

The Pros & Cons of Credit

Benefits:

- **Security:** Credit cards can be safer than carrying cash. Unlike cash, if you report your card lost or stolen, the card will be canceled, rendering it unusable.
- **No-Interest Grace Period:** Grace periods allow you to float money. If you pay the amount in full before the payment due date, you can essentially ‘borrow’ money interest-free. However, if you are late with the payment, you will be charged a penalty and your interest rate will likely rise.
- **Rewards & Rebates:** You can use credit cards that offer rewards or rebates. Some credit card companies are affiliated with airlines, allowing you to earn airline miles that, eventually, can be redeemed for free airfare or upgrades on travel. Other companies offer cash back awards. Keep in mind that these schemes can only work in your favor if you pay off the balance most, or all, months to keep your interest down to a minimum.
- **Online Management:** Similar to internet banking, credit card companies have websites and apps where you can check your credit balance and interest rates, and make payments easily and securely. You can also enroll in auto-pay so you never miss a payment.

Drawbacks:

- **Credit Limit Can Be Too High:** Credit card companies often extend credit limits far above a reasonable amount compared to a person’s income. This can leave a person in debt and it may take years to pay it down.
- **Too Easy to Buy Now, Pay Later:** Having a credit card can make it too easy to make a purchase now rather than waiting until you have the money saved for that purchase. If you make too many of these decisions, your debt to the credit card company could increase to thousands of dollars.
- **Identity Theft:** Using credit cards can increase your chances of becoming a victim of identity theft. It is important that you stay vigilant with your credit card receipts, only give your credit card number to trusted sites when making internet purchases, and scrutinize your monthly bill for any transactions that do not look right.