

The domino effect of credit card debt



Credit card debt spills over into the rest of your financial life. It can affect your ability to save, raise the interest rates you're charged and may prevent you from buying things you otherwise could.

Let's say you have \$5,000 in credit card debt, with an APR of 13%, and you're paying \$200 each month. How will your financial life be affected?

Your credit score may go down

If your limit is \$10,000

CREDIT

Try to limit your debt to \$3,000

DEBT

The amount of **debt you carry is the second most important factor** in determining your credit score, behind only your payment history.

If your debt exceeds 30% of your available credit, your score may go down.

Home and car loans may cost more

The lowest interest rates go to those with a score of 760 or higher. Those with scores between 660 and 759 can still get a reasonable rate.

If your score is lower than that, **you may pay as much as two percentage points more in interest.**

That could mean a difference of \$68,000 over the life of a \$200,000, 30-year mortgage.



Emergencies may be more expensive

It's harder to build an emergency fund when extra cash goes to credit card payments.

If you're forced to finance an emergency on your credit card, the situation could get worse:



Everyday spending may feel like a stretch



The **money you pay in interest could instead be going toward everyday items.** If you're paying \$55 in interest a month, that could have gone toward a tank of gas, your cell phone bill, or your utilities.

You may have less money for retirement

You'll spend nearly \$900 in interest over two-and-a-half years to pay off the credit card. If you invested just the interest in an IRA, and earned annual returns of 7%, in 20 years **you could turn \$900 into \$3,500 toward your retirement.** Note that investments can lose money.



You may be giving up the fun stuff



What could you have bought with the \$900 you spent on credit card interest?

A big-screen TV, a nice couch or mattress, a vacation, a cooking or woodworking class, or a musical instrument.

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