

“Just Borrowing Trouble from Tomorrow”

By Renita M. Owens, CPA, PFS

Julie was a college junior, intelligent enough to be awarded a National Golden Key award. Then she was offered the National Golden Key credit card. “I can handle that” she thought. “After all, everyone needs a credit card for emergencies.”

All went well for a while. Intermittently, Julie would charge something and pay the card balance in full when the statement arrived. That was, until the trip to a concert in Atlanta required a little extra cash. Ten thousand dollars and several months later she wondered how things could have gone so wrong. And she was one of the fortunate ones.

As a Certified Public Accountant in downtown Greenville, I have advised adults with debt management problems over the past 40 years. One young lady declared bankruptcy while owing \$60,000 in credit card debt. An older professional who started a business without proper billing procedures in place lost his home and filed for bankruptcy with credit card debt in excess of \$150,000 – and he was still receiving offers from credit card companies wanting him to sign up for their “low” interest rates!

Unfortunately, men and women of all ages have been caught in the trap. Young adults may be bailed out by their parents two or three times before learning the hard lesson and starting to manage their debt. Some have no help from others and spend years drowning in a sea of debt that they can never overcome.

It is easy to understand why credit card abuse is so prevalent, especially among women. Teenage girls in the United States develop a low self-esteem that is exacerbated by peer pressure and the media.

You just must have the right brand name imprinted on your jeans and the most up-to-date car, accessories, cell phone, and more to prove that you are worthy to be part of the group. Teenagers on television and in the movies appear to be perfect. They wear the trendy clothes and drive the expensive cars and are not burdened with how they will pay for it.

There may be even more pervasive cultural elements that affect our spending habits. According to Stephanie Owens, Ph.D., Educational Psychology, “Even our grading practices in the education system teach children that their merit or worth must be determined externally. Grades teach kids how and what to do to feel good or bad about themselves. ‘If I do well, I get a reward’ soon mutates to leave out the hard work. ‘I feel good if I get that reward.’” Even when we have no money, we can get the reward and then feel good without having to do the work. We just use a credit card.

My informal discussions with young women who started their poor debt management habits as teens, reveal that they manage to pay as they go for the necessities. Rent, gas, basic clothing, and groceries are normally paid for by cash or check. The credit card is used for those extras that you just do not have enough money for.

Then the spiral downward begins. The second or third month after the credit card is used, the statement comes in but no money is currently available to pay the bill. The payment is mailed a couple of days after the due date. The next month there is a large late payment fee. After that the credit card company increases the interest rate, and before you know it, there is an over-limit charge, a late fee, and a minimum payment that is so large it is rarely

paid. Furthermore, if the cardholder pays JUST the minimum payment each month, it can be almost impossible to get out of debt. For example, an \$8,000 credit card balance where a 19.5% interest rate compounds daily, may require a minimum payment of the greater of \$25 or 2% of the balance each month. At that rate it would take over 44 years to pay the balance in full if no additional purchases are added to the account.

If you think you can charge a purchase and pay the balance in full each month, beware. Some cards require payment by the 25th day after the purchase or sooner, and you may not have even received the statement in the mail by then.

Looking at the broad picture, when thousands default on credit card debt that has become impossible to pay, who are the victims? Often they are single moms, college students, or entry-level employees who must postpone years of home ownership and/or economic freedom of being debt free. The victims are also those who pay their debt in a timely fashion only to be affected by the higher interest rates that creditors must charge to overcome the high percentage of bad debts that they must write off.

So, is it possible to get out of the debt trap? Can one possibly dig out of the hole she is in while paying for current needs?

There is nothing more gratifying than actually taking control and paying off debt on your own. It is extremely difficult to do this, but most things worth doing are not easy. You start by making a conscious decision about EVERY purchase you make. Is it a want or a need? You do NOT go shopping. Shopping is not a hobby or a way to spend your free time. When you go to the store or mall to make a needed purchase, you do not wander around and look at all the fashionable clothes that may end up just hanging in the closet anyway. You go straight to the appropriate department and make a conscientious effort not to buy

anything that is not on your original shopping list. You do NOT fall for the subliminal message that the news media sends that the consumer will bring back a healthy economy. You cannot single-handedly help the economy – especially if you are mired in useless debt. Huge interest payments and late fees do not help the gross national product.

One single mother I know says that she woke up one day and realized that she was just, “borrowing trouble from tomorrow.” Her parents had helped cover her huge credit card debts at least once before, and now she was in trouble again.

