CREDIT the kiss of debt!

When you see TV commercials about people deep in debt, who comes to mind? Probably forty-year-olds with three kids, a new house, a flat-screen plasma TV, a new hybrid car in the driveway, and nickel-plated kitchen appliances that look like small nuclear reactors.

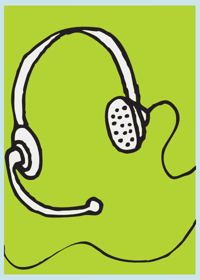
Not necessarily. Twenty-somethings just a few years older than you already have debt that's growing faster than America's landfills — mainly because credit card companies have figured out how to exploit the American consumer's addiction to instant gratification and mountains of stuff.

Your 15-second finance degree

Most Americans borrow (mostly on credit cards) for furniture, clothing, food, and luxuries — in short, for things that go down in value or, worse, completely disappear after the money's been spent. To remain as debt-free as possible, borrow money only for things that go up in value. In other words, borrow money only if it's going to make you more money over the long run (think *education* and *real estate*).

Second, borrowing — no matter what it's for — will jack you up if you don't have a way to pay back the money. Just google "credit card horror stories" to find out how much trouble it can cause.

Best rules of thumb in today's economy? Learn to spend less than you earn; and when you do borrow, make certain you understand what kind of payments you're looking at.



When it's good to be a "deadbeat"

Granted, a certain amount of debt in life is manageable IF you're smart: If you're going to use a credit card to buy three deep-dish pizzas for 15 friends, make sure you become a "deadbeat" who pays off his or her credit card bill every month. That's what credit card companies call a person who pays off his or her balance every month (because they can't make money off you if they can't charge interest on your growing debt).

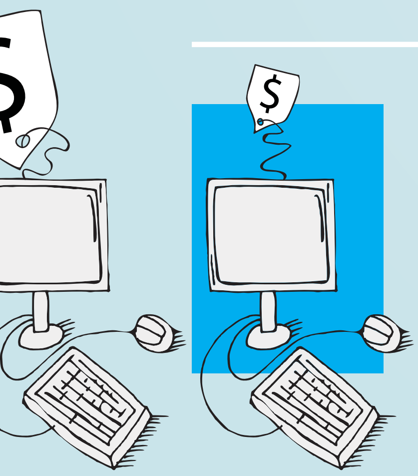
Credit card companies prefer "revolvers" who always owe money on their cards. Revolvers are the "sweet spot" of the banking industry, according to Ed Yingling, president of the American Bankers Association, who was quoted in a *Frontline* interview about the credit industry. Today, the average family owes between $8,000 and $17,000 on credit cards, which helped generate more than $30 billion in profit for American credit card companies last year.

like Credit — it's the kiss of debt. Resist! Easy to say, hard to do, worth the effort. I plan on bein' a "deadbeat."

like Who cares about what I owe? Just call me a doomsday prepper. No one's gonna be around to make me pay up.

like Livin' like my grandparents did — use it up, wear it out, make due, or do without.

like Whoa, iTunes bill in the triple digits . . . Well, it's just plastic. So someone put me up on some new music I ain't heard yet . . . tryna get a new mix poppin'!



What "deadbeats" know that revolvers don't

Banks and credit companies make billions each year by charging *compound interest*. This means they apply interest not only to the charges you make, but also to the interest you accumulate.

At the same time, those companies require you to make a very low minimum payment each month. For example, if you owe $2,000, your company may ask you to pay only $40 a month.

Manageable, right?

But with an 18% interest rate, it'll take you **30 years** to pay that amount off, and you'll end up paying **$4,927** — more than twice the amount of your original debt.

like That's absolutely predatory! There should be a limit to the interest they can charge.

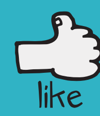
like Hey, it's economic Darwinism, survival of the financially fittest! Companies have a right to make money.

like And that's if I never use the card again? Yeah, right! I'll just double my monthly payment so I can be debt-free in *three* years and pay only $526 in interest. You just need to understand how compound interest works.

like Do I really want to be payin' interest on a box of cereal five years after I've eaten it? *Not!* I'm strictly cash and carry.

What do you like?

Read the comments and circle the "thumbs up" icons of the comments you agree with.



Rein in your debt

Join the geezer squad

Here's a weird way to motivate yourself to start saving: Imagine yourself as a senior citizen. According to a recent study, people who see age-progressed images of themselves are likely to spend less, save more, and be better prepared for the future than those who don't bother thinking about their golden years. Check out these apps to "face" your future:

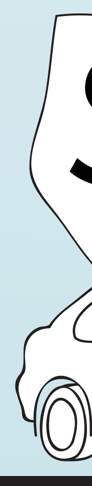
Oldify
www.oldify.net

AgingBooth
www.facebook.com/agingbooth

Identify your "latte factor"

