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When life happens...

Credit Cards: Strategies for Success

How to use credit cards effectively & strategically manage your debt

Credit for a Credit-Based World

Statistics show that the average consumer gets a credit card at around the age of 20 and holds 3-4 credit cards at any given time. So it's not surprising that there are currently just over 600 million credit cards in use in the U.S.

Credit cards are becoming an increasingly essential tool for American consumers. As online shopping and electronic transaction services take over the marketplace, it's becoming more and more important to have the right credit card with the right features for your needs.

At the same time, credit cards can add a lot of extra risk. If you overspend on plastic and rely too much on credit cards to cover cash flow gaps in your budget, you can wind up facing serious financial issues. This can ruin your credit, which means higher interest rates and more difficulty qualifying on things like your mortgage and car loan.

When Life Happens...

Although debt risk leads many consumers to avoid credit cards entirely, it's a much better strategy if you can use credit cards as an effective part of your financial picture. Getting the right credit cards and using them in a way that supports a healthy financial outlook will help you have lasting financial success. If you need help finding the right financial solution for your needs, visit www.Debt.com or call 800-810-0989.

The Pros and Cons of Using Credit Cards

Credit cards aren't all bad for your financial outlook, but they're not all good either. Here are some of the essential things you need to know before you start spending on credit.

The Pros	The Cons
Spread out the cost of big-ticket purchases over several months.	Pay more for purchases with interest added.
Earn valuable rewards on the purchases you make.	"Purchase acceleration" could mean you spend money just to earn credit card rewards.
Create a record of your purchases if you need it later for tax purposes or court hearings.	If you don't manage revolving debt effectively, you can end up facing severe financial distress.
Make reservations and shop online without putting your bank account numbers at risk of theft.	Late or missed payments can damage your credit score.
When used effectively, you can build a healthy credit profile.	Credit cards increase your chances of making impulse purchases.

When is a Credit Card the Right Financial Choice?

Credit cards are often blamed for financial issues, but they don't actually cause problems when they're used at the right time for the right reasons. As long as you have the means to pay off the debt quickly, there's no reason credit can't be used as an effective tool. It's when you use credit cards for the wrong reason that you get into trouble.

You should never use credit because...

- You want something and don't have the means to pay for it.
- You don't have money available to cover your bills.
- You're spending more than you earn and don't want to adjust your life.
- You just want to earn the rewards offered by your creditor.
- As a tool for getting extra money through cash advances.

Understanding Types of Credit

Credit cards are considered "open end" credit, because you don't borrow a certain amount of money upfront. Instead, the creditor agrees to lend you money up to a certain amount - your max credit line. You can make purchases on a credit card equal to that amount and then pay the debt off over time.

There are two essential distinctions that determine what type of credit card you have:

1. Is the account secured or unsecured?
2. Is the account revolving or 30-day?

Unsecured vs. Secured

Most traditional credit cards are unsecured. This is where a creditor offers you a credit line up to a certain amount based on your credit score. When you don't have good enough credit to qualify for an unsecured credit card, a secured credit card offers you a way to get credit by putting down a deposit. Your credit line is usually equal to the initial deposit amount you make.

Revolving vs 30-Day

A revolving credit card calculates a minimum monthly payment requirement based on how much you owe at the end of each pay period. Visa and Mastercard both offer revolving credit. By contrast a 30-day account expects that you will pay back everything you borrowed at the end of every month. American Express cards are 30-day credit, so you have to pay off your Amex in-full at the end of every month.

Choosing the Right Credit Card for Your Needs

The first step to effective credit use is choosing the right credit cards for your situation. Every financial situation is different, so you need to

choose credit cards that have the right features for you.

The following list summarizes the main factors you need to weigh when selecting the right credit card:

Interest

The APR you can qualify to receive on any card will be based on your credit score, but different credit cards can have different interest rates for the same consumer. For example, rewards credit cards tend to have higher interest.

Interest becomes more important the longer you take to pay off your debts. If you have a budget that allows you to pay off debt quickly, then interest isn't as big of a factor and you can focus on getting features like the right rewards. However, if you only pay minimum payments on your credit cards then interest is going to be really important, so you need to choose a card with the lowest interest possible.

Fees

Always make sure to check the fees that get applied to a credit card. Credit which seems like a great deal can end up being a burden on your budget once the added fees get tacked on. Make sure you can afford the fees for a credit card and know how fees would effect your payment schedule.

Credit Limit

Creditors will offer you a line of credit up to a certain amount based on your credit score. In some cases, you may be able to get a higher credit limit if you are willing to pay a higher interest rate. If you are an impulse shopper, a high credit limit can be a big risk, because you will have the ability to purchase high-priced items even if you don't have the means of paying back the debt.