“Sometimes I made credit card purchases for food and clothing for my children because the child support payment was late. But mostly, the credit card was used for the extras – the ‘wants’, not the ‘needs’.”

One of the best resources in the Upstate to help you crawl out of the deep hole your debt has pushed you into is Compass of Carolina. This credit counseling service will help you negotiate a lower interest rate and/or balance thereby enabling you to liquidate the debt sooner, and use of a counseling service does not hurt your credit rating. In fact, your credit is protected better when you show the initiative to responsibly pay your bills than when you are consistently 30 days late with payments. And remember, one payment that is 60 days late will affect your credit history for years to come.

As a CPA who offers financial planning for individuals, I can help with debt management and expanded goals to save for purchase of a home, education planning and true financial independence with investments and retirement planning.

Most importantly, the desire to do the hard work required to pay off useless debt and enjoy the freedom of becoming financially independent must come from within. Women of the Upstate especially need to learn that we are persons of value. We do not have to look like and “keep up with the Jones’.” Our worth is not determined by things – we are more than our possessions.

The following excerpt was taken from an article entitled “Counseling Clients on Credit” by Lee E. Knight and Ray A. Knight from the February 2000 edition of The Journal of Accountancy.

Tips for Managing Credit Cards

1. Avoid excessive finance charges by paying account balance in full each month.

- Watch out for cards that start accruing interest on the purchase date. The best remedy for this problem is to switch cards. Most issuers don’t charge interest on purchases if you pay your balance in full by the due date (see 2, below) and interest usually doesn’t start accruing until the purchase is posted to the account.
- Unlike purchases, the interest clock on cash advances usually begins on the transaction date and sometimes at a higher rate and with an added fee (up to 4% of an advance with no limit). The solution: Avoid using a card for cash advances.
- Most issuers assess a late charge (\$20 to \$29) if a payment arrives after the due date-even if it’s the U.S. Postal Service’s fault. The solution: Mail early (as much as 8 to 10 days before the due date).

2. If you are unable to pay your account in full each month

- Shop around for the card with the lowest interest rate (contact Card-web at 800-344-7714 or www.cardtrak.com to find the lowest rate).

- Pay more than the minimum each month (for example, if you carry a \$3,000 balance at a 17.5% rate and pay only the 2% minimum each month, it will take 33 years to retire the debt. Interest charges on this \$3,000 loan total \$6,658).
3. **Contact your credit card company before switching cards to see whether it will match a competitor's offer.**

 4. **Beware of low introductory rates.**
 - The rate may stay low only if you make monthly payments on time; otherwise, it may increase to 20% or more. Protect yourself by reading the fine print.
 - After you grab the low-rate card, the issuer may sell its credit card operation to another company that immediately increases the rate. The solutions: Shop for another card.
 - The rate that goes into effect after the introductory period may exceed competitors' rates. Again, read the fine print.
 - A low-rate solicitation doesn't mean you'll qualify for the card (for example, if you have a blemish on your credit record). If you're offered an alternative-for example, a card with the same low rate provided you secure it with an up-front savings deposit-don't accept this offer because the effective rate may be three or four times the stated low rate.
 - The low rate may apply only to balances you transfer from other cards; thus, again read the fine print.

 5. **Know your grace period - that is, the number of days before you must pay for your new purchases without incurring interest.**
 - Shop for the card with the longest grace period. The typical grace period used to be 30 days, but now 25 days is common. Some companies have reduced it to 20 days or none at all.
 - Look for a grace period calculated from the statement date rather than the transaction date. In the latter situation, you may buy something at the beginning of the billing cycle and be late paying for it by the time you receive the statement.

 6. **Avoid the 'write yourself a loan' solicitation because it's nothing more than a cash advance (interest from the transaction date and perhaps a fee).**

7. **Don't count on the high credit limit (\$100,000, for example) marketed with 'platinum' cards. The average limit approved on platinum offers is only \$6,000.**

8. **Limit the number of credit cards you use if you don't pay you balances in full each month. Paying only the minimum on each exacerbates the problem illustrated in 2, above.**

9. **Use debit cards instead of credit cards. Debit cards reduce bank accounts immediately or in one or two days.**

In addition to financial consultations, Renita specializes in tax and estate planning and audits, reviews and compilations. She also offers securities through Capital Investment Group, Inc., Member FINRA & SIPC (17 Glenwood Ave. Raleigh, N.C. 27603) Affiliated with CIC Advisers, LLC. Renita M. Owens, CPA, LLC is located at 1441 Augusta Street, Greenville, SC.