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### Avoiding Debt: Credit Card Do's and Don'ts

Avoiding debt is one of the best ways to prepare for a secure financial future. Many consumers, though, risk financial freedom by falling into credit card debt. If used properly, a credit card offers many advantages, such as protecting purchases, building credit, and it makes it easier to purchase expensive items without carrying cash. When used improperly, however, a credit card functions like a high interest loan rather than as a cash substitute. Many consumers learn that as debt builds, it becomes increasingly difficult to get out of debt. Low monthly payments, usually only 2 to 3 percent of the balance, and high interest rates keep consumers in debt for many years.

Knowing how to use a credit card is an important part of avoiding debt. Here are tips on inappropriate and appropriate ways to use a credit card.

#### **Avoiding Debt: Ways You Should NOT Use a Credit Card**

- **Dont charge what you cant afford.** Many consumers make the mistake of charging items that they are unable to pay for with cash. Generally, you are overspending and living beyond your means if you are unable to pay for the item with cash or payoff the balance at the end of the month.
- **Dont charge food purchases.** Paying with cash for groceries or for eating out can eliminate charges for items that no longer exist when the bill arrives. Paying interest on disposable items is unwise money management and not effective in avoiding debt.
- **Dont take cash advances.** Taking a cash advance will result in a higher interest rate on the advance amount, transaction fees, and no grace period. Without a grace period, the accumulation of interest begins the day the consumer takes the advance. Even if the balance is paid in full at the end of the month, the consumer still pays interest on the borrowed cash.
- **Dont purchase special services.** Many credit card companies offer products, such as credit card fraud protection and life insurance. These services are typically unnecessary for most consumers and are often overpriced.

#### **Avoiding Debt: Ways You Should Use a Credit Card**

- **Do create a budget.** Rather than relying on credit limits established by the credit card company, take an active role in avoiding debt by creating your own budget based on the amount of money you have in the bank.
- **Do use only for emergencies:** Sometimes avoiding debt in emergencies is impossible. If it is not feasible to pay for an item or service with cash, make the purchase with a credit card. To stay out of debt, make a plan for paying it down.
- **Do pay the balance in full each month.** Only make charges if you can pay off the entire credit card balance when it is due. Avoid interest charges by paying off the balance in full each month.
- **Do pay on time.** When a consumer pays a bill late, the credit card company can charge late fees and can raise the interest rate to the default rate specified in the terms of the credit card agreement. Default rates are sometimes double the standard rate.
- **Do limit the number of credit cards.** Having too many credit cards makes it more difficult to keep a record of transactions and to make payments on time. Most consumers need no more than two credit cards.
- **Do read the fine print.** Credit card agreements contain important terms about interest rates, late fees, and default rates. Credit card companies make money off consumers that fail to pay on time. Being educated about the terms can help consumers avoid paying fees and high interest rates.
- **Do keep a record of purchases.** It is important to pay attention to credit card bills in order to guard against errors and fraud. Comparing receipts with the statement will ensure that you do not pay for unauthorized or mistaken

charges. It is important to contact the credit card company immediately in order to receive protection from liability when fraud occurs.

- **Do leave your credit cards at home.** One of the best ways to stay out of debt is to leave your credit cards at home. Avoiding debt is easy when the only purchases made are with cash.

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