

Why Credit Cards are a Bad Idea.

Credit cards are just so convenient, aren't they? There's no need to carry any money with you ever again: you can just take one with you to the shop and pay the exact amount just by handing it over. If you haven't been paid yet, then you don't need to worry, because the money will still be there.

When you shop on the Internet or over the phone, it's the only good way to do it – what else are you going to do, post a cheque? Like anything convenient, though, credit cards have a flip side – in fact, they have lots.

Can You Keep Track?

When you walk into that shop and hand over the card, the money is taken from the card, and the card goes back into your wallet. You still have all the things you started with – there's no less money in your purse or wallet to remind you of what you've spent.

Everyone has a tendency to underestimate what they spend, and smaller amounts can add up quickly on a credit card without you even noticing. It's like taking the way phone bills work and applying it to everything you buy – and that can't be a good idea.

Money For Nothing.

Using credit cards is a great way of losing a percentage of your income to a credit card company in exchange for nothing. The moment you run a balance, you're paying them interest. Not only that, but you're paying your credit card bill as soon as you get your wages, so you don't have the chance to earn any interest on them from your bank. When you think about it, you're losing out twice over – and for what?

Designed to Keep You in Debt.

Your credit cards are trying to keep you using them and paying interest. You will find it very difficult to pay off all your credit cards once you have them. The company will do everything they can to stop you paying before you've paid them lots of interest. The more debt you show you can pay back, the more they'll try to offer you, until they get you to the point where you can't pay.

The Lie in the Name.

Credit cards are called credit cards to avoid saying what they really are: debt! You will do much better in all things connected to credit cards if you always remember this simple mantra: credit cards are debt cards. Use the word debt as often as you can whenever you talk about credit cards.

But Sometimes You Can't Avoid Them.

When you need money in an emergency and you just don't have any, there's no doubting that credit cards can be useful. They are also a very useful way of proving to credit rating agencies that you can handle debt, and this will be taken into consideration when you apply for car loans or a mortgage.

Just remember that whenever you handle credit cards, you're playing with fire. Do everything you can to keep your use of them to a minimum, and you'll have a much better financial life.

Credit Card Cheques and Cash Advances

Once you've got a credit card, you'll find that you can do more with it than just pay for things with the card. You might be sent a credit card chequebook, for those times when you're paying someone who can't accept your card.

You might also be offered cash advances – a way of withdrawing cash directly from your credit card, either to your bank account or from a cash machine. This is designed for when you need cash in an emergency. You really shouldn't overuse either of these features, and here's why.

You Pay More Interest.

With most cards, cheques and advances are charged at a much higher rate of interest than normal spending. You often give up any interest-free period (which can be up to two months), meaning that you start paying interest on the money literally from the minute you spend the money. Not only that, but most cards will also charge a fee each time you use cash advances or credit card cheques – and using an ATM may increase the fee even further.

It Marks You Out.

When you use a credit card cheque or accept a cash advance, you're showing that you're not just using a credit card for convenience – you really need the money. This marks you out in the credit card company's records as someone who shouldn't be given a good deal. After all, you won't be going anywhere.

Try to Spend With the Card Instead.

Instead of using cash to pay for small things and finding you have to take advances or use cheques to pay for bigger things, it's better to do it the other way around. If you're in a situation where you're relying on advances, you should start using your card for smaller things where you wouldn't usually bother, just to avoid taking the advances and paying more interest. Be strategic in how you spend.

Remember that there are very few bills now that must be paid for by cheque, so there aren't many reasons to ever use credit card cheques. If you're willing to call them up and wait in their queue for a while, the chances are you can get them to accept a credit card payment just by you reading the number.

Look Out for Advance Limits.

If you start relying on cash advances, sooner or later you'll probably run into an advance limit. The credit card companies don't advertise it, but many of them have limits on how much of your balance can be cash advances and how much must be in purchases. Try to find out these limits before you start taking advances.

Remember They Get Left For Last.

When you pay back your credit card debt, most lenders will put your payments towards the lowest-interest money (your purchases) first, and then towards other lending. That means that you keep paying that high interest on the cash advance or cheque until you get your balance all the way down to zero.

How Your Credit Rating Affects You, and How to Check It.

You might not know it, but every time you take out any kind of loan or credit or pay something back, it gets counted on your credit rating. Who keeps a record on you will vary according to where you live, but the big three credit reference agencies are Experian, Equifax and Trans Union. They will provide your credit rating to any company that is thinking of lending you money.

What is Included in Your Credit Rating.

All the debts you currently have are included in your credit rating. There is a history of all the debts you've had in the past ten years or so, and special emphasis is put on anything that has gone wrong. Defaulting (never paying) on any debt will ruin your credit rating completely. Borrowing a lot before you start paying anything back will make you look like a very bad risk, and so will going all the way up to (or even over) your limit on a credit card.

It is also worth considering that the credit reports of anyone you live with may be linked to your report, and could reflect badly on you – your wife or husband's credit rating is tied to yours quite closely.

How Your Credit Rating is Worked Out.

The most common method of coming up with your rating is called 'FICO', named after the Fair Isaac Corporation, who invented it. Your current credit status is prioritised, in this order: whether you've paid past debts, how much debt you currently have, your credit history, the types of debt you use, and how many times your rating has been checked recently. Things that happened more recently are given more weight than things that happened a long time ago.

Why Your Credit Rating is Important.

Any time you get turned down for a credit card or any other loan, the chances are that it was because of your credit rating. Companies giving out small loans are far more likely to rely completely on this rating than to bother checking your income, and a worse rating will mean that you are offered a higher interest rate.

Your rating is important when you get car loans and mortgages too. You don't want to find a house you love only to get turned down for the mortgage thanks to your habit of paying your credit card bills late.

How to Check Your Credit Rating.

Credit reference agencies can't hold your information on file without telling you what it is they have. If you write them a letter and pay a very small fee, they have to send you the full credit report that they have about you.

You can then check over your credit rating, and send a letter back to the agency telling them about anything that you think isn't right. You might find that a screw-up has made you look bad when it wasn't your fault. They will include anything you send in your file.

In some countries, you may find that you can sign up to get credit reports regularly for a small fee, or even for free! Make sure to check your local laws.

Finding the Right Credit Card.

There are so many credit cards out there to choose from that deciding which one to get can feel really daunting. What makes one offer better than the hundreds of others you've seen? Take this little quiz to find out what you should look for in a card.

First, Are You a Student?

If you are, then you'll be best off with a student card – you'll probably have trouble getting accepted for anything else. It would be best to contact the bank where you have your student account before you do anything else.

Do You Have a Balance to Transfer?

If you do, then you need to be looking for a card with a low APR on balance transfers – preferably one that stays low for more than a few months, unless you intend to switch often.

