NO PREP

Holiday Debt

Credit Cards, “Buy Now, Pay Later,” and Interest Traps

Includes: Student reading, case study, differentiated questions, teacher key

MORE LESSONS LESS PLANNING

MLLP

FREE TODAY · FREE TOMORROW · FREE FOREVER

Name: Period: Date:

Holiday Debt: Credit Cards, “Buy Now, Pay Later,” and Interest Traps

The Holiday Rush and the “I’ll Worry About It Later” Problem

In November and December, stores and websites do everything they can to get you to spend. There are flash sales, limited-time offers, and “one day only” countdowns that make ordinary items feel urgent. At the same time, digital wallets and credit cards make it easy to tap, click, and move on without really feeling the cost. You don’t hand over cash; you just see a small notification and keep scrolling. Psychologists call this present bias—we tend to care more about how a decision feels right now than about the long-term consequences. During the holidays, present bias can be even stronger: you don’t want to disappoint friends or family, and there’s a strong social expectation to give gifts, host parties, or travel. Credit cards and buy now, pay later (BNPL) plans fit perfectly into this mindset. They seem to say, “Don’t worry about December.

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Minimum Payments, APR, and How Interest Grows in the Background

A credit card is not free money. It's a short-term loan with rules. When you swipe or tap, the credit card company pays the store on your behalf. At the end of the month, you receive a statement listing everything you bought and the total balance you owe. If you pay that full balance by the due date, you usually pay no interest on those purchases because of a grace period: the time between the statement date

and the due date. Trouble starts when you don't pay in full. The statement also shows a minimum payment: the smallest amount you must pay to keep the account in good standing. Minimum payments are often set very low, sometimes around 1–3% of the balance plus fees. Paying only the minimum can make a large balance shrink very slowly, because the remaining balance is charged interest every month. Card interest is quoted as an APR (annual percentage rate), such as 22% APR. Behind the scenes, this is broken into a daily or monthly rate and applied to whatever balance you're carrying. That's compound interest: you may pay interest not just on what you originally borrowed, but also on interest added in previous months. A very simplified example helps show the idea: The exact numbers depend on the card's formula, but the pattern is clear: the higher the balance and the lower the payment, the longer you're stuck. A "holiday splurge" can quietly become a long-term financial drag, limiting what you can do later: renting an apartment, buying a car, or saving for emergencies.

Buy Now, Pay Later: Helpful Tool or Holiday Trap?

Recently, Buy Now, Pay Later (BNPL) options have appeared on many websites next to the regular checkout button. They might say "4 payments of $25, interest-free" or "No payment for 6 weeks." These services spread the cost of a purchase into several smaller payments over time, often without traditional interest. For someone on a tight budget, that can feel like a lifesaver: you get the item now and pay in chunks that fit into your paycheck. However, BNPL has its own set of traps. First, splitting a price into smaller pieces can make the total feel less real. You might say, "It's only $20 every two weeks," and forget that you've done that three or four times on different sites. The payments start layering on top of each other, and suddenly your future paychecks are already spoken for. Second, many BNPL plans charge late fees if you miss a payment or if your bank account doesn't have enough money when an automatic withdrawal hits. Those fees can add up quickly and may not be obvious in the fine print when you click "Agree." Another issue is that BNPL is not always covered by the same consumer protections as credit cards. In some cases, disputes over damaged or missing items can be harder to resolve, and missing payments may eventually be reported to credit bureaus, hurting your credit score. BNPL is not automatically bad; used carefully, it can help you avoid running up a

credit card balance. But it is still debt. The key is to treat each BNPL plan like a real bill, because that's exactly what it is.

