

Getting a Handle on Credit Cards

Remember when making a purchase way back when, the cashier at the store always asked, "will that be cash or credit?" Fast forward to today and the phrase is now, "will that be credit or debit?" In its simplest form, credit means receiving recognition or praise for something well done. As a student, maybe you sought extra credit to bring up your class grade. And a good person will always give credit where credit is due. What was once a word tied to good nature or effort has now become a word associated with growing financial burden.

"Never spend your money before you have it." -- Thomas Jefferson

The ability to take on financial debt has been around for centuries. Clearly, Jefferson was not talking about credit card debt but he did warn about the perils of taking on too much debt and the risk of living beyond one's means. Sure a lot has changed from 18th century finance, consumers today want and expect efficiency for financial transactions and they want to have credit available for their every need. From buying a coffee at Starbucks to a washing machine at Home Depot we use the credit card. Technology continues to advance in pursuit of making financial transactions easier, faster, and a lot less labor intensive.

Now I agree we all need credit to take on some level of debt in order to manage our larger transactions. You've heard of good debt vs. bad debt but the bottom line is figuring out what is reasonable for you. According to bank lending standards, a healthy debt-to-income ratio for housing expenses will not exceed 28% of your income; your total debt to income (credit card payments, student loans, car loans, etc.) should not exceed 36% of your income. Anything over these figures suggests you are headed toward debt obesity.

The average U.S. household owes \$16,061 in credit card debt -NerdWallet

Total household debt in the USA reached \$13.15 trillion as of 12/31/17, the highest level ever recorded. -Federal Reserve

Here's how we can get a handle on credit card debt:

- Refer to credit cards by their rightful names: **Loan Cards**. Every swipe of the card is an instant loan and the cost for carrying a balance quickly compounds against you. It's great to earn points, cash rewards, and miles but if you cannot pay the full balance each month then make sure you have a plan to pay them off in a short period of time. Beware the enormous cost of borrowing.
- Try a **Debit Card/Loan Card Diet**. For 2 weeks plan out your discretionary spending and only use cash. Commit to a budget for 14 days and see how it feels to spend ONLY the money you have in your wallet. I've done it and I assure you it will be eye opening.
- Check your credit reports - www.annualcreditreport.com. See what you have outstanding and make sure no one else is listed on your report.
- Keep receipts for loan card spending taped to the front of your refrigerator until you've paid off the monthly bill. This will keep fresh what is owed in between billing cycles.

Last, this video is a must see, with Amy Poehler and Steve Martin...only 2 minutes long but it speaks volumes: "[Don't Buy Stuff You Cannot Afford.](#)"

I'd love to hear what you think about these suggestions or if this information may help someone you know.

Be well

-Kim

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