Are You Planning to Make New Purchases?

If so, then pay more attention to the APR for purchases, which is usually entirely different to the one for balance transfers. You should also look at what kind of grace period different cards offer, so you don't end up paying interest on your purchases straight away.

Do You Pay Off Your Balance In Full Every Month?

If you have a lot of money or you only keep a credit card for emergencies, then you might just pay it all off each time you get the bill. If you do, then you're in a position where you obviously don't need to worry about the interest rate much at all, since you won't be paying any interest (make sure there's a grace period, though).

Many people don't realise, but the credit card company still makes money from you even if you pay no interest – the money shops pay to be able to accept credit cards. The credit card companies want to give you some kind of reward for letting them make this money without causing them any trouble, and you basically have a choice of three things:

Get cashback. For always paying everything off, they're quite willing to throw a few dollars your way. If you spend much with the card, this can add up to a tidy sum.

Take vouchers. You might, for example, be able to earn points as you spend that get you money off flights, or other rewards.

Give it away. If there's a charity or other cause you support, the chances are that you can donate money to them using an affinity card. This is a credit card that gives a very small percentage of each transaction to your chosen cause, and over time it adds up to a pretty decent donation for them.

Take Your Time...

Don't let anyone pressure you into making a decision before you're ready. Any offer that says it's for a limited time only is one you should ignore, as there's no reason to do it other than as a sales tactic. Think hard about your spending habits and what you want the card for, consider all the options you can find and then, once you're sure, go for it.

What Should You Do if You Get Turned Down for a Credit Card?

So you've gone through the long and terrible process of giving your details, only to find that you got turned down. This can feel a little insulting, like a rejection, especially if you feel like you could easily handle the card in question. So what can you do if it happens?

Try, Try Again.

Don't get upset if you're turned down at one company – they might have some strange requirement that you happen not to meet. Always try three before you start to despair.

Whatever you do, though, don't spend a whole day applying for every credit card you can find, just to see if anyone will take you. Each check is counted, and lots of checks on your record make you look desperate, making it even less likely you'll get a good card – this is known as 'shotgunning' your credit.

Get Your Credit Report.

Send off to the credit reference agencies to get copies of your credit reports. There might be something incorrect on there that's making you look bad, and you need to get it corrected if there is. Make sure you do all this in writing, so there are records of it – don't phone up and let them fob you off.

Phone the Company.

It's not a good idea to always deal with credit card companies by post or on the Internet – you should try to phone them up and speak to a real person. This way, you can tell them all your circumstances, make sure everything went through correctly, and question them if you get turned down. If you directly ask why you haven't been accepted, then they usually have to tell you.

If you're willing to be pushy, you might even get the decision reverse. If the person you got through to won't budge, then always ask for their supervisor before you hang up.

Apply for a Less Prestigious Card.

Yes, I know, it sounds bad – but you want a credit card, don't you? Get a high-rate card from the company whose card you want, and then pay it off on time each month. You're building your credit rating. The chances are that you'll be able to persuade the company to replace your card with the lower-rate one after a few months.

If you have a very bad credit rating, you might find that you are only offered secured cards. These cards require you to make a cash deposit before you can start using them. It's worth saving up the deposit and using the card for a while, though, as you'll usually be offered a normal card quite quickly, as long as you don't do anything terrible with the secured one.

If that all sounds like too much trouble, then you might like to try a pre-paid credit card. These cards must be loaded with money in advance, but from then on work like a normal credit card – except you don't pay any interest or fees! Well worth it if you only wanted a card for the convenience anyway.

How to Get the Best Rates on Your Current Credit Cards

So you've got a few credit cards, and you're quite happy with them overall. Still, wouldn't it be nice to save a little money on interest? It all adds up over time, and more quickly than you'd think. If you're a good customer, you'd be surprised how easy it is to get a better rate.

Pay on Time, But Not Everything.

The most desirable customers for the credit card companies are the ones who make a payment on time every month – but don't pay off the whole balance. After all, running no balance every month means that you pay no interest, and the company makes no profit. If you keep up the pattern of running a relatively small balance each month, then the companies will start falling over themselves to offer you better interest rates.

Threaten to Go to Their Competitors.

Have you ever noticed that it seems like every company offers a credit card? That makes the credit card industry extremely competitive. Collect ads and offers for better rates than your company has given you, and then phone them up and tell them all about it. A good ruse is to start the conversation like this:

“Them: Hello, what can I do for you today?”

You: Oh hi, I was just calling to ask if there's anything that you need to do to transfer my balance to this new card I'm getting?

Them: Well... may I ask what card that is?

You: Oh, I got the offer in the mail this morning. [Tell them all about the great interest rate and everything. You could even make things up – they won't know].

Them: And you've accepted that offer?

You: I'm just about to, yes.

Them: Well, hang on... we might be able to offer you a better rate on the card you've got...”

The trick is in getting the company to think you're just another fool who responds blindly to advertising, and they're in danger of losing you as a customer. Don't whine about how you're such a good customer – they already know what kind of customer you are, but they definitely want you to stay their customer.

A fun alternative is to phone your current company, get an offer from them, and then phone around more and try to get them to beat it. Once it's beaten, call your company back and let them know.

Drive a hard bargain, and be prepared to walk away (well, hang up). If you turn down their so-called 'best offer', hang up and wait half an hour, there's a good chance that you'll get a call offering you a better one!

It isn't just on credit card companies that these tricks get results. It works because it costs a company so much to get a new customer (the 'cost of acquisition'), and so it's cheaper for them to offer you a better deal, just to keep you. Try it with your Internet Service Provider (ISP) sometime.

What You Need to Know about Interest Rates.

For all people shop around for the best rate, there are few who have taken the time to sit down and add it all up. After all, why would you bother? The answer is that understanding just how interest rates work can help you see how important small differences in rates and payment amounts can be.

Interest Rates are Compound.

It is important to remember that what you owe is compounded – that means you pay interest on the interest you owe from the month before. That means that if you're paying 2% per month in interest, you're not paying 24% per year – you're actually paying 26.82%. Charging interest monthly instead of yearly is a trick to make it feel like you are paying a very low price for your borrowing.

A Thought Experiment.

Here's a question: would you rather have \$1 million, or \$10,000 in a savings account earning 20% per year in compound interest?

Well, let's see how that \$10,000 would grow. After 10 years: \$61,917. 20 years: \$383,375. 30 years: \$2,373,763. 40 years: \$91,004,381. 50 years: \$563,475,143.

So after fifty years, you'd have over \$500 million?! Well, not so fast. Of course, you have to take inflation into account – if we say inflation is 5%, then that money would have the buying power that \$10,732,859 does today. Still, that's not a bad return on your investment of \$10,000, is it?

