



Financial Education Resources

## **Credit Cards: The Benefits of Using Plastic**

It was still a couple of weeks until payday when the family's washing machine stopped working. Short on cash, they had only one option to get the machine fixed -- pay for the repairs with a credit card.

Without the ability to pay for that repair with credit, that family would not have been able to fix their washing machine, relays Dave Jones, president of the Association of Independent Consumer Credit Counseling Agencies. "Sometimes, people need their credit card to purchase groceries because they have been laid off. They don't have the cash to handle emergency situations -- whether it is a washing machine repair or the family car breaking down."

Emergency spending is one of several benefits of carrying plastic, experts say. Credit cards also allow consumers to be more flexible with their cash.

"A credit card allows a family of relatively modest means to borrow quite a bit of money for an emergency or for leisure," Jones says. "The key is to use that credit responsibly."

Credit cards can also help consumers stretch their monthly income, experts add. For example, if you find a needed or desired household item on the last day of a big sale -- but don't have the cash to make such a purchase until weeks later -- a credit card will provide that purchasing power for as much as 30 days (before interest kicks in and adds cost to the purchase).

"However, if you carried most of that debt on your credit card for six months, you have probably wiped out any savings on the purchase with the cost of interest," Jones says.

Another big advantage of carrying a credit card is convenience.

Credit cards "are physically easier to carry around than a checkbook," says Jake Engle, a certified financial planner with Wealth Planning & Management in Seattle. "And most people don't want to carry large amounts of cash around."

Charging even small items to a credit card allows a consumer to bypass stops at an ATM and avoid paying any fees associated with the ATM.

Credit cards can also protect consumers, experts say. For example, if you lose your credit card -- or it is stolen -- the maximum you'll have to pay is \$50 in fraudulent charges per federal law (and most credit card companies don't even charge the \$50). If consumers lose their purse or wallet, they are out all of the



cash they were carrying. Losing a checkbook can not only mean your bank account can be emptied, but the account number will have to be changed.

“Credit cards are also good when you’re traveling in a foreign country and you don’t want to have to carry around foreign currency,” Engle says. While there are fees for using a credit card abroad, consumers can forgo international ATM fees or the cost of traveler’s checks.

Responsible credit card usage, where you make your payments on time (and in full, if possible) each month, also helps consumers build a credit rating, Jones adds. “And when you apply for a car or home loan, the availability of that loan and the interest rate you receive will be based on your credit rating,” he says.

Credit cards are now also the only accepted type of currency in some places, industry observers say.

“Businesses such as a hotel or a car rental agency won’t even let you in the door without a credit card,” Engle says. “And credit cards make it much easier to purchase products and services online.”

In addition, many airlines now require consumers to bring along the credit cards they used to purchase their tickets when they check in for the flight. The same goes for advance movie passes purchased with a credit card.

Companies also tend to offer perks to credit card users. For example, most credit card companies run rewards programs. The rewards can add up if you use a credit card for much of your household purchasing each month. Typically, such rewards programs resemble those for frequent-flier miles -- the more you use a credit card the more points you accrue toward airline tickets, gasoline, and various products and services.

The best rewards plans offer cash back, Engle says. “Cash rules,” he says. “For example, frequent-flier miles can disappear if an airline goes out of business.”

Some credit card companies provide extended warranties, or price protection on items purchased on a card. A credit card company may also place a hold on paying a retailer or merchant who delivers faulty goods or fails to produce an order for a consumer who bought the goods using a credit card. That can be an easier alternative to stopping payment on a check or trying to collect cash back.

Other perks can include travel accident insurance, premium baggage protection and gift certificates for restaurants, among other items. A list of such perks is available at [CardOffers.com](http://CardOffers.com).

To avoid building up debt with a credit card, Engle suggests treating the card like an old-school “charge card” versus a “credit card.”



“In the old days, a charge card was there for convenience,” he says. “You could not use it to buy things you couldn’t afford as you would have to completely pay off the balance at the end of the month.”

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