

# UNDERSTAND ADVANTAGES AND DISADVANTAGES OF CREDIT CARDS

Before you use plastic, whether it's debit or credit, it pays to know everything you can about the implied agreement you have with a credit card company the moment you swipe.

## ADVANTAGES

**Convenience** – Credit cards can save you time and trouble—no searching for an ATM or keeping cash on-hand.

**Record keeping** – Credit card statements can help you track your expenses. Some cards even provide year-end summaries to help out at tax time.

**Low-cost loans** – You can use revolving credit to save today (e.g., at a one-day sale), when available cash is a week away.

**Instant cash** – Cash advances are quick and convenient, putting cash in your hand when you need it.

**Perks** – From frequent flier miles to discounts on automobiles, there is a program out there for everyone. Many credit card companies offer incentive programs based on the amount of purchases you make.

**Build positive credit** – Controlled use of a credit card can help you establish credit for the first time or rebuild credit if you've had problems in the past—as long as you stay within your means and pay your bills on time.

**Purchase protection** – Most credit card companies will handle disputes for you. If a merchant won't take back a defective product, check with your credit card company.

**Balance surfing** – Many credit card companies offer low introductory interest rates. These offers allow you to move balances to lower-rate cards.

## DISADVANTAGES

**Overuse** – Revolving credit makes it easy to spend beyond your means.

**Paperwork** – You'll need to save your receipts and check them against your statement each month. This is a good way to ensure that you haven't been overcharged or incur any fraudulent charges on your account.

**High-cost fees** – Your purchase will suddenly become much more expensive if you carry a balance or miss a payment.

**Unexpected fees** – Typically, you'll pay between 2 and 4 percent just to get the cash advance; also cash advances usually carry high interest rates.

**No free lunch** – The high interest rates and annual fees associated with credit cards often outweigh the benefits received. Savings offered by credit cards can often be obtained elsewhere.

**Deepening your debt** – If you charge freely, you may quickly find yourself in over your head—as your balance increases, so do your monthly minimum payments.

**Homework** – It's up to you to make sure you receive proper credit for incorrect or fraudulent charges. Sometimes this includes filing a police report.

**Teaser rates** – Low introductory rates may be an attractive option, but they last only for a limited time. When the teaser rate expires, the interest rate charged on your balance can jump dramatically.