That's the power of compound interest, and the way the credit card companies make their money (it's also the way pensions work, and the reason the prices of things seem to rise massively as you get older). Be very, very afraid of compound interest. Or, of course, you could start saving, and be very glad of it...

Compound Interest Adds Up.

Let's work through an example on a more real kind of scale. Let's say you have an average unpaid balance of \$1,000 on a card at 15% APR.

You will owe \$150 in interest for the first year you borrow. However, this amount is then added onto the balance, and interest is charged on that. The second year, you'd owe another \$172.50, for a total of \$1322.50. It goes on, with totals like this: \$1,520.88, \$1,749, \$2,011.35.

After just five years at 15%, you'd owe double what you borrowed. And after 10 years, you'd owe four times what you borrowed! Bet you weren't expecting that. If you let something like that carry on for long enough, you'll end up paying back that credit card for years afterwards, paying back what you borrowed many times over and still not clearing the debt. Most people don't work this out, and feel that the payments must simply be their fault for spending too much money to begin with.

One Percent of Difference.

One more thing. You might think there's not that much difference between a card that charges 15% APR and one that charges 12% APR. Let's see the difference the lower rate would make to that \$1,000 borrowed for five years. Remember, after five years at 15%, you owed \$2,011.35.

At 12%: \$1120, \$1254.40, \$1404.93, \$1573.52... \$1762.34 after five years. So you've saved \$249.01 from that 3% difference in APR – in other words, you've paid almost 25% less interest.

Understanding the Terms and Conditions.

When you're looking at a credit card offer, take a look at the small print – it seems like a maze, but it's vitally important. With the trend nowadays towards easier-to-read 'summary boxes', there aren't as many excuses for ignoring the terms as there used to be. Anyway, credit card lenders are devious, and there are plenty of things there designed to catch you out – here's what you should be on your guard against.

Annual Fees.

Even though you're already paying them interest, many credit cards still charge you an annual fee. It's not as common as it once was, but it's still around. You should be especially careful to check for fees on Gold and Platinum cards – even though they're not that hard to get any more, they still tend to charge much higher fees than normal cards.

Penalty Charges.

Pay attention to what kind of fees you'll be charged for a late payment, or if you take a cash advance, or if you accidentally exceed your limit on the card. Some cards have unjustifiably high fees, and you shouldn't sign up for them.

Interest Method.

This is one of the most overlooked of all the things in the small print, just because it's so hard to understand. Essentially, every company has a slightly different way of working out how much interest you should pay each month. There are three main methods:

With the 'adjusted balance' method, you are charged interest on whatever your balance was when the company sent the bill. Another version of this is the 'previous balance'. You're charged interest on your balance as it stood at the end of the billing cycle before this one, regardless of how much you've spent or paid off since. Odd, but easier to understand.

Then there's the average daily balance. This is the most complicated, but also the most common now. Your balance from the end of each day in the billing cycle is added up, and then divided by how many days there were, and interest is charged on this amount. This method is only good for you if your balance jumps around a lot, as it avoids you paying lots of interest on a balance that just happened to be large on the billing date.

Also, make sure you look at the rate of interest each month, instead of just relying on the APR. The APR is an estimate of the total cost of borrowing – it is the monthly interest plus the various charges that will show you exactly how much you would pay.

Grace Period.

Check that the card you're looking at has a grace period on purchases. Otherwise, you could end up being charged interest from the minute you spend. Almost no cards have a grace period on cash advances or credit card cheques, however.

Currency Conversion Fees.

If you plan to use your card abroad, you should take a look at how much the card charges for transactions made in other currencies. Some cards can be much more expensive than others.

Top Five Credit Card Mistakes.

When you're dealing with credit cards, you're playing with fire. Unfortunately, there are plenty of people out there who don't realise that, and make all sorts of dangerous mistakes with their credit cards every day.

Paying Late.

If you don't set up any kind of automatic payment, then it can be tempting to just put your credit card bill on a pile and get to it when you have time. Before you know it, a few weeks have gone by and you're late. If you leave it to the deadline, you might find that the payment won't get there quickly enough – it's not a deadline for sending the money, it's a deadline for them receiving it.

Paying late is a big mistake for an awful lot of reasons. You will almost certainly be charged a late payment fee, and your late payment will go on your credit report for everyone to see. You may also find that you lose any good rate you had, and your debt is automatically thrown onto the very worst rate the company offers.

To avoid late payment, you should always post your payment a long time before the due date (at least a week). If you've left it to the last minute, phone up and try to pay that way.

Being Taken in By Rewards.

It is never, ever worth getting a higher-interest card simply because it offers some kind of loyalty points, flight miles or whatever. Even if it offers a cash reward, it is unlikely to be more than you would pay in extra interest – after all, why would they give you free money? All 'rewards' do is pay you off with your own money to make you feel like you're getting something for nothing. You're not.

Collecting Cards.

Seeing some people opening their wallet or bag is a scary experience. It looks like they have about a hundred credit cards in there, some of which they haven't used in years. They have trouble keeping track of all the different cards, balances and interest rates. Don't be one of these people. You should limit yourself to a maximum of three cards at a time – any more starts to make you look over-committed in your credit report, and could get you turned down for a bigger loan.

Maxing Them Out.

Your limit is just that: a limit, not a minimum! Whatever you do, don't get a card and immediately spend your whole limit. This looks very bad. It is better to spend about halfway regularly and pay it back. Wait for the company to increase your limit (which they quickly will), and then you'll get that extra money without the stigma of having a maxed-out card.

Not Reading the Terms and Conditions.

Finally, as ever, don't sign anything you haven't read! I know it's hard going and you're busy and all, but if you can't manage to read the terms and conditions then you shouldn't get the card. Pay special attention to any future increases in rates, and what kind of fees you can be charged.

A Credit Card Jargon Buster

Credit cards, as part of the financial industry, use a massive array of jargon. You can't be expected to recognise all these technical terms, and some of them are quite important – so here's a quick guide, in alphabetical order.

Affinity card. This is a credit card that gives a certain amount to a charity of your choice, depending on how much you spend. It is generally best to avoid any charity that wants you to sign up for such a card – don't let guilt lead you to a high interest rate.

APR. Annual Percentage Rate. This is your overall interest rate, calculated yearly, and given as a percentage of your balance.

ATM. Automated Teller Machine. A cash machine. It will give you money when you put your credit card in, but will probably charge an extra fee.

Balance transfer. This is when you transfer your debt ('balance') from one credit card to another. The usual reason for this is to try and keep as much debt as possible on a lower-interest card.

Credit limit. Your credit limit is the maximum amount you can spend or withdraw from your card. Going over your credit limit will result in your card no longer being accepted, and you being charged an over-limit fee.

