

Diversifying

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Rethinking Credit Cards



Speakers

Delyanne Barros, Miya David, Sara Rathner, Linda Goler Blount

- 00:00:02
Delyanne Barros Hey, you've reached Delyanne Barros, host of Diversifying. What's your credit card debt like? How does it make you feel? Let me know after the beep.
- 00:00:13
Caller 1 Hey there, Delyanne.
- 00:00:15
Caller 2 Hi. My name is Lynn. I'm from Tampa, Florida.
- 00:00:17
Caller 3 My name is Matthew. I live in Brooklyn.
- 00:00:20
Caller 4 I'm Kendall. I'm 20. I honestly feel embarrassed about my credit cards and having a balance.
- 00:00:26
Caller 3 I had three credit cards at one point and I basically maxed them out. And I felt very isolated. I felt alone and I felt like there was a lot I needed to learn.
- 00:00:36
Caller 5 I don't even know where to start with paying off my balance. I honestly even avoided looking at the balance unless I'm making payments.
- 00:00:46
Miya David The shame I felt admitting it to my parents was just this is an issue. They didn't think that I'd be relying on the credit card as much because I was making money. So it was a lot of like shame. And that was the moment where I was like, okay, this is a problem. I should do something about it.
- 00:01:06
Delyanne Barros That's Miya David. She's a financial writer for Insider, which means she could tell you about what's happening with the market. Basically, she knows the finance world, but asked her to explain her personal finance situation. And she'll tell you something that may surprise you. She has close to \$9,000 in credit card debt.
- 00:01:25
Miya David It's really funny because I kind of made the fact that I had credit card debt and terrible personal finance skills, but I'm a finance reporter as a joke.
- 00:01:36
Delyanne Barros But what if I told you Miya's situation is actually pretty normal? Even I have been there. When I was in my twenties and working as a lawyer in New York City. I racked up thousands in debt just by using my credit card to pay for things like going out to nice restaurants, buying nice clothes and traveling. Miya's used her credit cards in a similar way.
- 00:01:58
Miya David I use that to travel to Europe, for example. I used it to buy shoes, to buy food, to take Uber rides when I could have taken the subway.

Delyanne Barros

00:02:11

Like me, she's an immigrant. She came to New York from the Philippines to go to grad school. She was in her mid-twenties, had a little savings and a job that barely covered her rent and general expenses. She got a credit card to help her get by and build her credit score. But over time, it also became a crutch.

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Miya David

I had to turn to my credit card to kind of save me, bridge the gap between freelance paychecks and paying the government to grant me the right to stay here.

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Delyanne Barros

Miya's not alone. The average American carries a balance of just over \$5,000, and the collective credit card debt in this country is in the billions. But for those of you who avoid credit cards because you're afraid of debt, I hear you. But trust me, when credit cards are used the right way, they can actually help you build and sustain the life you want. And if you do pick up some credit card debt along the way, there are some really effective ways to manage it. So consider today's episode your guide to Credit Cards. We're going to teach you how to make them work for you. I'm Delyanne Barros, and this is diversifying.

00:03:35

Sara Rathner

What's interesting about credit cards is they're sort of this sneaky part of the personal finance puzzle. And I don't think people really realize how you can work them in to the rest of the ways you manage your financial life.

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Delyanne Barros

That's Sara Rathner. She's a credit card expert at Nerdwallet. One of my go to resources for all things personal finance. She's here to talk about the mistakes many of us make when using credit cards and how to avoid them. First, we want to talk about the misconceptions around credit cards.

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Sara Rathner

There's a lot of fear when it comes to using credit cards. I think a lot of people equate credit cards with being in debt. If you have a card, you are in debt, period. And that's actually not true. It depends on how you utilize the card. Paying it off in full every month means you'll never be in debt. And there are times in your life where you do need to take on debt for one reason or another.

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Delyanne Barros

And I think that's one of the biggest misconceptions. And I recently taught my mom this, my mom, who's turning 60 this year, who has had credit cards. I explained to her, mom, if you pay off the entire balance, you don't pay any interest. And she did not understand that. She thought she was paying interest no matter what. And I'm like, no, no, no. If you pay the entire balance, there is no interest on that credit card. And it, like, literally blew her mind.

00:04:58

Sara Rathner

Yeah. You know, and there's also this idea that it's good for your credit score if you leave a small balance from month to month and pay a little bit of interest because it shows lenders that you're somehow responsible. Don't do that. You don't have to build your credit by spending money on interest. You can build your credit for no cost by paying your bills on time in full every month.