A handy calculator developed by David Bach enables you to determine exactly how much money you spend on "little" things like magazines, coffee, bottled water, and snacks. Did you know that a one-a-day coffee and muffin jones could cost you more than $1,800 a year? According to Bach, removing these dollar drainers from your spending habits could make a difference between accumulating wealth and living paycheck to paycheck. Calculate your latte factor at:

https://financialmentor.com/calculator/latte-factor-calculator



alert

buy now, pay more later

Deadbeats are also probably familiar with some of the practices of credit card companies, like:

- raising your interest rate from 18% to 28% or more if your payment is late (the nation's largest credit card company, Bank of America, will bump your interest rate to around 30% if you make late payments). It may even make your payment due on a holiday or a Sunday in the hope that you'll trip up, notes Robert McKinley, founder of a payment card research firm.
- adding a $60 "penalty fee" for a single charge if that charge puts you over the total amount you're allowed to have on your credit card.
- adding a penalty fee or raising your interest rate if you take out another loan (for example, from a car dealer or big-box store that offers you its own card). The company may claim that the extra debt causes you to be "overextended." It'll raise your interest rate as a protection against the possibility that you're not going to be able to pay back the amount on your credit card.

If I try to charge something that goes over my limit, the company should refuse the purchase. Instead, it always lets the charge go through. That just gives the company a chance to charge me the penalty fee simply cuz I made a mistake.

D'oh! So go online to check your balance before heading out. That way, you'll know how close you are to your limit.

Lawyers bury all those penalty details in fine print and unreadable language. Who even reads that stuff anyway?

Dude, not readin' the details? Then you should be held responsible for spending money you don't have or for going over your limit. That's real life!

4U or 4them?

Credit-card companies enlist retail stores to provide text-based special offers that customers can redeem when they show the text messages on their mobile devices at nearby store locations. If you're a "revolver," VISA will make money off your purchase by charging you interest every month, and the retailer will make a profit off its sale to you. What'll u get?

A way wicked pair of selvage straight-fit jeans with a rigid rinse. ♥ Sign me up!

A big bill. I'd rather save my benjamins for gas. That's *my* idea of being mobile.

Perhaps a good deal — IF, and only if, I need something and they're offering a great discount. Otherwise, I'll purge the urge to splurge.

Got an epic to-do list. No time to shop.

A "free" ride — for whom?

In an exclusive interview with *Frontline*, former Providian Bank CEO Shailesh Mehta explained how his company successfully offered "free" credit cards to low-income customers who didn't know that the cards carried heavy hidden fees on late payments, and penalties for charging more than the card limit allowed. "When people make a buying decision," Mehta said, "they don't look at the penalty fees because they never believe they'll be late. They never believe they'll be over the limit, right? ... Our business took off. ... We were making a billion dollars a year."

before u buy

Ask yourself:

- Is this something I *need*?
- Do I already own something that could serve the same purpose?
- Can I borrow one, find a used one, or make one instead of buying new?
- Will it serve more than one purpose?
- Will it be easy and inexpensive to maintain?
- Can I recycle it when I'm finished using it?
- Can I wait a month before I decide to buy it?

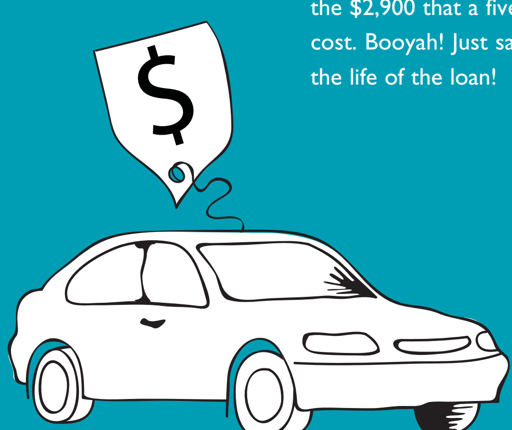
how would you buy a $4,000 used car?

- You borrow the $4,000 from the car dealer, which will probably sell the loan to a finance company that charges about 24% interest.
- You get five years to pay it off, which will cost you about $115 a month (with the assumption that you can make all your payments in full and on time!).
- You end up paying about $6,900 for the car, once all the interest is added up.

I'm tired of bummin' rides. It'll be worth the extra $2,900 in interest just to have my own wheels.

- You borrow the $4,000 from the car dealer, which will probably sell the loan to a finance company that charges about 24% interest.
- Forget the five-year plan! You insist on a two-year plan cuz you know it'll cost less in interest.
- You pay $211 each month, for a total cost of $5,075.

Payments are high each month, but my part-time job will cover them. Total interest will be $1,075 compared with the $2,900 that a five-year plan would cost. Booyah! Just saved $1,800 over the life of the loan!



- You save $211 every month until you're able to pay cash for a car that costs $4,000.
- It takes you 18 months to put aside the cash.
- You position yourself to strike a great deal, since lots of businesses are willing to negotiate a lower price for customers who can pay cash.

At least I won't have to pay for car insurance or oil changes while I'm putting aside the cash. I'll save between $1,000 and $2,000 in interest, and if I can negotiate a better price I'll save even more when it comes time to buy!