Fixed rate. A fixed rate card is one where you are given a rate when you sign up for the card and that rate, at least in theory, stays the same for the whole time you have the card. In practice, though, interest rates can be changed for almost any reason.

Grace period. Your grace period is the amount of time between when you spend money and when you start paying interest on it. Good cards can have a grace period of up to two months – bad ones might not have one at all.

Minimum payment. A minimum payment is the absolute lowest amount you can pay back to the credit card company each month – you should pay more, but you don't have to. Minimum payments are usually around 2% of your balance.

Sub-prime. This is a phrase used in the industry to describe customers who are a bad credit risk, but are seen as worth lending to anyway. If you are identified as sub-prime, you'll start getting offers for loans secured on your property – they know that if you can't pay, they'll get their money anyway.

Teaser rate. A 'special offer' low rate, usually written in enormous letters. You will see many offers with "LOW 4.9% APR" in inch-high letters, followed by "for first six months, 21.9% thereafter" in microscopic ones. Teaser offers can sometimes be worth taking, but not if they tie you in for longer than the period of the offer.

Variable rate. This is an interest rate that is worked out by adding a certain amount to the current base rate. Taking this option will allow your credit card to be affected by changes in national interest rates – a good idea if you think they might go down, and a bad one if they're on the way up.

Beware the Sudden Rate Hike.

There are some credit card lenders out there who are trying to scam you. They'll offer you a good interest rate, wait for you to spend a lot of money, and then suddenly jack up the interest through the roof. Suddenly you're screwed, with nowhere to go.

Is That Legal?

Well, it shouldn't be, and in most countries it isn't. Suddenly increasing your interest rate is generally associated with loan sharking and usury (the practice of lending money at illegally high interest rates) – it isn't fair to raise the rate once you already owe the money, is it? Unfortunately, in the credit card world of 'revolving' debt, the distinction isn't so clear cut.

In some countries, you might not have a legal leg to stand on – your card issuer can do what they like to you. This is a problem in the USA especially, where credit cards are based in states like Delaware that have ineffective usury laws.

What Can Trigger a Rate Rise?

Credit card companies do give reasons for any rises, and some of them are valid. Many, though, can seem quite unfair – a lot more sharing of information goes on in the financial industry than you'd expect. Here are some examples of things that can saddle you with the extra-high 'penalty rate':

Paying late. If you don't pay your bills on time, the company seems quite justified in taking away your good rate. After all, you've broken the rules of your contract.

Spending on other cards. You might think that one card issuer won't know what you're doing with a competitor's card, but you'd be wrong. Acting oddly or badly with one card can cause others to get jumpy and raise your rates.

Defaulting on another bill. Any bill you don't pay – whether it's for another card or for your electricity – gets put on your credit record. The next time your issuer check your credit rating (they usually do it quarterly), they'll spot it and want to raise your rate.

Bouncing cheques. Again, this goes on your record, and spooks card companies.

Remember that your rate can usually rise at any time for any reason – most credit card contracts only require the lender to give you about two weeks' notice. Plus, in general, when one of your cards' rates go up, they'll all go up. That's another good reason to be scared of credit cards, and not to have too many.

What Can You Do If It Happens?

If your rate suddenly jumps up, the first thing you should do is try to cancel the card and move the balance elsewhere. If you can't do that for whatever reason, then contact your local consumer protection agencies. The next step after that, really, is to get a lawyer.

It will also pay to make as much noise as you can. Complain to the company and the regulator by post. Contact your local newspaper and radio station. Make enough trouble that it would be easier for them to do the right thing just to shut you up. The squeaky wheel gets the oil.

Always Avoid Payment Holidays.

Once you've been paying off a credit card for a while, you might be offered a 'payment holiday'. You'll get a letter, saying that since the company knows it's difficult for some families around Christmas (or whatever other excuse they think up), they're offering you a month off from paying, as a 'special present'.

Why Would They Do That?

Offers of payment holidays typically have a very high acceptance rate. People think it's great that they can take a month off from the stress of paying back debt. What they don't usually realise is that these 'holidays' aren't a present at all – they're a great money-spinner for the credit card company. For the company, it's a win-win situation: they get to make big profits just by making their poorer customers happy.

How Can Letting Me Off Paying Earn Them Money?

Well, that's where the trick comes in. If you read the small print, you'll find that the payment holiday isn't interest free! You're still being charged interest – and since you're not paying anything back that month, the interest will be there next month for you to pay interest on (compound interest, you see).

That might feel a little hard to grasp, so here's an example. Let's say you were paying back \$1000 of debt at 1.5% per month (about 19.5% per year). Your minimum payment each month is 2% (26.82% per year).

If you pay the minimum for all 12 months of the year, then you will pay back \$233.51, and owe \$941.62 at the end of the year. Your debt has been reduced by \$58.38, and you've lost \$175.13 in interest.

With the payment holiday, though, you pay 2% per month for only 11 months (so you pay 24.3% back on the debt over the year). That's \$217.80, and you'd owe \$960.55 at the end of the year. Overall, you've paid \$37.86 for your payment holiday from a payment of about \$20. In other words, your month off cost you almost two months of payments.

Don't worry if you don't understand all the maths involved here – it's been deliberately designed by mathematicians and marketers to be as confusing as possible, to stop you working out what a bad deal you're getting. After all, if you haven't read this, would you really ever turn down a month off paying your bills? Just remember: don't fall for it. The more you owe, the more that 'holiday' will cost you. Wouldn't you rather take your money and go on a real holiday, instead of spending it all on repaying credit card debt?

If It Sounds Too Good to Be True...

In all things in life, remember that no-one gives you anything for nothing – least of all credit card companies. Anytime they offer you anything, it's because they're going to make a profit on it. If you can't see where their profit is coming from, be suspicious – it's probably all a big scam that's going to cost you money, even if you don't realise it.

They Don't Want You to Pay

In all your dealings with credit cards, remember this one thing: they don't want you to pay. The moment you pay back everything you owe, you're free from their interest, and that's not what they want. They want you to keep on paying them a little every month for the rest of your life, making them a steady profit on things you long since forgot about buying.

Revolving Debt.

Most credit cards are what's called 'revolving' debt – the only real exceptions are American Express and Diner's Club cards, which must still be paid off in full every month. They aren't really 'credit' cards at all – they're charge cards for people who could afford to pay in cash anyway.

Revolving debt means that you can pay off as much as you like each month, or you can just pay the minimum, and you can run up as much debt as you want each month, up to the maximum. Unlike a fixed-term loan (a 20-year mortgage, for example), you don't know how much your payments are going to be, and you don't know when you're going to stop paying. Each new purchase can dramatically extend the time that it's going to take you to get your balance back down to \$0.

With a credit card, then, it's perfectly possible to keep running a 'balance' (a debt) on your card forever, spending a little sometimes and paying a little back sometimes – and always paying interest. This is why credit cards are so profitable for them, and so expensive for you.

