

## Credit Cards: What You Should Know

### Benefits vs. Cost

#### The Good:

- Emergency situations can be easier to handle.
- Paying the balance on time establishes a good credit record, critical for future large purchases.

#### The Bad:

- If you can't pay off your balance in full, you will end up paying more for your purchases over time.
- Excessive spending means that more money will go to pay off debt, rather than your budget.
- It takes seven years for anything to be erased from your credit rating, good or bad. Declaring bankruptcy stays on your report for 10 years.

### Understanding Interest

Paying only the minimum monthly balance over a long period of time will have costly consequences. The chart below is an example of 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: Say 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!**

**Fast Tip:** Excessive credit card debt can make it harder for you to get private student loans.

### Watch Out for Hidden Fees

- Annual fees: Find a card that doesn't have one.
- Annual percentage rate (APR) or interest rate: Rates vary. Shop and compare - pick one with a low rate.
- Introductory offers: Interest rates can go up considerably after only three to six months.
- Additional fees: Many cards have extra fees for late payment, exceeding your limit or maintaining a balance.
- Cash advances: The interest on cash advances is almost always higher than the interest rate on regular purchases. Use cash advances for emergencies only.

### 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/or 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](http://www.nfcc.org).

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