

Credit Card Debt

Contributed by Administrator
Friday, 11 April 2008
Last Updated Saturday, 19 April 2008

Credit Card Debt is the root of most debt problems. Consumers are presented with several credit card offers weekly. A lot trying to lure you in with a low balance transfer rate and introductory APR. The issue is that a lot of consumers are jumping in and signing up for too many credit cards.

Take a moment and read some tips on managing your current credit cards and using them responsibly.

Are You Ready For a Credit Card?

You may already have a credit card, but if you don't, you can be sure there will be many opportunities to get one once you arrive on campus.

Many credit companies set up tables in the common areas of college campuses to encourage students to sign up for credit cards. Often, they give away trinkets such as T-shirts, water bottles, frisbees, coffee mugs, etc. in exchange for having you fill out an application. Sound easy? It is, but think twice before you do it.

Unfortunately, many of the credit cards offered on campus may not be a good value for students. According to a study conducted by the U.S. Public Interest Research Group (PIRG), students who obtain credit cards at campus tables have higher unpaid balances than those who do not. Carrying high, unpaid balances is one of the quickest ways to incur too much debt and fall behind in payments. Why do Credit Card Companies Target Students?

Surprisingly, students are a good credit risk, despite the fact that they often do not have jobs and are also borrowing student loans. Research has shown that student borrowers are valuable customers because they tend to stay loyal to their first card, continuing to make purchases for many years to come. The Advantages of Credit Cards

Like loans, using credit cards can help you build a positive credit history. This can enhance your ability to receive a private student loan, buy a car, rent an apartment, get a job, and eventually, try to buy a house. Of course, there are other advantages to having a credit card including:

Security in emergencies; Reduced need to carry cash or checks; and Enhanced personal responsibility and independence. However, only one national card like a VISA or a MasterCard is necessary to receive these benefits.

Consolidate Credit Card Debt How Credit Cards are Billed

Unlike repayment on a traditional loan, such as a student or car loan, credit cards do not allow you to spread the amount you owe over a fixed period of time. Instead, you are required to make a minimum monthly payment, which is the smallest amount you can pay and still meet your cardholder agreement (the terms you agree to when signing up for the card).

The minimum payment is usually 2 percent of your outstanding balance. Unfortunately, by paying only the minimum each month instead of paying off your entire balance, your debt will continue to grow. Many credit card companies also charge late fees (usually 2 percent of the outstanding balance), and higher interest rates on cash advances. So, Are You Ready for a Credit Card?

As a student, you will have to decide for yourself if you can handle the responsibility of a credit card. They are easy to get but not so easy to manage, especially if you end up with a high, unpaid balance on which interest is accruing, but payments are not being made. According to the PIRG study, of the 79 percent of surveyed students who use credit cards for multiple purposes, only 13 percent reported limiting credit card use to emergencies.

When making your decision about a credit card, ask yourself the following:

Do I need a credit card?

Can I afford a credit card?

Will I be able to pay off my balance each month?

If you decide to apply for a credit card, be a smart consumer and shop around. Look for a company that offers the following:

Low interest rates or finance charges (combined, they are called APR)

Low or no annual fees

A grace period (time during which no payments are due) before finance charges are posted

Other benefits including purchase warranties, free gas, airline miles, etc. Credit Card Tips

Credit cards can be helpful in emergencies or if you are able to pay off the balance each month, but be wary! Credit cards can also get you into trouble. Here are some helpful hints on using credit cards: Fees

- Watch out for carrying balances. Some cards charge 20% or more in interest. (Interest is usually called "finance charges" on your statements.)
- Fixed rates aren't always fixed! A credit card company can change the rate by informing you 15 days before changing the rate.
- Look at your statement carefully and call the company right away if you have any questions.
- There is usually a large finance charge for cash advances and interest begins accruing as soon as you take the money out, not after the next statement closing.
- Be aware of annual fees. Many times you are charged \$50 or more just to have the card.
- Watch out for introductory offers! When you receive a credit card offer in the mail with a low rate, it may expire in three or six months. Note when and by how much the rate increases after the "introductory offer" expires. You may not remember when it expires, but the card company will.
- Think about your purchases. If you are not able to afford the purchase now, chances are you won't be able to afford it in a month when the credit card bill comes in! If you get behind
- Cut your recreational expenses.
- Call your credit card company. They may be willing to work out a repayment schedule with you.
- Develop a budget and stick to it! Everyone makes mistakes, but credit will follow you and hurt your eligibility for mortgages or loans down the road.
- Look into credit counseling services. Many offer educational programs or individual counseling sessions to help you get back on track. {jomcomment}