Add the Interest in Your Head.

Don't be fooled into thinking that you'll never have to pay your credit card's interest – sooner or later, for some reason, you will. A good strategy is to add your card's yearly interest rates to everything you buy when you're thinking about the price. If that thing is worth \$100 to you, is it worth \$115 (15% interest added)?

Likewise, if you buy something with your savings, take off the interest you get on your savings as a mental discount. This will help you to make the differences between savings and debt feel more real – saving instead of having debt is like having a money-off coupon you carry around with you all the time.

A Dollar Today Isn't a Dollar Tomorrow.

You probably don't think about it, but using a credit card basically makes your money worth less than it would be usually. That's why it feels so hard to pay a credit card back – if you borrow a dollar from a credit card at 15% interest, sit on it for five years, and then give it back, guess what? You still owe them the dollar. The dollar you gave them back was eaten up by interest.

This is one of the biggest things you need to understand about credit card debt: the longer you have it for, the bigger the problem it gets. If you have a problem, the last thing you should do is ignore it, because it will only get worse – you have to try and beat it early.

So You Missed a Payment...

There are three reasons that you might have missed a payment on your credit card: either you can't afford to pay, the payment didn't get there in time or you just plain forgot. I sympathise: paying credit card bills is a surprisingly difficult thing to do reliably and consistently. Sooner or later, something is bound to go wrong.

Whatever happened, though, there's one thing you need to do, and quickly – get on the phone.

Phone and Grovel.

Apologise like you've never apologised before. Don't panic, stay calm, but make it clear to whoever you get through to that you're very sorry, and things like this never happen to you. If you just forgot, then tell the truth about what happened – and if you can't afford to pay, then you should say that too.

You will be surprised at how lenient credit card companies usually are if you phone and apologise – after all, the sensible ones want to keep you paying interest to them for a long time to come, so it's not really in their interest to punish you.

Remember to be very grateful when they let you off, and tell them it won't happen again. Whatever you do, don't get angry or frustrated. It's you that's in the wrong here!

You have to think and act like you're a model customer, and be willing to transfer your balance elsewhere as a punishment for them if they won't let you off this one mistake. Transferring your entire balance to another card will make them sit up, take notice, and start making you much better offers than you ever got before.

Try to Keep It Off Your Credit Report.

You need to do everything you can to persuade them not to add your late payment to your credit report, at least if you want to apply for any credit in the next few years. Remember that any late payment could be a black mark against your name for as long as ten years.

On the other hand, if the worst happens and it does get onto your credit report, don't worry about it too much. As long as there's only one late payment, it doesn't matter too much, especially once a year or so has gone by. It's the people who consistently pay late who get the truly terrible credit ratings.

In the Future, Always Post Early.

This goes especially for the people whose payments didn't make it in time, but it's good advice anyway – it saves you trying to find money at the last minute. It is a bad idea to wait until the day before the deadline to make your credit card payment, as there are just too many things that can go wrong.

Also, it's generally a bad idea to let bills of any kind stack up until you get around to them, because bills aren't fun, and you just won't. Pay your bills on the day you get them, and you'll live a much less stressful life.

The Human Side: Debt Stress.

In all the technical discussion you hear about credit card debt, the best ways to manage it and pay it off and all the rest, one thing goes largely ignored. Credit card debt is extremely stressful, and can have a very negative effect on your life, if you let it. It's as bad as an addiction, always hanging over you, bringing you down, making it hard to live your life the way you want to. In this article, we'll take a look at how you can recognise debt stress, and what you can do about it.

The Symptoms of Debt Stress.

There are an awful lot of symptoms that can be caused by stress. Some of the most common ones are: headaches, not being able to sleep, feeling depressed and irritable, and being forgetful and unable to concentrate on what you're doing. If you're not sure whether your symptoms are related to stress or something else, you should go and see a doctor.

Who Gets It?

Almost everyone who has debts is stressed about them. Debt is blamed for millions of days off work every year, and is one of the leading causes of suicide – it seems like most times you read about someone who has committed suicide, their name is followed by “who owed [a very large amount] in debts”. Students and graduates are especially vulnerable, as debt is growing amongst them faster than in any other group.

The average adult owes many thousands in debts – and since that's the average, it means that many people must owe much more. Never forget that you're not alone, and there's always someone worse off than you.

How to Deal With It.

Stress caused by debts is often considered to be embarrassing, or shameful. People with lots of debts don't want to talk about it, even with their family, for fear of upsetting people or looking like a failure. It is very important, though, that you do talk about your problems, as keeping it all inside yourself will make you much, much more stressed. It is especially important that you talk to your partner – they are the number one person who can support you.

The best thing to do then is to find two people: one who can advise you, and one who can be a counsellor. That means a professional who knows what they're doing in financial matters, as well as a psychologist or psychiatrist, or some other kind of counsellor. Don't let stigmas put you off – this is about your health.

The next thing to do is to have a good think about how you got that debt to begin with. See if you can find old credit card statements. What did you spend the money on? You need to sit down, work out a budget, cut unnecessary expenses and try to free up as much money as you can to pay back debts. Even if it'll be a long time before you get everything paid off, knowing that your debt is gradually going downwards can be an excellent cure for debt stress.

You're Not Alone: Credit Card Statistics.

Do you have any idea just how common credit cards are? Let's take a look at a few statistics from the USA.

The average family carries a balance of between \$5,000 and \$8,000 on all their credit cards, depending on which figures you believe. Over \$1,000 per family goes on interest every year. And that's just the average – some people owe much more! Overall, Americans spend over \$1 trillion every year on their credit cards, and owe more than \$500 billion of it.

If debt continues at the current rate, then one family in a hundred will be forced into bankruptcy. Over 90% of Americans' disposable incomes are spent paying back debts. Whatever happened to saving?

Debt Costs Everyone Money.

Literally billions of dollars are being used up on expenses that are only created because of the existence of the credit card industry. The weight of the calculations, administration and marketing needed to support the industry is immense – the average American gets at least one credit card offer in the mail every day.

That's before you take into account the burden bankruptcies put on the court system, and the cost to the government of providing subsidised debt counselling. You might also note that consumers with more debt have less to spend – and when money isn't flowing, it hurts the economy. There are very few industries or people that aren't hurt by debt, at least in the long run.

Debt is Much More Common Than It Used To Be.

It's not so long ago that being in even a little debt was considered to be absolutely terrible. When you wanted something, you saved up for it, and bought it once you had enough money. If you had bad credit, you couldn't get a credit card at all. Go back fifty years and consumer debt figures were absurdly low, the same way they are today in most of the non-Western world.

