

Credit Cards: Use Wisely!

The Question: Do you need a credit card?

Pros:

- They can make expensive emergency situations, such as car breakdowns, easier to handle.
- Making your monthly payments on time allows you to establish a good credit record, critical for future large purchases.

Cons:

- If you can't pay off your monthly bills in full, you will end up paying more for your purchases over time.
- You might be tempted to spend more than your budget will allow. The result could be that your money will go to the credit card company (to cover payments and interest) instead of to your budget.
- Avoid bankruptcy at all costs! Bankruptcy stays on your credit history for up to **10 years** after you file.

Be Smart: Tips to Control Credit

- Select a card that does not charge an annual fee.
- Look for low annual percentage rates (APR). The higher the interest, the more you will have to pay later.
- Ask about additional fees like late payment, charging over your limit and maintaining a balance.
- Remember that the rates for cash advances are usually higher than your interest rate on regular purchases.
- Watch out for introductory offers. Interest rates usually go up considerably after only three or six months.
- Have only one card with a low credit limit. A card with a limit of only \$500 to \$1,000 will help you control your spending.

Recognize Risky Credit Card Behavior

You may have a problem with debt if you:

- ...use a credit card to pay off debt on another credit card.
- ...are at or near your credit limit on many credit cards.
- ...can only afford to make the minimum payment.
- ...ignore collection agency calls about unpaid bills.
- ...hide purchases or lie about your finances to your family and friends.
- ...have been declined from making a purchase because of insufficient credit.

If these statements sound familiar, strongly consider **getting help:**

Contact your credit card company. Ask if they can lower your interest rate or set up a more affordable payment plan.

Rethink your spending. Set up a budget. Be realistic about your spending and financial needs.

Get help from a local consumer credit counseling center. Avoid credit groups that charge fees. For more information, contact the National Foundation for Credit Counseling at www.nfcc.org.

Understanding Interest

Paying only the minimum monthly balance over a long period of time will have costly consequences. The chart below shows how credit card interest can pile up:

On a balance of \$1,000, this is the interest you'll pay, based on paying the same amount per month (at an interest rate of 18 percent):

Monthly Payment	Interest	# Months to pay off	Total You Pay
\$1,000	\$0.00	0	\$1,000.00
200	47.53	6	1,047.53
100	91.62	11	1,091.62
50	197.83	24	1,197.83
30	396.72	47	1,396.72
25	538.62	62	1,538.62
20	862.24	94	1,862.24

A more extreme example: you make a purchase of \$1,000 and decide to only make the minimum payment (2 percent of the remaining principal) each month. If you don't make another purchase on the card, here's what it will cost you:

Initial purchase: \$1,000
 Amt. of time to pay off: 232 months (19 years!)
 Total paid, with interest: \$2,931.33

That's a total of **\$1,931.33 in interest on your original \$1,000 purchase!**

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Fast Tip: Credit card debt can make it harder for you to get private student loans or purchase a larger item like a car or home.