The slippery slope of credit card debt: A veteran's guide

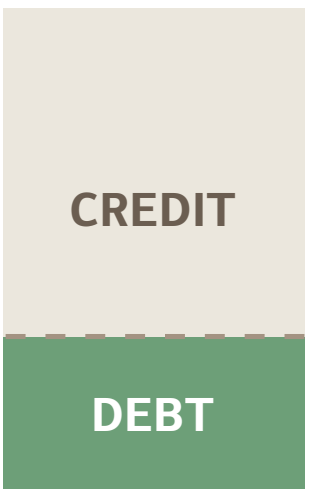
Whether your family's bills piled up while you were overseas, or you're tempted to swipe to fund your transition to civilian living, credit card debt can pile up quickly. That debt can then spill over into the rest of your financial life, affecting your ability to save, borrow and buy.

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

Try to keep debt under $3,000



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 credit limit, your credit score may go down. So if you have a credit card with a $10,000 limit, carrying a balance higher than $3,000 could potentially hurt your score.

Source: Credit.com

Home and car loans may cost more

Generally, the higher your credit score, the lower your rates on auto loans and home mortgages. If your credit card debt begins to impact your credit score, you may pay more for these things.

A lower score could prevent you from securing a home loan backed by the Veterans Administration, too. While the VA does not have a credit score minimum, many lenders issuing VA home loans require a score above 620.

Source: Credit.com

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:**

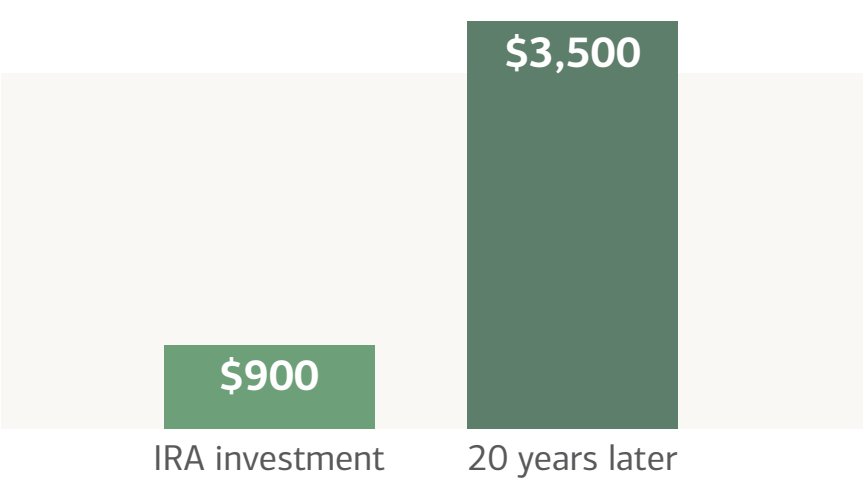
If you charge a $1,000 car repair	Payment	Total interest	Payoff time
	$50 monthly	$133	Nearly 2 years

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 $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.



*This is a hypothetical example created for illustrative purposes. It is not indicative of any specific investment. Market conditions will affect investment returns.

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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