

Credit card debt

A problem called 'Credit Card Debt '

Credit cards are no more a luxury, they are almost a necessity. So, you would imagine a lot of people going for credit cards. In fact, a lot of people possess more than one credit cards. So, the credit card industry is growing by leaps and bounds. However, the credit card industry and credit card holders are posed with a big problem called 'Credit Card Debt'. In order to understand what 'credit card debt' actually means, we need to understand the workflow associated with the use of credit cards as such.

Credit cards, as the name suggests, are cards on which you can get credit i.e. make borrowings (your credit card debt). Your credit card is a representative of the credit account that you hold with the credit card supplier. Whatever payments you make using your credit card are actually your borrowings that contribute towards your credit card debt. Your total credit card debt is the total amount you owe credit card supplier. You must settle your credit card debt on a monthly basis. So, you receive a monthly statement or your credit card bill which shows your total credit card debt. You must pay off your credit card debt by the payment due date failing which you will incur late fee and interest charges. However, you have the option of making a partial (minimum) payment too, in which case you don't incur late fee but just the interest charges on your credit card debt. If you don't pay off your credit card debt in full, the interest charges too get added to it. So your credit card debt keeps on increasing, more so because the interest rates on credit card debt are generally higher than the interest rates on other kind of loans/borrowings. Further, the interest charges add on to your credit card debt each month to form the new balance or the new credit card debt amount. If you continue making partial payments (or no payments) the interest charges are calculated afresh on the new credit card debt. So you end up paying interest on the last month's interest too. Thus your credit card debt accumulates rapidly and soon you find that what was once a relatively small credit card debt has ballooned into a big amount which you find almost impossible to pay. Moreover, if you don't still control your spending habits, your credit card debt rises even faster. This is how the vicious circle of credit card debt works.