Rewards

Creditors offer a wide-range of rewards programs, from travel miles and invitations to special attractions or events to cash back on your purchases. It's important to choose a rewards program that fits your life. Make sure to read the fine print to make sure the rewards are as good as what they're advertising.

It's also important to make sure your rewards aren't driving you to buy more on credit. "Purchase acceleration" is when you spend money primarily to earn a reward or reach a new rewards tier.

How Many Credit Cards Should I Have?

According to statistics, the avergae credit user has 3.5 credit cards, but some consumers can have up to 20 or more when you add in speciality cards, gas cards and store cards. So how many credit cards should you have?

In general, specialty and store cards aren't a good idea, because they usually have really high interest rates and strict repayment terms. You're better off having 1-2 traditional credit cards through a major credit provider.

You may also find it useful to have a few different cards for different circumstances. For example, you could have a cash-back gas card for your fuel and gas station purchases, but a low-interest credit card for major purchases that will take time to pay back.

Effective Credit Card Debt Management

Credit card payment schedules are not designed to help you pay back your debts effectively. It's actually in the credit card company's best interest to keep you in debt as long as possible since added interest charges maximize the creditor's profits.

On the other hand, there's usually nothing in a credit card contract that prevents you from paying off your credit card debts early. It's in your best interest to pay off these debts fast, since every month that passes means your debts cost more money. With that in mind, you need to design your own debt repayment schedule that allows you to pay off your credit card debt as quickly as possible.

There are three methods to pay off credit card debt effectively:

• **In-full payoff** means you pay off your balances every month. This minimizes the amount of money you have to pay in added interest charges, so it's the most cost-effective method.

• A **fixed payment schedule** means that you pay a certain amount of money every month regardless of how low your minimum payment requirements get. You just have to make sure your fixed payments are always more than your payment requirements if you make a big purchase. This is often easier on your budget, since you can plan for an exact amount of money needed every month.

• **Payment plus** is when you commit to adding a certain amount of money to your minimum payment every month. So, for example, you commit to putting an extra $30 to every payment you make, so if your minimum payment requirement is $15 then you pay $45.

Understanding Your Rights as a Credit User

There are several important laws that govern credit card applications, use, billing and credit reporting. It's important to understand your rights as a consumer so you know if your rights are being violated.
If so, contact the Consumer Financial Protection Bureau (www.consumerfinance.gov) to report the abuse.

Here are some of the laws related to credit use and how they affect the consumer credit industry:

Truth in Lending Act (1968)

Consumers have a right to a full disclosure of costs related to borrowing. A creditor must make you aware of all fees and charges related to the credit card in plain, understandable language.

Fair Credit Reporting Act (1970)

This act governs what can be reported in your credit file. It sets guidelines for both the kind of information that can be included and how long it can remain before it's removed. Under the FCRA, past credit mistakes cannot affect you forever.

Equal Opportunity Act (1974)

This act ensures that you cannot be denied credit because of age, gender, race, religion, marital status or sexual orientation. Creditors can only judge consumer credit worth based on impartial factors, such as your past credit use.

Fair Credit Billing Act (1974)

This helps ensure that as a consumer you can have legal recourse to have mistakes corrected on your bill. If charges or fees are incorrectly assessed on your account, you have a right to have those errors corrected. In addition, you cannot, by law, be held accountable for charges that you did not authorize.

Fair Debt Collections Practices Act (1978)

This landmark legislation controls how collectors can act when seeking payment on delinquent debts. It prevents collectors from engaging in harassing, abusive or illegal behaviors while attempting to collect a debt. If a collector violates the FDCPA, you have legal recourse and may be entitled to compensation.

Credit Card Accountability, Responsibility and Disclosure Act (2009)

The Credit CARD Act is relatively new legislation that attempt to prevent irresponsible lending practices. Increased approval standards make it harder for consumers to get credit and prevent creditors from preying on consumers who can't afford credit.

Notes

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About Debt.com

At Debt.com we're dedicated to helping you handle whatever life brings your way when it comes to money. We understand that being 100% debt-free isn't realistic for most people, so we have develop strategies to help manage debt. With the right plan, debt can be an effective part of your financial outlook and help you reach your goals - whatever those goals might be.

If you're struggling with debt and don't know where to turn, we can help. We have solutions to address most debt and credit issues. That's why we say, **"When Life Happens...Debt.com."**

Visit **www.Debt.com** to find solutions or call **800-810-0989** to find the help you need.

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