

# Understanding minimum payments

Students watch a video and answer questions to learn how long it takes to pay off a credit balance when making only the minimum payment.

## Learning goals

### Big idea

The more you pay on your credit card bill each month, the less you will pay over time.

### Essential questions

- What is a minimum monthly credit card payment?
- How is a minimum monthly payment calculated?

### Objectives

- Learn how credit card companies calculate minimum monthly payments
- Calculate how many months it takes to pay off a credit card balance when making only the minimum monthly payment



### NOTE

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Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

### KEY INFORMATION

Building block:

-  Financial habits and norms
-  Financial knowledge and decision-making skills

Grade level: Middle school (6-8)

Age range: 11-14

Topic: Borrow (Managing credit)

School subject: CTE (Career and technical education), Math

Teaching strategy: Cooperative learning, Simulation

Bloom's Taxonomy level: Understand, Apply

Activity duration: 15-20 minutes

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### National Standards for Personal Financial Education, 2021

Spending: 4-1, 8-1, 8-2, 8-4, 12-2, 12-9

Managing credit: 4-1, 4-2, 8-2, 8-3, 8-4, 8-7, 12-1, 12-12

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

## What students will do

- Find out what interest is and how credit card companies calculate it.
- Consider how paying more than the minimum monthly payment affects the amount of time it takes to pay off a credit card balance.

## Preparing for this activity

- While it's not necessary, completing the "[Analyzing credit card statements](#)" activity first may make this one more meaningful.
- Print copies of all student materials, or prepare for students to access them electronically.
- Obtain a computer, a projector or smartboard, and speakers to show the "Minimum Payments on Credit Cards" video at <https://www.ftc.gov/media/70851>.
- Secure computers or tablets with access to the Internet so students can review a sample credit card statement.

### What you'll need

#### THIS TEACHER GUIDE

- **Understanding minimum payments (guide)**  
[cfpb\\_building\\_block\\_activities\\_understanding-minimum-payments\\_guide.pdf](#)
- **A computer, projector or smartboard, and speakers**
- **The "Minimum Payments on Credit Cards" video** at <https://www.ftc.gov/media/70851>

#### STUDENT MATERIALS

- **Understanding minimum payments (worksheet)**  
[cfpb\\_building\\_block\\_activities\\_understanding-minimum-payments\\_worksheet.pdf](#)
- **Computers or tablets with Internet access**

## Exploring key financial concepts

When a person uses a credit card, they're charged interest on the amount of money they spend. Credit card companies make money by charging this interest. If a person doesn't pay the entire amount they owe each month, the interest rate will determine how much they pay for their credit card purchases. The interest rate and other fees for having that credit card are added together into what credit card companies call the annual percentage rate, or APR. The APR is the cost of borrowing money on a yearly basis.

When a monthly credit card statement comes in the mail, sometimes people only pay the minimum amount due. It's a good idea to pay more than the minimum. Reading the statement carefully will give you information about how long it would take to pay off the account balance by paying only the minimum payment. It can take years, even decades, to pay off high balances. This is because each month, interest is added to what you owe. It's a good habit to try to pay more than the minimum amount. And, whenever possible, it's great to pay the full amount. Doing so helps people establish a good credit rating.

#### TIP

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Because products, terms, and laws related to credit cards change, students should be encouraged to always look for the most up-to-date information.

## Teaching this activity

### Whole-class introduction

- Ask students to share some things they know about credit cards.
  - Ask students to consider how credit card companies make money. Be sure they understand that lenders make money by charging interest on the money borrowed.
  - Read "Exploring key financial concepts" to the class to help them understand interest and APR.
- Be sure students understand key vocabulary:
  - **APR (Annual Percentage Rate):** The cost of borrowing money on a yearly basis, expressed as a percentage rate.
  - **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.
  - **Borrower:** A person or organization that borrows something, especially money from a bank or other financial institution.
  - **Credit card:** An open-ended loan that allows you to borrow money up to a certain limit and carry over an unpaid balance from month to month. There is no fixed time to repay the loan as long as you make the minimum payment due each month. You pay interest on any outstanding credit card loan balance.
  - **Interest:** A fee charged by a lender, and paid by a borrower, for the use of money.
  - **Interest rate:** A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money.

#### TIP

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Visit CFPB's financial education glossary at [consumerfinance.gov/financial-education-glossary/](https://consumerfinance.gov/financial-education-glossary/).

- **Minimum payment:** The minimum dollar amount that must be paid each month on a loan, line of credit, or other debt.
- Show the class the “Minimum Payments on Credit Cards” video at <https://www.ftc.gov/media/70851>.

## Individual or group work

- Distribute the “Understanding minimum payments” worksheet to students.
- Either individually or in small groups, have students complete the worksheet questions about Marta’s credit card payments.
- Have students work independently to answer the reflection question.

## Wrap-up

- Bring the class back together to share their answers about Marta’s credit card payments.
- Ask volunteers to share their answers to the reflection question.

## Suggested next steps

Consider searching for other [CFPB activities](#) that address the topic of borrowing, including managing credit. Suggested activities include [“Managing credit card payments”](#) and [“Understanding credit scores.”](#)

## Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the “Understanding minimum payments” worksheet.

**Keep in mind that students’ answers may vary.** The important thing is for students to have reasonable justification for their answers.

## Answer guide

1. If Marta pays more than the minimum payment each month, will it take more time or less time to pay off her credit card? **Less time**
2. If she pays more than the minimum amount each month, will she pay more or less in total? **Will pay less**