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Delyanne Barros

Well, I want to pull back a little bit, Sara, because we jumped right in, which I love. But I want to address a big elephant in the room, which is a lot of finance gurus out there, we're not going to name any names, say, you know, credit cards are evil, they're bad, you don't need them, that you don't even need a credit score, you know, in order to have a financially successful life. And I couldn't disagree more with all of that. As somebody who uses credit cards responsibly, as somebody who's had my credit run multiple times for even something as simple as turning on my electricity. What's your take on that kind of advice?

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Sara Rathner

So I think you need a credit score. Like you said, it's a key that opens doors to a lot of things in your life, not just borrowing money to buy a house or a car or start a small business, but also to get access to utilities, cell phone plans, things like that. That being said, you do not need a credit card to build credit. There are other ways to do it. Making on time payments of your student loan payments every month can help you build credit. If you have a car loan as well, sometimes even paying rent and utility bills on time will help you build your credit. It's just that credit cards are basically among the easier ways to build credit because the application process takes just a few minutes. And then if you use the card carefully, you charge every month an amount that you know you could afford to pay back. And then when the bill is, do you pay the bill in full over time, over several months, you'll begin to see the positive effects to your credit score.

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Delyanne Barros

In addition to helping you build your credit. Credit cards offer fraud protection. This is something a lot of people overlook, but it's a huge benefit of using credit cards because they are more secure than debit cards.

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Sara Rathner

Really big thing to know is that the consumer protections around credit cards are much more robust. If you use a debit card exclusively and you have an issue with a purchase and the merchants not working with you, they're not they're not refunding your money. You can't really dispute that. And also, let's say your debit card information is compromised, your debit card gets stolen and somebody begins racking up charges on it. That money is immediately gone from your checking account. And the longer you wait to report it, the longer it takes you to notice that money is gone, the more liable you are for some portion of the stolen money. Credit cards have a lot more protections. You can dispute a charge if a merchant is not working with you and they fail to hold up their end of the sale or the contract that you have with them. Another thing it can unlock for you are credit cards that have more features, more rewards, more benefits and perks. So those cards might charge an annual fee, but you get a lot in exchange for the fee. And the value that the card provides often exceeds. That feels so good to excellent credit. Great thing to have.

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Delyanne Barros

Getting rewards sounds great, but before you can even be eligible for those things, you have to have something else. First, a good credit score. So I asked Sara to break down what score do you need to qualify for these perks?

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Sara Rathner

So typically to qualify for these cards, you need good to excellent credit. So you're looking at FICO scores between 690 and 850, and that might take time to attain if you're just getting started. And so when you're just getting started with credit cards, you're probably not going to be focusing on getting those high rewards cards.

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Delyanne Barros

Where does somebody go to get their credit score?

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Sara Rathner

So some credit reports will have your credit score at the top. So if you want to see your credit report, which is something I recommend you do at least a few times a year, you can go to annualcreditreport.com. Do not pay anybody any money to access your credit report. You are entitled to free copies. So that could be one way to get your credit score. You could also use different financial apps like Nerdwallet. Some banks will also provide your credit score as a service to their customers, and the formulas are based on what the lender is evaluating you for, what kind of loan you're taking out, things like that. So you might see some discrepancies between credit scores by looking at different sources, but on the whole, it gives you an idea of where you are.

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Delyanne Barros

So what if you're just starting your credit journey and you don't have much of a credit history? I know there's a sort of catch-22 with credit cards. Getting one can improve your credit, but to get one, you need to have credit. One way to get around this is a secured credit card. This is what I did to start building my credit when I was 18.

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Sara Rathner

A secured credit card is a card that requires a cash deposit, and that cash deposit becomes your credit limit. And this is often an option for people who are relatively new to building credit. They have limited or no credit history or they have bad credit. And the cash deposit makes you less risky for the credit card company to lend money to because you're fronting the money. And as you use the card carefully, you make your bill payments on time. You don't overcharge, you don't max out the card, things like that. A lot of these cards will offer paths forward. Maybe they'll raise your credit limit without the need for an additional deposit. They might even graduate you to an unsecured card, which are probably the credit card you think of. When you think of credit cards, there's no cash deposit involved. They run a credit check on you. You provide your income, the nature of your employment, other financial information. And then the credit card company agrees to lend you a certain amount of money per month. And that's your credit limit. That's the most you can charge the card. And then anything beyond that that you don't pay you pay interest on. So you'll pay interest with both secured and unsecured credit cards. You can get into debt with both of them, but the difference is how established is your credit score? How likely is a lender to lend you money? Because with an unsecured card, there's no asset they can take away if you don't make your payments.

