

Secured credit card

What do you mean by a 'secured credit card'?

Secured credit cards are another very popular breed of credit cards. Secured credit cards, as their name suggests, are secured. Well, they are secured for the credit card supplier, really. Secured credit cards require you to open an account with the credit card supplier and maintain some cash balance in that account. This cash balance acts as a security for the supplier of secured credit card. Your credit limit is dependent on the amount you hold in the account that you have started with the supplier of secured credit card. This is generally between 50 to 100% of your account balance. So in that sense, secured credit cards are not really credit cards (since they don't offer you any credit really). For this reason, the secured credit cards are sometimes also referred as debit cards.

Why is the concept of secured credit cards so important?

As we know, credit card debt is a raging problem which is caused by improper usage of credit cards. Such people end up spoiling their credit rating to an extent where they cannot get another unsecured credit card (that is what we call the commonly used credit cards). Even after they have paid off their dues and cleared their debt, their credit rating still haunts them. For such people, secured credit cards are a boon. Secured credit cards present them with an opportunity to not only get a credit card in the first place but also to improve their credit rating by using the secured credit card in a disciplined way (paying their dues in time, controlled spending, utilizing a maximum of 70% credit limit etc etc). As they continue with these good habits, their credit rating gradually improves over a period of time. Hence secured credit cards provide them with the means of rectifying their mistakes (credit rating).

It's not just the people with bad credit rating who go for secured credit cards. Some people go for secured credit cards because they don't want to bother themselves with the bills etc for credit cards. They don't like to even fill-up application forms for unsecured credit cards.

Then there are some who just don't like to borrow money (even if it means borrowing from a credit card supplier by using their credit card). However, such people are very rare to find.

Some people just go for secured credit cards because they have heard a lot of horrifying stories on credit card debt - maybe someone from their family or one of their friends was devastated by credit card debt and they don't want to repeat the mistake. So they decide to go for a secured credit card.

Whatever be the reason for going for it, the secured credit cards are surely popular too.