Credit Cards--30 Days to Reality

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A credit card can do almost anything that money can do—and some things it cannot do. A credit card makes it possible to buy now and pay with money you expect to earn in the future. With a credit card it is possible to charge almost anything from a trip to Bermuda to a new refrigerator to the new clothes you buy for your children. Credit cards are usually just a small piece of plastic that you present when you buy something. Because these cards are so easy to use, families must be making decisions constantly and must determine the family's "safe" debt load.

Credit cards are of several types—they are issued by oil companies, travel and entertainment credit card companies, commercial banks, and all kinds of retail outlets. Some credit cards can be used for 30-day accounts, but many of them offer a revolving credit feature. The consumer can pay for the merchandise or service over a period of several months. For this privilege they pay a service charge, ranging from 1\% to 1\% percent monthly on the unpaid balance. If families use revolving accounts, they must decide whether or not having the merchandise is worth the extra cost. Are they willing to spend money for the service charge or could the money be used to purchase other items that would improve the family's level of living? Money spent for service charge or interest cannot be used for something else. Making decisions about spending future income is more difficult than making decisions about spending money you have. No one knows exactly what is going to happen in the future—loss of job, reduced income, illness in the family could make it difficult to repay the debt.

As families make decisions about the use of credit cards, both the advantages and disadvantages of using them should be considered.

Advantages
- No need to carry cash when shopping or when on a long trip. Of course, traveler's checks can eliminate carrying large sums of money.
- Convenience of paying for one or two checks at the end of the month rather than several smaller ones. Merchants that offer credit often charge more since this service adds to the cost of doing business.
- Consumer will pay more for items if revolving credit is used. Merchants that offer credit often charge more than cash customers.
- Service charges can add to the cost of sales products, and this should be considered when making decisions about the use of credit.
- If a bank card or other type of card is used and the retailer has already received his money, the consumer may have more trouble getting satisfaction.
- No need to carry a lot of cash when shopping or when on a long trip. Of course, traveler's checks can eliminate carrying large sums of money.

Disadvantages
- Credit cards do not eliminate the danger of loss. Credit cards can be lost or stolen. Misuse of these cards by someone who finds them can mean considerable loss.
- Consumer will pay more for items if revolving credit is used. Merchants that offer credit often charge more than cash customers.
- Service charges can add to the cost of sales products, and this should be considered when making decisions about the use of credit.
- If a bank card or other type of card is used and the retailer has already received his money, the consumer may have more trouble getting satisfaction.
- Credit cards should be guarded as carefully as money, if not more so, because there is almost no limit to the losses which can result from their misuse.

Losses resulting from the illegal use of credit cards continue to increase through the use of counterfeit, altered, lost, stolen, and wrongfully appropriated cards. Dishonest people will pay up to $250 for a lost card, knowing they can charge many times that amount.

Credit Card Trends

Consumer debt continues its upward trend, with the debt for consumer goods other than cars showing the largest increase. This reflects the spreading use of revolving credit and use of credit cards. It is estimated that there are approximately 200 million cards in circulation in the United States, about 15 million of them issued by banks.

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Consumers are more willing to commit their future incomes to debt repayments. Reason for their willingness includes: rising incomes for families, increased job security, rising levels of employment, and the fact that more families are headed by persons under 25 years of age. Young families are frequent users of credit—their needs and wants for home furnishings, appliances, and cars are generally greater than their ability to pay. The number of personal bankruptcies is increasing, too, due probably to greater consumer awareness of the availability of bankruptcy procedures, and to higher consumer indebtedness.

Facilities for lending have grown tremendously. Lenders are willing to extend credit to more people and have adopted new and more flexible credit plans to make credit buying easier—namely, the credit card and the revolving credit account. Customers now are allowed to repay their debt in monthly installments, so revolving credit is being used for small purchases. Many of these purchases formerly would have been cash transactions or paid for on 30-day accounts. Almost 60 percent of installment credit outstanding in retail outlets is in the form of revolving accounts.

Bank credit cards are important in the western part of the United States. The Federal Reserve Bank reported that about one-third of the nation’s total credit outstanding under bank credit cards is concentrated in the western region.

Use of Credit Cards

When using credit cards, keep the following points in mind:

- Retention or use of a credit card constitutes acceptance of the terms under which it was issued, even though no formal agreement was signed.
- If you have complaints about the goods or services which you have charged, you must take it up with the merchant where the goods or services were bought. You may find it difficult to get cash refunds.
- Read the terms of the agreement carefully and be sure that you understand all of the conditions. There is anything which you do not understand, get your questions answered before you use the card.
- The credit card issuer may change the terms of an agreement if he so desires.
- If the credit card agreement states that the payment is due at a specified time from the billing date, you may want to find out if the “no interest” period begins on the date the bill was written or the date the customer receives it. It can make a difference.
- Credit card issuers keep in close touch with the credit bureaus, both to check prospective credit ratings and to report delinquent accounts. Your credit rating may suffer if any of your credit card accounts become delinquent.
- If the service charge on past due bills is 1 1/2 percent a month on the unpaid balance, that is really an 18 percent annual rate. On an account with a $500 limit, these extra charges could amount to $90 annually. You generally do not get credit card service for nothing. Extra cost for goods and services bought with credit cards are reflected in initial fees, “service charges,” and higher prices.
- In some situations the entire debt may be due without notice if you miss one payment, or at any time the card issuer wishes to collect it. He does not have to have a reason. Check and see what your credit agreement says about the due date.

You Have to Decide

You as a consumer must weigh the advantages and disadvantages of credit card use for yourself. No one is in a better position to know your financial position, your own strengths and weaknesses, and your personal values.

But to do this you must know the facts—make your decisions on the basis of these facts. You have the responsibility of getting the facts you need. Methods are being developed to try to give the credit card holder some protection.