

The Secret History of Credit Cards Teacher's Guide

About the film:

The average American family today carries eight credit cards. Credit card debt and personal bankruptcies are now at an all-time high. With no legal limit on the amount of interest or fees that can be charged, credit cards have become the most profitable sector of the American banking industry: more than \$30 billion in profits last year alone. FRONTLINE and *The New York Times* examine how the credit card industry became so pervasive, so lucrative, and so politically powerful.

A note to teachers:

Although a majority of adults in the United States use credit cards on a regular basis, most do not know the terms of their agreement with the companies that issue their cards. "The Secret Life of Credit Cards" invites students to consider who controls the costs and benefits of the plastic on which Americans have come to rely. For classes in Social Studies, American Government, Current Events and Economics, Mathematics; Grade level 9th – 12th.

Discussion questions:

A list of questions for students to discuss before and immediately after viewing.

Featured lesson plan:

Who Controls Real Cost of Credit Cards?

Students will examine the costs and benefits of credit cards by:

- Completing a viewer's guide for the documentary
- Learning about the cost of credit by working through a case study

Additional lesson ideas:

Making A Persuasive Statement

Students will use information from the documentary and/or additional research to create a persuasive letter or cartoon that illustrates their viewpoints.

Personal Bankruptcy: What Does it Mean?

One of the last options for people overwhelmed with credit card debt is declaring personal bankruptcy. This online lesson plan will allow students to explore the frequently asked questions about filing for bankruptcy and present their findings to the class.

Purchasing the Film

"The Secret History of Credit Cards" can be purchased from **Shop PBS for Teachers** [<http://teacher.shop.pbs.org/home/index.jsp>]. Also, teachers and students can watch the film streamed in its entirety on **FRONTLINE's Web site** [<http://www.pbs.org/wgbh/pages/frontline/shows/credit/>].

Credits

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Discussion questions

(Questions 1 and 2 are appropriate for discussing *before* students see the documentary.)

1. What do you know about credit cards? How do they work?
2. How many credit cards would you think that the average person uses? Why do you think people have more than one credit card?
3. What information in the documentary most surprised you?
4. Do you think the government should have a role in regulating both who can get credit cards and what interest and fees consumers should pay? If so, who should be the regulators? Who would benefit from such regulation? Who would lose? Explain.
5. How, according to the four "normal consumers" in the documentary, does owning a credit card or credit cards affect purchasing decisions?
6. Who loses and gains the most from credit card companies' policies? Explain.
7. Has the documentary influenced how you might use credit cards in the future? Explain.

LESSON PLAN

Who Controls the Real Cost of Credit Cards?

Lesson Objectives:

In this lesson, students will investigate:

- How and why credit card fees and interest rates have changed so substantially over the last 24 years
- The difficulty of paying off credit card debt

Materials Needed:

Internet Access

Student Handout: Viewer's Guide

Student Handout: Paying Off a Credit Card Debt

Time Needed:

10 minutes for students to familiarize themselves with the terms introduced at the beginning of the Viewer's Guide and to look over the questions the guide poses.

60 minutes to watch the documentary.

10 - 20 minutes for the discussion questions.

45 minutes for small group discussion of the material from the Viewer's Guide and for completing the handout "How Much Does Debt Cost?"

45 minutes for class discussion of the student handouts .

Procedure:

1. Discuss questions 1 and 2 from Discussion Questions.
2. Review all the definitions on Viewer's Guide with your students.
3. Divide the class into SIX small groups and assign each of the groups ONE of the questions on the Viewer's Guide handout.
4. Instruct students to read the question they will answer as and after they view the documentary. Tell them they will present their findings to the class.
5. View the documentary.
6. Ask each of the six groups to make a short presentation to the whole class on the question to which they were assigned.
7. Conduct a large group discussion using the remaining Discussion Questions.
8. Students in all groups should complete the handout "How Much Does Debt Cost?"
9. Discuss responses to the handout "How Much Does Debt Cost?"

Method of Assessment:

Class discussion

Submission of handouts

STUDENT HANDOUT: Viewer's Guide

Directions:

Part I. Review the following terms prior to watching the documentary.

