



# What is a credit card?

KS3

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Ages 11-18



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A credit card is a payment card that lets you borrow money from the card provider to pay for things, up to a set limit. At the end of each month, you receive a statement showing what you've spent. If you pay the full balance off, you pay no interest — you've essentially had a free short-term loan. If you pay only the minimum (or any partial amount), the remaining balance is charged interest — typically at 20-30% per year.

A credit card is like an interest-free loan with a trap inside it. If you pay it back completely each month, you get free credit, cashback or rewards points, and legal purchase protection. The credit card company makes money from the fees charged to shops. But if you don't pay it off — if you leave a balance — the interest rate kicks in at rates that would make a loan shark wince. The same product is a savvy financial tool for disciplined users and a debt spiral for those who only pay minimums. The company is counting on the latter.

## What's the minimum payment trap?

Credit card statements show a "minimum payment" — usually 1-3% of the balance, or £25, whichever is higher. This sounds manageable, so many people pay just that. But if you only pay the minimum on a £3,000 balance at 25% interest, you'll be paying it off for over 25 years and pay more in interest than the original debt. The minimum payment is deliberately set low to keep you paying interest for as long as possible.

## What are the benefits of using one responsibly?

Section 75 of the Consumer Credit Act gives credit card purchasers in the UK legal protection for purchases between £100 and £30,000. If a retailer goes bust or doesn't deliver what was promised, you can claim a refund from the card provider. This protection doesn't apply to debit cards. Many credit cards also offer rewards (cashback, airline miles, points) on spending. For someone who pays off the full balance monthly, these benefits are genuinely valuable.

## How do you use one well?

Simple rules: never spend more than you can afford to pay off that month. Set up a direct debit for the full balance (not the minimum) so you never accidentally forget. Keep your credit utilisation low — using 10% of your limit looks better than using 90%. Never withdraw cash on a credit card — the fees and immediate interest make it extremely expensive.