

Credit Cards and How They Work



Introduction...

You've probably already seen a credit card. Maybe your parents have one. Maybe your friends' parents have one. Maybe you've just seen them used on television shows or movies.

They seem like the easiest way to buy the things you want and need. However, there is more to credit cards than just pulling a small piece of plastic out of your pocket. People who use credit cards are responsible for paying back the money. But how do "they" know who has to pay back how much money?

Who are "They"?

Banks give out credit cards. They are responsible for paying out the money to the stores, restaurants and other vendors who accept credit card payments. The banks then need to bill the credit card holder to get their money back.

How do the Banks Know Who to Bill?

The numbers on the credit cards all have meaning. The numbers on the card all mean different things.

The System (American Express, Visa, Mastercard, Discover Card, etc.)

Bank Number

Currency (Dollar, Euro, etc.)

Account Number

Once someone uses a card (makes a charge) the information gets sent to the appropriate bank so they know how much they need to charge each of their customers.

How Do Merchants Send the Information?

People used to have to write down all of the information and send it to the credit card company. The credit card company would then figure out who to bill for the money and who to pay for the charges. Now, much of it is done by computers. Credit cards have a black stripe on the back. It is called a “magstripe”. This stripe holds the same information that you can find on the front of the card. One swipe of the card and the information is transferred to the computer and sent to the credit card’s company or bank.

What are Debit Cards?

Debit cards look very similar to credit cards. The difference is that debit cards are linked to checking accounts or savings accounts. The money comes directly out of the account instead of being billed.

Find the Answers:

1. What are the different credit card systems?

2. What is a credit card holder?

- a. a person who uses credit cards
- b. a business that accepts credit cards
- c. a company that issues credit cards

3. How did businesses take credit card information before using computers?

4. Now businesses use (paperwork, computers or telephones) to transfer the billing information to the credit card companies.

5. Fill in the Venn diagram with characteristics about credit cards and debit cards.

