The good and bad of credit cards for young people (18-22)

Hello, my name is Joel Allan Powell. I am a dedicated relationship management expert with more than 15 years of experience in money management, loan origination, commercial real estate development/acquisitions, credit card applications and investment services. In addition, I am a graduate of a Historically Black College and University (HBCU), the University of the District of Columbia. Welcome to my Financial Literacy podcast series, a series of podcasts; which provides solutions to help young people (18-22) with some of the issues that credit cards usage at a young age can present. These first three (3) podcast episodes will provide you with comprehensive information that will aid you in having a better relationship with credit and credit card management. This is the 1st of 3 episodes; which are:

1.) The good and bad of credit cards for the young person. 2.) How a secured credit card can put you on a proper credit track for life. 3.) What to do if you get into trouble with credit card debt at an early age. Let's get started.

As a young professional in the financial field, credit cards launched my banking career to the top tier of the financial industry. From there I went from management trainee, to banking center manager, to bank Vice President, and finally to Premier Client Manager; where I was responsible for a portfolio of Premier banking clients with assets totaling over a quarter of a billion dollars. It all started with me promoting credit card applications to students on Howard University's campus back in the spring of 1999.

In hindsight, targeting young adults to fill out credit applications is not something I would support today.

Because of that, I have dedicated myself to produce a series of podcast to address this very important topic for young people. Now let's get to it!

Some benefits of credit cards are:

1.) Easy access to credit

The biggest advantage of a credit card is its easy access to credit. Credit cards function on a deferred payment basis, which means you get to use your card now and pay for your purchases later. The money used does not go out of your account, thus not denting your bank balance every time you swipe.

2.) Building a line of credit

Credit cards offer you the chance to build up a line of credit. This is very important as it allows banks to view an active credit history, based on your card repayments and card usage. Banks and financial institutions often look to credit card usage as a way to gauge a potential loan applicant's creditworthiness, making your credit card important for a future loans or rental applications.

3.) Equated Monthly Installment (EMI) facility

If you plan on making a large purchase and don't want to sink your savings into it, you can choose to put it on your credit card as a way to defer payment. In addition to this, you can also choose to pay off your purchase in equated monthly installments, ensuring you aren't paying a lump sum for it and denting your bank balance. Paying through EMI is cheaper than taking out a personal loan to pay for a purchase, such as a television or an expensive refrigerator.

4.) Incentives and offers

Most credit cards come packed with offers and incentives to use your card. These range from cash back to rewards point accumulation each time you swipe your card, which can later be redeemed as air miles or used towards paying your outstanding card dues. Lenders also offer discounts on purchases made though a credit card, such as on flight tickets, holidays or large purchases, helping you save.

5.) Flexible credit

Credit cards come with an interest-free period, which is a period of time during which your outstanding credit is not charged interest. Ranging between 45-60 days, you can avail free, short-term credit if you pay off the entire balance due by your credit card bill payment date. Thus, you can benefit from a credit advance without having to pay the charges associated with having an outstanding balance on your credit card.

6.) Record of expenses

A credit card records each purchase made through the card, with a detailed list sent with your monthly credit card statement. This can be used to determine and track your spending and purchases, which could be useful when chalking out a budget or for tax purposes. Lenders also provide instant alerts each time you swipe your card, detailing the amount of credit still available as well as the current outstanding on your card.

7.) Purchase protection

Credit cards offer additional protection in the form of insurance for card purchases that might be lost, damaged or stolen. The credit card statement can be used to vouch for the veracity of a claim, if you wish to file one.

Here are some of the disadvantages of credit cards:

1.) Minimum due trap

The biggest trap of a credit card is the minimum due amount that is displayed at the top of a bill statement. A number of credit card holders are deceived into thinking the minimum amount is the total due they are obliged to pay, when in fact it is the least amount that the company expects you to pay to continue receiving credit facilities.

This results in customers assuming their bill is low and spending even more, accruing interest on their outstanding, which could build up to a large and unmanageable sum over time.

2.) Hidden costs

Credit cards appear to be simple and straightforward at the outset, but have a number of hidden charges that could rack up the expenses overall. Credit cards have a number of taxes and fees, such as late payment fees, joining fees, renewal fees and processing fees. Missing a card payment could result in a penalty and repeated late payments could even result in the reduction of your credit limit, which would have a negative impact on your credit score and future credit prospects.

3.) Easy to overuse

With revolving credit, since your bank balance stays the same, it might be tempting to put all your purchases on your card, making you unaware of how much you owe. This could lead to you overspending and owing more than you can pay back, beginning the cycle of debt and high interest rates on your future payments.

4.) High interest rate

If you do not clear your dues by your billing due date, the amount is carried forward and interest is charged on it. This interest is accrued over a period of time on purchases that are made after the interest-free period. Credit card interest rates are quite high, with the average rate being 3% per month, which would amount to 36% per annum.

5.) Credit card fraud

Though not very common, there are chances you might be victim of credit card fraud. With advances in technology, it is possible to clone a card and gain access to confidential information through which another individual or entity can make purchases on your card. Check your statements carefully for purchases that look suspicious and inform the bank immediately if you suspect card fraud. Bank usually waive off charges if the fraud is proven, so you will not have to pay for purchases charged by the thief.

Some of this information can be found in part or whole on the Bank Bazaar website.

I know this is a lot to digest, so please feel free to send any questions that you have to my email address: emerge4ward365@gmail.com. I will respond within 2 business days. Thank you for tuning in and I look forward to connecting again on my future podcast titled, "How a secured credit card can put you on a proper credit track for life."

All the best...this is Joel Allan signing off.