is your credit score affected when you carry a balance from month to month?**

The longer a balance sits on your card the lower the score.

2. **How does missing a payment affect your credit score?**

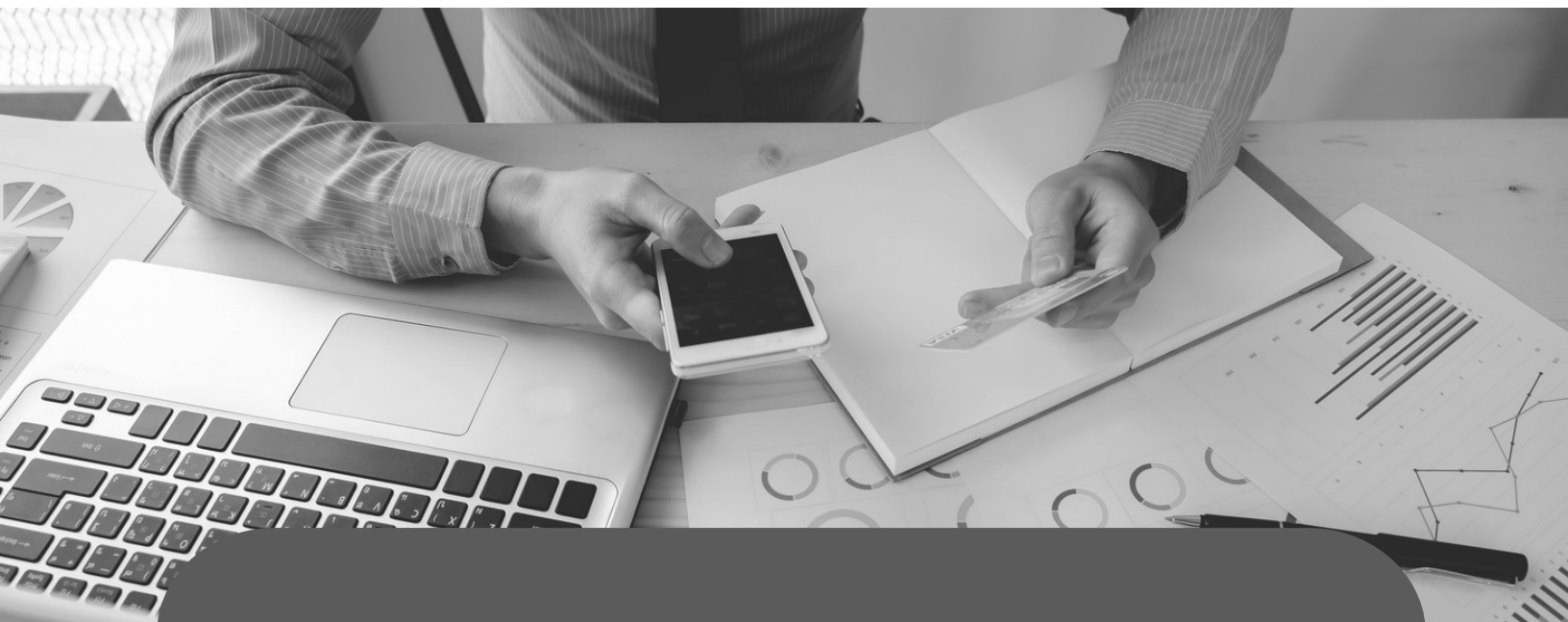
It brings it down significantly.

3. **How does only paying the minimum amount required instead of the balance in full affect your credit score?**

Keeps the score from increasing.

4. **What's the best way to responsibly use a credit card?**

Only charge the amount that you can pay in full the next month.



