Debt Management
Using Credit Cards Wisely

Credit cards were first introduced to the public just over 40 years ago, in 1959. With the introduction of credit cards, consumers were given new choices in how to pay for costly purchases that they had previously had to save for and pay in cash. Using credit cards allowed people to purchase goods without having sufficient funds immediately on hand, and without reaching new terms every time they wanted to purchase on credit. Credit cards didn't create credit, they just simplified the process of receiving credit and made credit available to many more individuals.

Terms to Receiving Credit
When paid off monthly, credit cards become simply a means of consolidating purchases into a single location, and paying for them in a single payment to the credit card company. Although a small annual fee may be required, such arrangements avoid any interest charges or card usage fees. When credit cards are not paid off monthly, they become similar to loans from the bank in that they carry interest charges, minimum monthly payments, and a term for paying off the balance completely. Many credit cards charge interest rates around 18% for outstanding balances. Though this rate is higher than most loans offered by a bank, a credit card offers a great deal of flexibility that other credit vehicles do not. A credit card, for example, may have a maximum limit of credit to be extended to you, but until you reach that limit, you may purchase virtually anything you would like using your credit card, so long as your minimum monthly payment is being made on time.

Costs to Consider
In selecting, or keeping, a credit card, make sure you know and understand all the costs, rates and fees attached to the card. *Annual fees.* Many credit cards charge an annual, fixed fee just for the privilege of having credit extended to you from the company sponsoring the card. Annual fees can often be avoided entirely by shopping for a credit card that guarantees no annual fee. *Finance charges.* Finance charges vary widely. If you plan on maintaining an outstanding balance on your credit card, you will want to make sure you find the best interest rate on a card that meets your needs.

Income Tax Treatment Of Interest Paid
Interest deductibility can significantly reduce the total cost of paying off debts. Unlike the interest paid on most home mortgages, second mortgages, and some home equity lines of credit, the interest paid on credit cards is not income tax deductible.

Things to Watch For
Credit cards come in many "shapes and sizes". Some credit cards are targeted at groups with specific spending habits, payment habits, and credit histories. With so many credit card plans available, you must review the terms of your credit card options carefully. Many credit cards offer you a low "teaser rate" for the first six months to a year, then increase the rate you pay on outstanding balances dramatically. Some base your minimum monthly payment on a loan term that if the minimum payment is made consistently, could keep you in debt for 40 years or more. Fortunately, there is a great deal of regulation of credit cards requiring full disclosure of all relevant credit terms being extended by the card issuer. Be careful to review all credit documentation thoroughly before selecting a credit card for regular use.

Debit Cards
One alternative to credit cards is what has become known as "debit cards." A debit card is not a credit card at all. Rather than offering you credit (a loan based on predetermined terms), a debit card simply gives you card-based access to your bank account, or other account where you have an existing balance. A debit card gives you the convenience of not needing to carry cash, or even checks, but you must be mindful that when used your purchases are being deducted directly from your existing account -- once the account is empty, the card has no purchasing power until you make another deposit!