BrightCourse

FACT SHEET

Credit Cards: Friend or Foe?

Savings Versus Credit

If you look at credit card statistics, it's clear that a lot of people are poking themselves in the eye. The average U.S. household has over $16,000 in credit card debt, but only $4,000 in savings. That means the average family has about four times more credit card debt than they do savings.

With savings accounts, a bank pays YOU interest. With credit cards, you pay the BANK interest. Usually a savings account will pay you back 0.5% interest—not a lot, but most credit cards will charge you 18% interest. That right there should be enough to keep you from buying things on credit. Instead of your hard-earned money going to you, your money is going to someone else. Do you really want to buy someone else a Lamborghini?

When you save money, it is money that belongs to you. You are able to budget, set financial goals, and save for the things that are important to you. Credit cards tempt you to buy things you don't have the money for. Now your goals are ruined, all because of the temptation to spend impulsively.

If you look at the flow of mone,y you can quickly tell when credit cards are good and when they are bad. If the money is flowing to you – that is a good thing, but more on that in a minute. When you use credit cards in a way that makes money flow away from you, you are using them wrong. It is just another tool that separates you from your money.

Pay It Off

Maybe you only have $2000 in long-term credit card debt, but it doesn't matter; the numbers are still working against you. If you are paying interest, then the money is flowing the wrong way, and that is hurting you and your family.

If you are paying more than the minimum payments on your credit cards – GREAT! If you are paying more than the minimum amount but you continue to buy things, that is NOT GREAT. That is like walking up the down escalator—you never make any progress, and you are just getting worn out! The simple rule is, when the money flows to you, then credit cards are good. If you can use credit cards and ALWAYS pay them off every month, then they can give you some benefits. Cashback cards will help the money flow in the right direction – as long as you pay off the debt every month! If you get 2% cash back, that is great! If you get 2% cash back so you can pay 16.9% interest every year for the rest of your life…not so great.

Credit Score!

Credit scores are ratings made up by credit agencies to help guess if you are a good person to lend money to. They are also used when you rent an apartment or apply for a job. They can be very important.
Many people believe you must have a credit card to have a good credit score. This is not strictly true. In fact, a credit card can ruin your credit score. But if you use them right, they can help your credit score. If you pay them off every month, that will be reported and your score should increase over time. As we have discussed, though, many households hold credit debt. If this debt is near your credit limit, your score will go down. Even worse, if you miss a payment, your score will really go down.

If you can always pay off a credit card, then use one to help your score. If you have trouble with high credit card debt and making the payments, it is better to cancel them and let other payments, such as a car payment or your phone payments, increase your score.

Conclusion

When you are able to pay off a credit card, on time, every month, that is the only time a credit card is good. Extra funds from credit cards can be there for when you're in trouble. But if you are always using credit cards to make ends meet, you will always be in financial trouble. Deciding to throw off this debt, and all those extra interest payments, will allow you to make better choices for you and your family.

Again, I know this personally. My $35,000 debt was not all from emergencies; it was created by many choices over time where I would use the cards in a pinch, or I saw something I wanted... No one forced me to use my credit card; just bad decision after bad decision led me there.

Resources:
1. http://www.bankrate.com/finance/credit-cards/current-interest-rates.aspx (10/14/2017)
2. http://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx
3. Picchi, A. (2020, February 12). Here's a top reason Americans are carrying an average credit card balance of over $6,200. Retrieved November 28, 2020, from https://www.usatoday.com/story/money/2020/02/12/credit-card-debt-average-balance-hits-6-200-and-limit-31-000/4722897002/