# Scenarios

## Resource



### Example Scenario:

Johnnie works an hourly wage job as a server. She makes \$7/hr plus tips and works about 20 hours a week bringing in on average \$250 each week. Johnnie is a high school senior and she tends to help her mom out with small bills and groceries here and there. She's getting close to graduation and has her eye on purchasing her first car as she goes off to college. She pulled her credit score when she turned 18 a month ago and found out it is 650. She wants her score to be at least 690 before she applies for her car loan so she can have a lower interest rate and smaller monthly payments. She just learned that carrying a balance on her credit card from month to month has been negatively impacting her score. Her current balance is \$1275. Her minimum payment is \$25 which she's been paying.

### Directions:

Take a moment to digest the information in the chart below. Then answer the following questions:

1. Johnnie paid the minimum payment on her card in November. How did her score change after her payment?

*The score stayed the same 650. Review with students this score is considered Fair.*

2. Compare and contrast the months that Johnnie saw the smallest increase in her credit score vs the biggest increase. How much did she pay on her card with the small increase vs the big increase? How does this compare to the minimum payment?

*She paid the smallest amount \$25 (min payment) In November and her score didn't change. The largest amount \$100 In March and April and her score rose about 8 points each time. The more you pay over your minimum payment, getting the balance the closest to \$0 the higher your score will be.*

3. How much longer will it take Johnnie to get her score to 690 if she continues making \$100 payments like the last two months March and April?

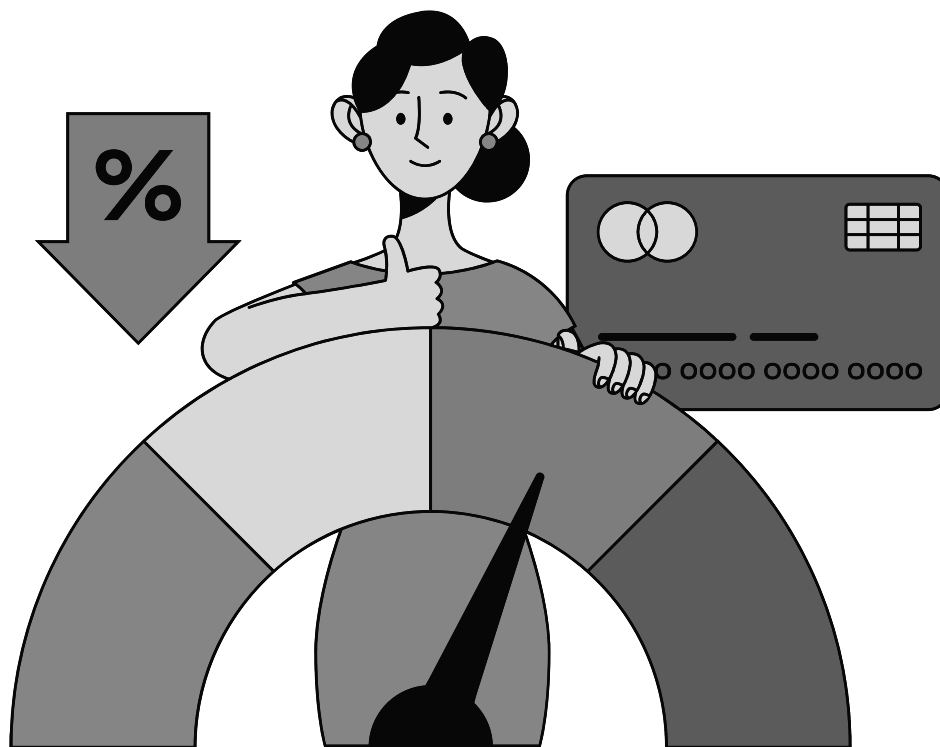
*2 months with an 8-point increase each month!*

### Example Scenario:

**Card Limit: \$1,500**

**Annual Percentage Rate (AKA interest): 9.5%**

Month	Balance	Credit Score Before Payment	Minimum Payment Required	Actual Payment	Balance After Payment	New Charges for Next Month	Credit Score After Payment and New Charges
November	\$1,275	650	\$25	\$25	\$1,250	\$0	650
December	\$1,250	650	\$25	\$50	\$1,200	\$0	652
January	\$1,200	652	\$25	\$75	\$1,125	\$0	658
February	\$1,125	659	\$25	\$75	\$1,050	\$0	662
March	\$1,050	662	\$25	\$100	\$950	\$0	670
April	\$950	670	\$25	\$100	\$850	\$0	678