American Bankers Association (ABA) "The American Bankers Association represents banks of all sizes on issues of national importance for financial institutions and their customers. The ABA brings together all elements of the banking community to promote the strength and profitability of the industry. It does this by providing effective leadership in government relations, building strong industry consensus, consistently listening to its membership, and responding to their needs through innovative products and services, public affairs support and legal services." [Source: URL <http://www.aba.com>]

Bankruptcy: "A legal proceeding that relieves you of the responsibility of paying your debts or provides you with protection while attempting to repay your debts." [Source: URL http://www.nolo.com/lawcenter/dictionary/dictionary_listing.cfm/Term/B23709A5-56E8-4542-8F3E5F2047D40913/alpha/B]

"Deadbeat:" Although "deadbeat" normally means "one who does not pay one's debts," [Source: URL <http://dictionary.reference.com/search?q=deadbeat>], the word has taken on a new meaning for credit card companies. For them, "deadbeat" means someone who avoids interest and fees by paying her/his account balance in full each month rather than paying the minimum amount and carrying a balance. Credit card companies do not earn much from these cardholders. About 55 million Americans pay their bills in full each month.

Interest: "A charge for a loan, usually a percentage of the amount loaned" [Source: URL <http://dictionary.reference.com/search?q=interest>]. The interest rates for credit card balances vary widely, both for one individual's account and for the industry at large. Interest rates for credit cards can change with 15 days notice to the cardholder.

OCC (Office of the Comptroller of the Currency): The OCC (an agency of the United States Department of the Treasury) is responsible for overseeing credit card policies. The U.S. Government Web site says: "The OCC charters, regulates, and supervises over 2,500 national banks and their operating subsidiaries to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States."

"Revolver:" According to the credit industry, a "revolver" is a customer who does *not* pay her/his balance in full each month. The fees and interest these customers pay generate income for the credit card companies. About 90 million Americans do not pay their bills in full each month and carry balances on their credit cards. The average balance is \$8000.

"Universal default:" Communication among lending institutions means that a late payment on *any* debt (e.g. mortgage, car loan, credit card bill) may lead to a consumer being declared in "universal default," which can lead to an increase in fees and interest on *all* outstanding debts, even those on which the consumer's payments are up to date.

Usury: 1. The practice of lending money and charging the borrower interest, especially at an exorbitant or illegally high rate. 2. An excessive or illegally high rate of interest charged on borrowed money. [Source: URL <http://dictionary.reference.com/search?q=usury>]

Part II: Answer the question you have been assigned as and after you view the documentary.

1. Tell how the following factors in 1980 led to the move of credit card centers to South Dakota:
 - recession and double-digit inflation
 - usury laws in other states
2. Law professor Elizabeth Warren notes that families use credit cards to bridge the gap between what they earn and what they spend.
 - What factors can lead to their inability to make required payments?
 - What happens when families like the Muellers in the documentary start missing payments?
3. What is the view of credit cards from the four "average" people the interviewer consults?
 - What do they find positive about credit cards?
 - What problems do they see with the way credit cards are administered?
 - What does it tell you about what consumers know about credit cards?
4. Who or what can limit the interest rates and fees that credit card companies can impose?
 - Can the interest rates change? If so, what causes a change?
 - For what do credit card holders pay fees? Is there a limit on fees?
5. The OCC (Office of the Comptroller of the Currency) is the government agency in charge of monitoring credit card companies.
 - What, according to the documentary, should the role of the OCC (Office of the Comptroller of the Currency) be?
 - Why do the Better Business Bureau of Oakland, California and the District Attorneys of San Francisco and New York criticize the OCC?
 - What role did the OCC play in the Provident case?
6. Cite some arguments you noted in favor of and against tighter regulation of the credit card industry (interest rates, fees, marketing of cards).

**STUDENT HANDOUT:
How Much Does Debt Cost?**

- Although 55 million Americans pay off their credit card balances in full each month, 90 million Americans carry an average of \$8000 in debt from month to month.
- Credit card companies print a required minimum payment on the bill – usually 2-2.5 percent of the outstanding balance.
- Most Americans do not know what interest rate they are actually paying. Nor are they aware that their interest rate can change in the course of their payment.

Directions for Figuring the Cost of an Average Debt:

Using the information you find at: [URL

http://aol1.bankrate.com/aol/calc/MinPayment.asp?nav=cc&page=calc_home]

figure out how much repaying an \$8000 credit card debt will cost at interest rates of 12 percent, 19 percent and 29 percent

- With only the required minimum monthly payment
- With a fixed payment of \$250 (leave column for minimum payment blank)
- With a fixed payment of \$500 (leave column for minimum payment blank)

Note: Assume that your minimum payment is calculated at 2 percent.

Be sure to choose EITHER "minimum payment" OR "fixed payment" before you click on "calculate."

Credit Card Repayment Chart

You are an American family determined to pay off your \$8000 credit card debt. How long will it take? How much interest will you pay? (Remember: This chart is for debt you *already have* – it does not include any new debt you might incur during the period of repayment.) Be prepared to discuss your findings.