In the West, though, the art of saving seems to be a lost one – almost no-one is saving enough for their retirement, and banks are having to offer ever-higher interest rates to get people to put money anywhere near a savings account. We have an 'I-want-it-now' consumer culture, and we're willing to pay more than we can afford to fund our lifestyles.

Spending Isn't To Blame.

Now that I've said that, don't think that the reason you're in debt is that you haven't spent your money cautiously enough. According to statistics, it is very rare for people to get into debt because they spend their money frivolously. Far more people get buried in debt because they lose their job, or get sick – they take out credit cards to pay for basic expenses, and fall into the interest trap. Their debt spirals out of control from just a few thousand dollars borrowed to pay for essentials.

Most people have a reasonable sense of what they can afford, and won't go out and use credit cards to buy things that they wouldn't usually be able to pay for. The problem is simply a matter of people leaving their balances on credit cards for too long, not realising just how high the interest really is.

Moving Debt Between Cards Can Save You Money.

If you're like most people, you have plenty of credit cards, and you have stacks of offers for more. The credit card industry is so competitive that, whatever card you have, the chances are that somewhere out there is one that would be cheaper or better for you – and you can change as often as you want!

Take Up Teaser Offers.

To try and get customers, credit cards are still offering massive discount rates when you transfer balances over to them. These 'teaser' rates will only last for a set period (check the terms and conditions), but they can still save you a lot of money – especially if you switch to another card's teaser rate each time one ends.

Yes, this does mean applying for a new card relatively often – but if you do it online, you'll find it's quite painless. Is it really worth hundreds of dollars to save the trouble of applying for a new card?

Extend Your Offers.

You might not even need to move to another card to get a teaser offer for longer. If you phone and ask, many lenders will extend the preferential rate for longer, in an effort to get you to stick around.

Check the Small Print.

You might find that the 'low, low rate' only lasts a few months, and you might also find that it only applies to balance transfers, not new purchases. A common trap is for a card to allow you to transfer your balance of thousands at 0% APR, only to charge you 20% or more on anything new you buy with it. Of course, as soon as you ditch that card and move to the next, the new purchases become a balance transfer again.

A more nasty thing you might find is that you're signing up to a minimum term to get the teaser offer – they won't let you transfer your balance away again for a year, or even more. Avoid these cards like the plague.

Keep Track of Time.

Your card issuer isn't going to go out of their way to alert you when your teaser rate is over. Make sure you keep track: make a mark on the calendar. Months can go by far more quickly than you'd think, and missing the end of the teaser period by even a day will mean that you'll end up paying interest at the normal rate.

Moving Around and Your Credit Rating.

Moving debt around between cards often affects your credit rating in an odd way. On the one hand, it shows that you could be an unprofitable customer – after all, you change cards before they can make a profit from you. On the other hand, it also shows that you're likely to take up offers that you're sent, and companies tend to believe that they have a great strategy to keep you with them where others have failed.

In other words, some companies will hate you for it, and some will love you. Bear in mind, though, that the longer you do it for, the fewer companies will want to send you their very best teaser rates.

Stop Paying the Minimum.

Credit cards are there to put you in debt and keep you in debt. When they do it, they have one tool at their disposal that is more effective than all the others. It's called the minimum payment.

What's a Minimum Payment?

Your minimum payment is the absolute minimum that you must pay off each month to avoid defaulting on the debt. If you don't pay your minimum, they'll come after you – but don't make the mistake of thinking it's just fine to only ever pay that much.

Why are Minimums Bad?

They never used to be. Minimum payments used to be set at relatively high percentages, anywhere from 5% to 10%. This meant that you paid more, but your debt would get paid back faster.

Credit card lenders realised, though, that they could set the minimum payments lower, and collect a smaller amount of money each month for a much longer period of time. This would let them tell people that debts on their cards were 'affordable', while they raked in the cash over the long term, thanks to the power of compound interest.

Here's an Example.

Let's say you owed \$1000 at an interest rate of 12.7% per year (1% per month). Your minimum payment is 5% per month. Remember that your payment goes towards the interest first, and then the debt. In this example, \$10 out of the \$50 you paid would disappear as interest – but \$40 would still go towards paying off the debt, meaning that your debt the next month would be \$960.

What happens if you change the minimum payment to only 2%? Well, the difference is enormous. Sure, you're only paying an 'affordable' \$20 – but \$10 of it is still going on interest. That means that your \$20 has only paid back \$10 towards the debt, and you still owe \$990!

There are so many people who just look at the interest rates they're being charged, and don't understand the terrible difference it can make if you only ever pay the minimum payment. In our example (which is relatively typical), 50% of the payment was going on interest – meaning that paying the minimum gets you an effective 50% interest rate, even though your APR was only 12.7%. For higher interest rates, it only gets worse: there are cards out there where only making the minimum payments will actually cause you to owe more each month, not less!

So What Should You Do?

The answers aren't fun, but they are true. Firstly, look for a card with a high minimum payment – this is a good way to discipline yourself into paying off the debt faster.

Secondly, always pay more than the minimum if you can afford to. I know it feels like money for nothing, but isn't it better to pay it now and get it over with, instead of paying it for the rest of your life?

Don't Save When You Have Debt.

Humans are funny creatures. We don't always do what's best for us – instead, we do what feels best, and try to blank out any reasons why it might not be the best thing to do. Maybe that's why there are so many people who have both savings and debts.

It's a Matter of Psychology.

Yes, it feels better to save. Saving feels like building a foundation for your future, while paying off debt feels like throwing your money down a hole. That money is for the kids' education, or for improving your house, or whatever else – and it's in an account earning a good rate of interest. What could be wrong with that? Lots, if you have debts.

Don't Be Fooled.

There are almost no savings accounts that offer interest rates as high as the ones credit cards charge. Here's a question: if you have \$10,000 in a savings account earning 5% per year and \$5,000 on a credit card at an interest rate of 20% per year, how much money do you have? After just five years, the answer is effectively \$0 – your debt would have grown to around \$12,500, the same amount that your savings are now worth.

You might not believe it now, but it really is much better to pay off your debt. If you used half your savings to pay off that debt, you'd be in such a better position that it's really amazing. You avoid five years of compound interest on the debt, but you still get to keep \$5,000 in your savings account, earning interest – after five years, that's about \$6,380.

If you'd still rather keep your savings intact instead of using them to pay off your debts, ask yourself this simple question: is your pride worth \$6,380 of your family's money?

Think of Your Financial Health.

When you have enough money to pay off your debt, there's absolutely no reason to keep it. Debt is for people who don't have the money, and need to borrow it. Debt costs money, and savings make money – you want as much of your finances as possible to be savings, not debts. If your savings account and credit card are with the same bank, then you're effectively paying for the privilege of borrowing your own money from them. Why would you do that?