## Student Scenario 1

Hayden is a high school junior who loves to wear the hottest kicks. He convinced his dad to co-sign on a credit card for him since he was cutting grass to make some money and could handle paying it. His limit on his card is \$1,000 and he immediately bought a few pair of Jordans running his credit utilization up to over \$900! He doesn't have any immediate plans to make a big purchase so he figures as long as he pays the minimum balance on his card, he will eventually pay off what he spent for his shoes.



### Directions:

Take a moment to digest the information in the chart below.

Then answer the following questions:

1. How does Hayden's beginning balance compare to his ending balance and the associated credit score?
2. In December, Hayden missed a payment. What was the charge for this? How much over his max limit did this put his balance? How much did this drop his credit score from the month before?
3. From February through April, Hayden kept his card balance at a maximum by paying a small amount and then charging more on his card. How did this affect his credit score? What range is his credit in (excellent, very good, good, fair, very poor)?

## Student Scenario 1

**Card Limit: \$1,000**

**Annual Percentage Rate (AKA interest): 22.2%**

Month	Balance	Credit Score Before Payment	Minimum Payment Required	Actual Payment	Balance After Payment	New Charges for Next Month	Credit Score After Payment and New Charges
November	\$988	488	\$20	\$20	\$1,275	\$0	485
December	\$993	485	\$20	\$0 (missed payment)	\$1,013 (over credit limit)	\$50 (missed payment and late fees)	420
January	\$1,063	420	\$83	\$63	\$1,000 (card maxed out)	\$0	422
February	\$1,000	422	\$20	\$50	\$950	\$50	422
March	\$1,000	422	\$20	\$20	\$980	\$20	422
April	\$1,000	422	\$29	\$20	\$980	\$20	422



## Student Scenario 2

Niles is a high school senior who is a huge gamer. He participates in small game tournaments and has consistently been able to win on average \$1,000 every couple of months. He uses his card to purchase gas for his car, new games, clothes here and there, and doing activities with his friends. He hasn't been MAXing out his card but he does keep a balance, although he tends to pay more than the minimum payment required each month.



### Directions:

Take a moment to digest the information in the chart below. Then answer the following questions:

