Penny Explains

Key Stage 4 · Years 10 and 11 | Borrowing and credit | About 45 minutes

Credit cards and the minimum payment trap

Why paying "just the minimum" can cost a small fortune

Answers and teaching notes

For the teacher

- **Aim:** Pupils understand how a credit card works, read a statement, and see with real numbers why paying only the minimum is slow and expensive.
- **Curriculum links:** Financial Education Planning Framework, ages 14 to 16: becoming a critical consumer (APR, planned borrowing, comparing the cost of credit) and how to manage money. Maths: percentages and interest. Citizenship: credit and debt. PSHE: economic wellbeing.
- **Watch first:** the Penny Explains video "How credit cards work" at pennyexplains.com.
- **Starter:** Ask: when you pay with a credit card, whose money are you spending? Take a hands-up vote, then ask what the lender gets out of lending it.
- **Support:** Read the statement in activity 3 together and highlight four numbers: new balance, credit limit, minimum payment and pay-by date.
- **Stretch:** Model Plan A in a spreadsheet: start at £2,000, add 1.8% interest each month, subtract £50, and count the months until it reaches zero.
- **Note:** the Plan A and Plan B figures in activity 5 assume 24% APR, interest added monthly and no new spending. Real cards vary. You must be 18 to have a credit card.
- **Total:** 36 points. Suggested answers are shown in red; accept any answer that is well reasoned.

I can...

- ☐ I can explain how a credit card works, including the credit limit and APR.
- ☐ I can read a credit card statement and find the key numbers.
- ☐ I can compare the cost of paying the minimum with paying more.

Key words

Credit limit: the most you are allowed to owe on the card.

APR: Annual Percentage Rate: the yearly cost of borrowing, including interest and standard fees.

Minimum payment: the least you must pay each month to keep to the agreement.

Balance: the amount you owe right now.

1 Fact or myth?

5 points

Dani, 19, is thinking about getting her first credit card. Circle True or False.

You must be 18 or over to have your own credit card in the UK.	**True**	False
The credit limit is a spending target you should try to reach. **The credit limit is the most you can owe. It is not a target.**	True	**False**
If you pay the full balance on time every month, you usually pay no interest on purchases.	**True**	False
Paying only the minimum is the cheapest way to clear a card. **It is usually the slowest and most expensive way.**	True	**False**

A credit card spends your own money, just like a debit card.
A credit card spends borrowed money that has to be paid back.

True **False**

2 Card vocabulary

4 points

Draw a line from each word to its meaning.

Credit limit	The most you are allowed to owe on the card
APR	The yearly cost of borrowing, shown as a percentage
Minimum payment	The least you must pay by the due date each month
Statement	The monthly summary of what you spent and what you owe

3 Read Dani's statement

5 points

A few months later, Dani has her card and this arrives. Use it to answer the questions.

Kestrel Bank · Credit card statement — **Statement date: 3 March**

Details	Amount
Balance from last statement	£210.00
Payment received, thank you	–£210.00
4 Feb · Sole Mates (trainers)	£65.00
12 Feb · Slice Shack takeaway	£42.00
20 Feb · Phone screen repair	£89.00
27 Feb · Concert tickets (2)	£112.00
New balance	**£308.00**

Credit limit: £1,200 · APR: 24% (variable) · Minimum payment: £25.00 · Pay by: 28 March

a) How much of her £1,200 credit limit has Dani not used? 1 mark

> £892 (£1,200 – £308).

b) What is the least Dani must pay by 28 March? How much would she need to pay to avoid any interest? 2 marks

> At least the £25.00 minimum. To avoid interest, the full new balance of £308.00.

c) What percentage of her credit limit has Dani used? Give your answer to the nearest whole number. 2 marks

> 26% (£308 ÷ £1,200 = 0.2567).

4 How a credit card works

6 points

How did Dani get from applying for a card to being charged interest? Number the steps from 1 to 6.

6	Interest is added to any part of the balance she did not pay off.
1	Dani applies for a card and the lender checks her credit history.
3	Dani pays for something with the card. The lender pays the shop.
4	Her monthly statement arrives, showing what she owes.
2	The lender approves her and sets her credit limit.
5	Dani chooses how much to repay: everything, part of it, or just the minimum.

5 The minimum payment trap

7 points

Dani's cousin Marlon owes **£2,000** on a card charging **24% APR**. He has stopped spending on it. Here are two ways he could clear it. Fill in the gaps, then answer the questions.



Penny says: The minimum payment keeps your account in order, but it is small on purpose. Small payments mean interest is charged for longer.

	Plan A: £50 a month	Plan B: £100 a month
Amount owed at the start	£2,000	£2,000
Time taken to clear the debt	about 6 years	about 2 years
Interest paid in total	about £1,585	about £505
Total repaid (debt + interest)	**£3,585**	**£2,505**

a) How much interest does Marlon save by choosing Plan B instead of Plan A? 2 marks

£1,080 (£1,585 − £505).

b) In the first month of Plan A, about £36 of the £50 payment is interest. How much actually comes off the £2,000 debt? 1 mark

Only about £14 (£50 − £36).

c) Explain in your own words why Plan A takes so long. 2 marks

Most of each small payment is swallowed by interest, so the debt itself shrinks very slowly, and interest keeps being charged on what is still owed.

6 Card scramble

4 points

The letters are mixed up. Use the clue to work out each word.

B C L E A A N	What you owe right now	B A L A N C E
M I M U I N M	The smallest payment allowed	M I N I M U M
E N E T R T S I	The charge for borrowing	I N T E R E S T
S T E E T A T M N	The monthly summary from the card company	S T A T E M E N T

7 What would you do?

5 points

Read the story, then answer the questions.



Dani's flatmate Reece, 19, has just been sent his first credit card, with a **£1,500 limit**. A festival ticket he wants costs **£260**. He earns about **£900 a month** from his job and has **£80** in savings. He says: **"I'll stick it on the card and just pay the minimum. Sorted."**

a) Give one advantage and one risk of Reece putting the ticket on his card. 2 marks

> Advantage: he can buy now and spread the cost (and card purchases have extra protection if something goes wrong). Risk: interest at the card's APR on anything he does not clear, minimum payments that drag on, and the temptation to spend more.

b) What would you do in Reece's position, and why? 3 marks

> No single right answer. Good answers weigh it up: for example, use the card but clear the £260 in full or within two or three months, or save up for the ticket first. Look for a reason linked to interest and what he can afford.

8 Before you go

One thing I learned today

_____

_____

One question I still have

_____

_____

How sure do I feel?

Not yet | Getting there | Got it



Take it home

Ask an adult you trust whether they use a credit card, and how they decide how much to pay off each month. Tell them what you found out about the **minimum payment trap**.

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