There are other benefits to paying off your debt with savings. You'll be less stressed about your debts, and your credit report will show that you were able to pay everything back – getting you a much better interest rate if you ever need to go into debt again.

I know it can be hard. You just have to remember that any money you've 'saved' hasn't really been saved at all. It's money you should have been spending instead of making purchases with a credit card. Yes, it feels much worse to spend money thinking that you're spending away your future – but always remember that when you use a credit card to spend that same money, you're spending away your future, plus interest. Anyway, if you've got the debt, then those savings have already been spent – stop denying it to yourself.

Pay it Back Strategically.

When you're paying back debts, a little strategy can make a difference of hundreds or even thousands of dollars. The best strategy is simple, but effective.

List Your Debts.

Write down a list of every debt you have, how much it is, and what the interest rate is. You might have trouble finding this information, but it's worth getting it all together in one place and write it down. You can't manage your situation strategically if you don't even know it, can you?

Remember to include your credit cards (with the different rates and balances for purchases and cash advances), other cards, loans, mortgages, and even money you've borrowed from friends and family. Every bit of debt counts, and you're trying to get it down to absolute zero.

Bad Debts and Good Debts.

Go through your debts and mark them 'good' or 'bad'. You might think this is odd, but some kinds of debt are nowhere near as bad as others. A mortgage, for example, is an investment in a house, paid over a fixed term – there's no real risk of paying a ridiculous amount of interest or never getting it paid off, like you could with a credit card.

Good debts: mortgages, student loans, car loans.

Bad debts: credit cards, store cards.

As a rule, good debts are for a fixed amount of time and allow you to buy something valuable that you cannot afford, while bad debts are 'revolving' and are just used instead of cash.

Time to Prioritise.

Cross your good debts off your list, for now – you shouldn't think about paying them off more quickly until you've got all your bad debts out of the way.

Now, arrange your debts in order of interest rate, with the highest interest rate at the top. The chances are that the debt at the top will be a store card or credit card, which could have a really huge interest rate. Try to transfer as much money as you can from the high-interest cards down the list to the lower-interest ones.

Once you've done that, focus all your energy on repaying the new top debt. Pay the minimum on everything else, and throw as much money as you can find at the problem. If you have any non-essential monthly commitments, consider cancelling them for a while, and putting that money towards your payments. Stop saving, just for a while. Try keeping track of where your money goes, just for a month – you might find that you're spending loads on something you don't even want or need.

Do your best to give up any expensive habits you might have. You'll be shocked how fast your debts can go down if you put the money you'd usually spent on smoking, drinking or gambling towards them! I'm not trying to spoil your fun here. You're just making some small sacrifices for a while, and your life will be so much better for it in the long run.

You have to be aggressive against that top debt, and determined to defeat it. This is a war, you're on the attack, and you want to win against your debt. Don't you?

Should I Get a Consolidation Loan?

If you've got a really unmanageable amount of credit card debt, you might be considering a consolidation loan. A consolidation loan is a loan that you can use to pay off all your debts, meaning that you can pay them off for less money without having to worry about lots of different bills. Like anything, though, consolidation loans have their advantages and their disadvantages, and it pays to take a careful look at what they offer before you commit yourself.

The Interest Rate.

You should always shop around to get the best interest rate you can if you opt for debt consolidation. This interest rate is almost as important as the one on your mortgage, but much harder to change after you've signed on the dotted line. Don't be fooled by any offers that give you a good rate for a limited time – you're going to have this loan for quite a while.

That said, the chances are that any interest rate you're offered on a debt consolidation loan will be significantly lower than the interest rates you're currently paying on credit cards. If you have lots of cards at a high rate and you've had no luck transferring the balances, then debt consolidation could be a very good idea.

The Length of the Loan.

The most dangerous thing about debt consolidation loans is that the ones with lower payments generally last a very long time – you could be paying it off for twenty years, or even longer. You should try to find a loan that doesn't last as long, and asks for payments that are as much as you can afford. If you look at what your payments would be and think 'oh, how cheap!', the chances are you'd be signing up to them for a long time to come.

Look Out for More Cards.

One of the most dangerous things about getting a debt consolidation loan is that, since your credit cards have all been paid off, it can be tempting to accept the next few offers you get for new ones. After all, now you're saving all this money, you can afford a few more cards, can't you? Don't fall into this trap! Consolidating your debt and then running up more is an extremely bad idea.

You Could Lose Your Home.

Of course, this is the absolute number one most dangerous thing about debt consolidation. Almost without exception, the loan will be secured on your home. That means that if you start missing payments, the finance company will kick you out, take ('repossess') your house, sell it, and pay back the debt with that money.

There's a whole industry around property developers buying repossessed houses and selling them on for a profit. The chances are that you'll come out of it with nowhere near enough money left to buy even the smallest home, and nowhere to live. Just imagine that. If you do take a debt consolidation loan, you need to read the small print as if your life depended on it (it does), and then be very, very careful. Good luck.

The Liars and Scammers of the Credit Card Industry.

In the world of credit cards, there are plenty of people who are desperate to borrow money, and just as many people who are desperate to get back out of debt again. Given that, it's not surprising that the industry is full of scams. Here are some to keep an eye out for.

The Debt Advisors.

Be very careful if you're offered 'free debt advice'. There are many government bodies, legitimate financial companies and charities that give good advice, but the ones who do a lot of advertising tend to be owned or partnered with people you don't want to know. If the advice you get is to sign up for another loan from one company in particular, don't believe it – the chances are that the person you're talking to is just a salesman in disguise.

The Identity Thieves.

If you don't keep track of your credit card statements and your credit report, then you could be in for a surprise. It's not that hard for someone else to apply for a credit card, pretending to be you, or to get the number of a card you already have and start buying things with it. Then, of course, they get free money, and you're left with the debt, not to mention the black marks against your name when it doesn't get paid back.

The Catalogue Card.

This is a scam that's especially common around Christmas time. A company offers you a 'credit card', with a much higher limit than you'd usually qualify for. The catch, of course, is that you can only use it to buy things from their catalogue, at inflated prices. This is nothing but a clever way of offering you expensive finance on purchases from them.

The Only Game in Town.

More exploitative lenders might realise that they're really the only company that's going to be offering some people any credit at all. They'll send offers to desperate people for absolutely terrible deals, with the highest interest rates they can get away with, and no benefits whatsoever. These people will accept the offer without even reading it, relieved that finally someone out there offered them credit – and their debts get even harder to ever pay off.

The Insurance Charge.

Here's one that even the most reputable lenders go in for – trying to sell you useless insurance. This is usually an insurance premium that is automatically added to your interest each month, and covers you against very unlikely things, like dying and not being able to pay back your debt. It is almost never worth ticking the box to buy insurance.

The Secured Card.