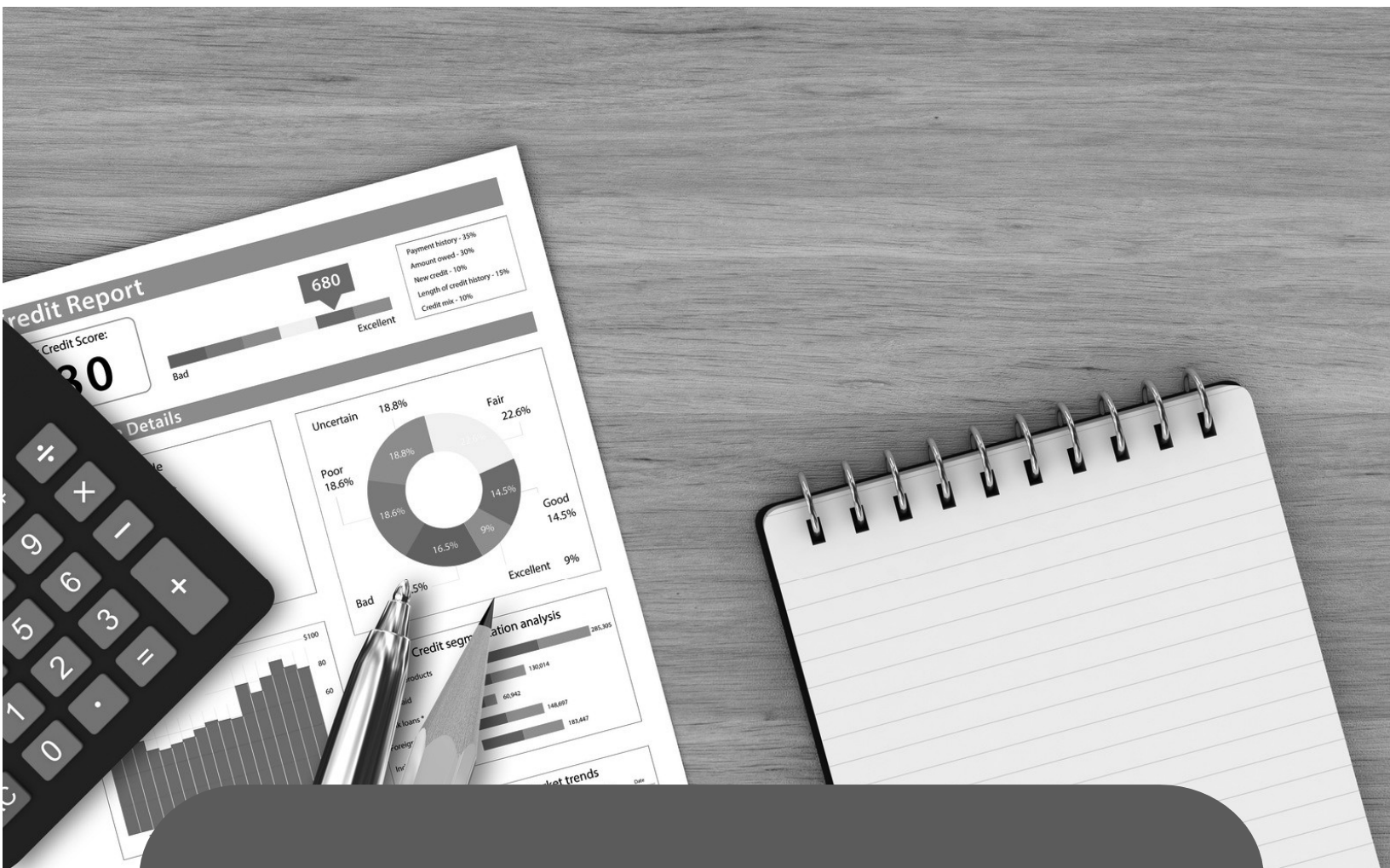
1. On average, how much has Niles been paying on his credit card balance over the last 6 months? How does this compare to the minimum payment required?
2. What is the amount that Niles paid in December, and the amount he spent on new charges? How did his credit score change? What about in January?
3. What is Niles' average credit score over the last 6 months? What connection can you make about how the average amount you spend on your card vs the average amount you pay on your card affects your credit score?

## Student Scenario 2

**Card Limit: \$2,000**

**Annual Percentage Rate (AKA interest): 15.9%**

Month	Balance	Credit Score Before Payment	Minimum Payment Required	Actual Payment	Balance After Payment	New Charges for Next Month	Credit Score After Payment and New Charges
November	\$1,375	680	\$35	\$150	\$1,225	\$50	683
December	\$1,275	683	\$35	\$100	\$1,175	\$75	683
January	\$1,250	683	\$35	\$100	\$1,150	\$55	682
February	\$1,255	682	\$35	\$150	\$1,105	\$45	684
March	\$1,150	684	\$35	\$100	\$1,050	\$100	684
April	\$1,085	684	\$35	\$100	\$950	\$150	683



# Credit Card Utilization

## Wrap Up Questions



1. How is your credit score affected when you carry a balance from month to month?
2. How does missing a payment affect your credit score?
3. How does only paying the minimum amount required instead of the balance in full affect your credit score?
4. What's the best way to responsibly use a credit card?

