

CREDIT CARDS

ADVANTAGES AND DISADVANTAGES

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	Disadvantages
Convenience – Credit cards can save you time and trouble–no searching for an ATM or keeping cash on-hand.	Overuse – Revolving credit makes it easy to spend beyond your means.
Record keeping – Credit card statements can help you track your expenses. Some cards even provide year-end summaries to help out at tax time.	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 chafges on your account.
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.	High-cost fees – Your purchase will suddenly become much more expensive if you carry a balance or miss a payment.
Instant cash – Cash advances are quick and convenient, putting cash in your hand when you need it.	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.
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.	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.
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.	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.
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.	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.
Balance surfing – Many credit card companies offer low introductory interest rates. These offers allow you to move balances to lower-rate cards.	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.
Free credit score – Many credit cards provide you with your monthly credit score.	Negative credit – Late payments will negatively affect your credit.
Reservations – Most hotels and car rentals require a credit card or Mastercard or Visa-branded debit card for making a reservation.	Interest compounding – Most credit cards compound interest daily. This means that every day, the interest for that day is calculated and added to your balance.

Tips on Using Less Credit

You may be one of the millions of Americans who think it’s impossible to live without a credit card. You may also be one of the millions of Americans facing the consequences of this credit card dependence. According to a [recent Lending Tree article](#), American credit card debt reached near-record levels in 2024. So how do you break the trend and use credit less often?

1. Commit to a budget. Add up your monthly income, subtract your regular necessities and determine what's left. Decide how you want to spend what's left and don't spend any more. (Check out our article "Tips to Build a Better Budget" in this Kit.)

2. Take the plastic out of your wallet. Cut up your cards and resolve not to use them. If you need a convenient way to make purchases without using cash, rely on traditional or prepaid debit cards. If you need to keep a credit card, keep it where it is not readily accessible.

3. Pay off your outstanding balances. That will help you eliminate all the interest you're paying on debt, which adds more money to your monthly budget. Once you've paid off a balance, close the account. This will make it easier to avoid the temptation to charge more in the future.

4. Save for expected needs. Whether it's holiday spending or a summer vacation, estimate the costs and begin setting aside money in a savings account ahead of time. Then when it's time to pay for the gifts or vacation, the money is already there, and you're not tempted to spend more than you originally planned.

5. Get creative. Not sure you'll be able to secure a hotel or other reservation without a credit card? Many hotels accept MasterCard or Visa branded debit cards or a payment made through a site like

PayPal. They might even take cash. Note: If you use a debit card to secure a reservation, the company may put a hold on a minimum amount from that card, which could make the amount unavailable to you for a period of time. Call ahead to find out the company's policy.

6. Manage the cards you keep. It's true using a credit card helps you establish and maintain a good credit rating. If you decide to keep a card to help with your credit rating, treat it like a debit card. Use it exclusively to buy things you know you can afford and pay it off in full at the end of each month.