A secured card is one that requires you to make a deposit before you can use it – a deposit that can sometimes be as much as the limit on the card itself. Secured cards can be a good way of rebuilding your credit when it's all gone wrong, but don't take one from a lender you've never heard of. With more unscrupulous companies, you will often be charged an annual fee, an application fee, and any other fee they can think of, all of which are added to your debt. Don't let it happen to you.

Negotiating Your Debts.

If you're in a really bad situation, and you just can't even make your minimum payments this month, don't worry. You can negotiate your debts, and pay back much less than you owe – as long as they get their debt plus interest in the end, no-one is expecting you to pay the full amount when you just can't afford to.

Settling your debts takes a lot of time, and many people find it intimidating. If you do it right, though, you'll be surprised at how kind your creditors (that is, the people you owe money to) can be.

Close My Account.

It might feel bad, but if you can't afford to pay that credit card, you'll have to close the account – that means you can't borrow any more money with that card. To close the account, you'll have to negotiate something called a 'payment plan'.

A payment plan turns your credit card debt into a plain old loan. The company might take as much as 50% off the amount that you need to pay back. It might seem strange, but they're happy you're paying at all – there are plenty of people who just don't pay and have to be chased, costing their creditors time and money. They'd rather hear from you if you're having trouble, so don't bury your head in the sand.

It's in your creditors' best interest to take whatever you can offer them, within reason. Their alternatives are lengthy court proceedings, or paying collection agencies to come round and intimidate you. They know that your offer will probably be the only offer you make before you do something more extreme that could result in them never getting any money back.

Do It in a Letter.

Phoning companies to ask to negotiate your debts isn't a good idea – it's too easy to get flustered and say the wrong thing. They're professional negotiators, and you're not. You need the advantage of having time to think, which is why you should always negotiate with them by post. Getting it in writing also means that you can hold them to what they say later on. Here's a sample letter:

“Dear Sir or Madam,

I regret to inform you that I can no longer afford to make my minimum payments of \$100 per month on my credit card account with you (account number 111-222-333). I would like to request the closure of my account, followed by the settlement of the debt on a monthly payment plan. Please advise what kind of terms I could expect from such a plan.

Yours faithfully...”

The Damage to Your Credit Report.

You will rarely be able to negotiate over your debts without doing some damage to your credit report. If you're willing to pay a bigger percentage of the debt, though, you might be able to persuade the creditor to say that it was paid off to their satisfaction, instead of recording that they accepted less than they wanted. It's up to you just how much you feel your credit report is worth – if you're planning on getting a big loan anytime soon, this could be something to consider.

Before the Last Resort: What to Do If You're Considering Bankruptcy

Filing for bankruptcy is an extreme move, not a quick fix. It's a long, painful process with a huge stigma, and you're unlikely to be able to get any kind of credit for ten years afterwards. Yet bankruptcies are on the rise. Out of ignorance or stupidity, more and more people seem to be using bankruptcy as a first option, instead of a last resort. Before you do it, make sure you've considered every alternative.

Have You Reorganised Your Debt?

If you haven't tried debt consolidation or negotiation, you really should. Yes, you'll have to pay back your debts eventually, but surely that's better than bankruptcy, isn't it?

Sell Everything You Can.

It's better to sell everything you own than it is to go into bankruptcy. Move to a smaller house. Sell your cars and take the bus. Take a good, hard look at your life, and realise that there are very few true 'basics': you can do without almost everything. Your house is probably full of quite valuable things that you never use, so bite the bullet and get rid of them. In short, subtract your debt payments from your income, and live like someone who earns that much.

You are going to lose almost everything you own if you declare bankruptcy, so you might as well try to sell it yourself at a better price and avoid the bankruptcy issue altogether.

Work More.

If you can get extra hours, do it. Being bankrupt is such an indignity that you should at least try going to your boss and asking for a pay rise or promotion. After all, the worst they can do is say no. They're going to find out about it anyway if you declare bankruptcy, and they might wonder why you didn't come and ask for their help. Also, if you're married and only one of you works, try to get the other a job – you never know, it might even be fun!

Use the Power of Threats.

One of the best things to do when you're considering bankruptcy is to write a letter to absolutely everyone you owe money to, letting them know. Make it a very clear threat: "if I cannot find a way of paying my debts then I will be forced to file for bankruptcy". Most creditors would rather let you pay back a tiny fraction of what you owe than have to try to get money out of a bankrupt.

Know Your Local Laws.

Bankruptcy laws vary enormously depending on where you are. There are some places where you'll be forced to give up everything you own to pay your creditors, some places where you at least get to keep your house, and some where you can declare yourself bankrupt and not even notice! Try to get a lawyer – you might think that you can't afford one, but many will work 'pro bono' (for free) for people who really need a lawyer but can't pay.

Alternatives to Credit Cards

Are you one of those people who only ever got a credit card for the convenience of being able to pay without cash, or because you weren't aware of any other easy way to borrow money? Millions of us are, thanks to the unavoidable advertising of the credit card industry, and few people realise just how many alternatives to credit cards there are. Let's take a look at a few.

Debit Cards.

Debit cards are often used in many European countries, but are relatively unheard of elsewhere. Basically, they're just like credit cards and are accepted everywhere credit cards are accepted – the only difference is that they take any money you spend directly from your bank account, instead of you getting a bill at the end of the month. You should be aware, though, that you aren't as well-protected from fraud with a debit card as you would be with a credit card.

Pre-Paid Credit Cards.

These are cards that work just like credit cards, except that you can't have a negative balance – you have to put money on the card before you can spend it. That means that you 'top-up' the card, like you would a mobile phone. This is good if you want to know how much you're spending, not to mention that you can even give the cards to children. They're also safer than debit cards, since someone who stole the card could only spend whatever money was on it at the time.

Bank Overdrafts.

A good bank overdraft, used together with a credit card, can be a far better way of borrowing money than using a credit card. Your overdraft limit is set by the bank according to how much you get paid into your account each month, and you don't need to pay it off until you want to.

Basically, it just gives your account the facility to go into minus numbers, if you want it to. Many banks charge relatively high interest rates for overdrafts, but rarely as high as a credit card – and they will give much better rates for good customers.

Real Loans.

When you're buying one big thing at a fixed price (like a car), or you're going to spend all the money on one type of thing (home improvements, for example), it's worth budgeting it all out and going to a bank or another loan company. They'll be able to lend you the money at a much better rate than a credit card would, simply because they know why you're taking the loan and can set regular monthly payments for you to repay it.

Credit Unions.

Credit unions are like banks, only more local. They are co-operative, owned by their members and run by the community, and are a great place to borrow money. This is because there are limits in law on how much interest credit unions can charge, and they don't need to make a profit for owners or shareholders, because they don't have any. It's well worth checking if there's one in your area.