Building Better Holiday Habits: Planning Instead of Panicking

The good news is that you don't have to swear off gifts or cancel all holiday fun to protect yourself from debt traps. Instead, you can use a few basic financial literacy tools to stay in control. First, make a realistic holiday budget before the season starts. Decide how much you can afford to spend on gifts, travel, and food without needing months of repayment. Treat that number like a limit, not a suggestion. Second, if you or your family use credit cards, understand how much you can pay in full in January. If a purchase will take more than a month or two to pay off even if you try, you're not just buying an item—you're buying a long-term obligation. Third, if you do use BNPL, keep a simple list of every plan, how much each payment is, and when it will come out of your account. That turns hidden future bills into visible, manageable information. Finally, remember that non-monetary gifts—time, help, homemade items, or experiences—can be just as meaningful as expensive gadgets. Part of becoming financially independent is learning to balance generosity with sustainability. Holiday ads are designed to get you to think about this week. Good financial habits force you to think about next month and next year. When you do, you're less likely to wake up in March wondering why December is still following you around on your statement.

Key Information

Holiday Balance	APR	Minimum Payment (approx.)	What Happens If You Only Pay Minimum?
$300	22%	About $25	Paid off in a little over a year, extra interest paid
$1,000	22%	About $30–$35	Many years to pay off, hundreds in interest
$2,000	22%	About $45–$50	Could take a decade+ if you never pay more than minimum

Case Study Excerpt – Maya's "I'll Pay It Off in February" Plan

In December, Maya used her first credit card to buy gifts, holiday clothes, and a train ticket home from college. By New Year's, her balance was $900. Her card had a 23% APR. Maya told herself, "I'll just pay it off in February when things calm down." But January brought textbook bills and a phone repair, so she paid only the $30 minimum. In February, another unexpected expense hit: a surprise trip to the dentist. Again, she paid just the minimum. By March, her balance hadn't dropped much at all—most of her payment was covering interest, not the original purchases. Looking at her online statement, she noticed a small box labeled "If you make no more charges and only pay the minimum, it will take X years to pay this off." The number shocked her. Her "one-time" holiday debt had turned into a long-term bill competing with rent, food, and school costs.

1. Which choices did Maya make that allowed her holiday balance to linger and grow instead of disappearing quickly?

2. How did minimum payments and unexpected expenses work together to keep Maya stuck with her holiday debt?

Multiple Choice

1. In the reading, minimum payments on a credit card are risky during the holidays mainly because they:

a) Are illegal to use for holiday purchases under federal consumer protection laws today

b) Always pay off the full balance in one month

c) Automatically cancel all BNPL plans you have

d) Are so low that most of your money may go toward interest, not reducing the balance

2. Compound interest on a credit card means that:

a) Interest is charged only once per year, no matter what

b) Interest can be added to your balance, and future interest may be charged on that higher amount

c) You only pay interest if you never make a payment

d) You pay interest on your purchases, but never on previous interest or any penalty charges added

3. A potential problem with Buy Now, Pay Later (BNPL) during the holidays is that it can:

a) Automatically lower your credit card APR

b) Eliminate the need to track your budget at all

c) Make total costs feel smaller, leading to multiple overlapping payments and possible late fees

d) Force you to pay the full amount before you receive the item, in one checkout transaction online

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ APR (Annual Percentage Rate)	A) Interest calculated on both the original balance and added interest
2. ___ Minimum payment	B) Spreading a purchase into several scheduled payments over time
3. ___ Compound interest	C) Small required amount you must pay each month to keep the account open
4. ___ Buy Now, Pay Later (BNPL)	D) Extra charge applied if a BNPL or card payment is late
5. ___ Late fee	E) Yearly cost of borrowing, expressed as a percent of the balance

Fill-in-the-Blank

1. When you do not pay your credit card balance in full, the remaining amount is charged _____, which increases the cost of your original purchases.

2. The time between your statement date and due date, when you can pay in full and usually avoid interest, is called the grace _____.

3. Splitting holiday purchases into several smaller payments over time, often advertised as "4 easy payments," is an example of a Buy Now, _____ Later plan.

Short Answer

Answer each question in 2-4 complete sentences.

1. Using Maya's case study and the reading, explain how relying on minimum payments can turn a one-time holiday splurge into a long-term problem.

2. Describe one advantage and one risk of using a BNPL plan for holiday shopping.

3. Imagine you are helping a friend plan for holiday spending so they don't end up in debt. Based on the reading, list two specific strategies they can use before and during the season to stay in control.