Interest rate	Minimum Payment	Fixed Payment	Number of Months to Pay Off Debt	Total Interest Paid on \$8000
12 percent		0		
		\$250		
		\$500		
19 percent		0		
		\$250		
		\$500		
28 percent		0		
		\$250		
		\$500		

Optional: Imagine that you have used a credit card to buy \$900 in gifts for friends and family. Using the link below, calculate your repayment schedule.

[URL: http://aol1.bankrate.com/aol/calc/MinPayment.asp?nav=cc&page=calc_home]

ADDITIONAL LESSON IDEAS:

Making A Persuasive Statement

- Ask students to write a one-paragraph summary of what they believe is good or bad about credit cards
- Based upon this summary, information from the video and/or additional research, have students create a persuasive letter or cartoon that illustrates their viewpoint

Personal Bankruptcy: What Does it Mean?

Bankruptcy is:

"A legal proceeding that relieves you of the responsibility of paying your debts or provides you with protection while attempting to repay your debts. There are two types of bankruptcies:

- liquidation, in which your debts are wiped out (discharged) and
- reorganization, in which you provide the court with a plan for how you intend to repay your debts.

For both consumers and businesses, liquidation bankruptcy is called Chapter 7. For consumers, reorganization bankruptcy is called Chapter 13. Reorganization bankruptcy for consumers with an extraordinary amount of debt and for businesses is called Chapter 11." [Source: URL <http://www.bankruptcyinformation.com/>]

1. Ask students to identify the difference between Chapter 7, Chapter 13, and Chapter 11 bankruptcies.
2. Ask students to distinguish between dischargeable debts and non-dischargeable debts.

The following Web site makes the search for terms easy.

[URL:

http://www.nolo.com/lawcenter/dictionary/dictionary_listing.cfm/Term/B23709A5-56E8-4542-8F3E5F2047D40913/alpha/B]

RESOURCES

In addition to the Web resources included in the guide, students and their teachers might want to take a more detailed look at sites devoted to credit cards and the economy in general.

Media literacy note: As with all issues, especially ones that are politically charged, students must learn to be savvy and discriminating readers. No Web site can provide all the information a student needs to know, and teachers should encourage students to "interrogate" Web sites even as they are reading. Guiding questions as they work through these activities should be: What did you learn from this source? What didn't you learn from this source? Who sponsors this source? What bias might the sponsor have?

WEB SITES

The Secret History of Credit Cards

<http://www.pbs.org/wgbh/pages/frontline/shows/credit/>

The companion Web site to the FRONTLINE film offers tips for consumers, special reports, extended interviews with experts on the industry and further background on credit card companies, bankruptcy and consumer debt.

National Council on Economics Education

<http://www.ncee.net/>

This site is dedicated to improving economic literacy for students, teachers and parents. The site offers, among others, the following lessons:

The Credit Card Mystery:

<http://www.econedlink.org/lessons/index.cfm?lesson=EM28&page=teacher>

The lesson explores why interest rates on credit cards are so high when other interest rates are so much lower.

Learning About Credit Card Use:

<http://www.econedlink.org/lessons/index.cfm?lesson=EM346&page=teacher>

Students examine the joys and dangers of using credit.

The Federal Reserve Bank

<http://www.federalreserve.gov/pubs/SHOP/default.htm>

"Choosing a Credit Card" provides a comprehensive overview of all aspects of credit cards including information about fees, grace periods, cash advances and features of different cards. In addition, the different regional Federal Reserve Banks offer educational materials on their Web sites. For example, if you type "credit cards" into the search box of the San Francisco Federal Reserve Bank Web site, [URL:

<http://www.frbsf.org/education/index.html>] you will discover a wealth of articles. To

access the Web sites of other Federal Reserve Bank districts, go to

[URL:<http://www.federalreserve.gov/otherfrb.htm>] and click on the region whose resources you want to investigate.

The Federal Trade Commission

<http://www.ftc.gov/bcp/conline/edcams/credit/index.html>

The Federal Trade Commission Web site offers informative articles about, among other topics, how to avoid the pitfalls of credit card use. The site also offers a link to “The JumpStart Coalition for Personal Financial Literacy,” which seeks to improve the financial literacy of young adults. Lessons and ideas for teachers are available.

[URL:<http://www.jumpstartcoalition.org/>]

Wall Street Journal Classroom Edition

<http://www.wsjclassroomedition.com/index.html>

This site provides timely articles and lesson plans covering economic concepts such as decision-making, cost/benefit analysis, supply and demand and incentives.