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Delyanne Barros

Absolutely. I mean, you have to protect your credit score with your life. Honestly, this is the lesson that my parents taught me, and that's how I saw it. I couldn't rent an apartment without getting my credit score checked. There were so many things. Even employers are checking credit scores now, so you really have to protect your credit score. And one of the biggest ways of doing that is by paying your credit card on time.

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Sara Rathner

Yeah. You know, and even one late payment, that's more than 30 days late. So let's say you like you're out of town. You miss the email that your bill is due. And by the time you notice it, it's been more than 30 days that can drop your credit score by 100 points or more and it can take months to come back for that.

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Delyanne Barros

So what I tell people is just set your credit cards to autopay for the minimum amount. If you're using a credit card, you should know. Okay, I should always be able to cover the minimum amount no matter what. But you also want to have a calendar reminder to pay the full balance. And I suggest you pay it before the due date because you want to beat the reporting of your balance. You want them to report that you have a low to zero like zero to low balance.

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Sara Rathner

Yeah, and you can actually make several smaller payments throughout the month. You don't have to pay your bill all in one go. So you say, okay, when I get paycheck number one, I'm going to pay part of my balance. And when I get paycheck number two, I'm going to pay the rest of it. And a lot of credit cards actually let you customize your due date so you can schedule it so that it lines up with when you receive a paycheck. So, you know, you've got the money in the bank to pay that bill.

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Delyanne Barros

Yeah. And think about using your credit card for all of your regular expenses, your electricity, your cable, your Internet, you know, whatever, and your groceries. And the idea is that, oh, this is money that I was going to spend anyway. Let me put it on a credit card, build my credit, earn some points. And remember, the goal is always to pay it off by the statement closed date.

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Sara Rathner

I do the same thing. I use about three credit cards at once, and it depends on what I'm using the card for because that comes down to what they earn in different situations. And so I have the restaurant card, I have the the grocery store card, I have the travel card, I have the everything else card, which is good for like electric bills, co-pays at my doctor's office, things like that. And that way I can earn the highest amount of rewards. Where I was going to spend money anyway.

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Delyanne Barros

Using a credit card to cover basic monthly expenses is an easy way to build credit and reap the rewards. But there are more than 1500 credit cards for you to choose from. So how do you know which ones are right for you? Sara is going to walk us through it after the break. Welcome back to diversifying. There are so many different credit cards out there. Choosing the right one can feel a little overwhelming. Do you focus on annual fees, interest rates, vacation points? I asked Sara where to start.

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Sara Rathner

Nerdwallet has a great comparison tool. I don't say that just because I work there. I also say that because I've been using it myself even long before I worked at Nerdwallet. And you can search based on different parameters, things like credit score, whether or not you want to pay an annual fee. Do you want travel rewards points? Do you want cash back? Are there other features that you want? And that comparison tool can help you narrow down from hundreds of options to a more manageable, let's say, 5 to 7 options.

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Delyanne Barros

And what do you think is the best card for a first time account holder or someone who has a low credit score?

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Sara Rathner

That's like asking me to pick my favorite child. So the answer is, it depends. You might want to look at things like, do they charge an annual fee? How big does the deposit have to be? Sometimes they'll have a minimum. You have to put down at least \$200 or at least \$300. If that's too much for you, there are cards that have lower minimums, for example. So you want to look at all of that first. What's it going to cost me to carry this card? Because if your budget is limited, you definitely don't want to spend too much money managing a credit card when there are less expensive or free options.

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Delyanne Barros

You know, Sara, I'm an immigrant. I am Latina. I talked to a lot of people who are immigrants and they don't have a Social Security number for instance. Can they still be eligible for a credit card?

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Sara Rathner

So there are a small number of credit cards. You see, there's a lot with international students, too, that don't require a Social Security number. And there's another way you would have to get what's called an individual taxpayer identification number or ITIN, and that's available regardless of your immigration status. So it's a nine digit number just like Social Security, but it can be used in place of a Social Security number on credit card applications. If you have a visa that would render you eligible and you want to establish your credit here in the U.S., then it is worthwhile to explore how do I get my Social Security number? Because then once you have that, you can begin to apply for a wider variety of credit cards.

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Delyanne Barros

Okay. Let's talk about how many credit cards you should have. You mentioned you have three. I also have three. And I know some people who have like 15 credit cards and that literally gives me hives. What are your thoughts on how many credit cards is the ideal amount?

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Sara Rathner

The ideal number is what you feel like you can comfortably manage and comfortably managing a number of credit cards means that you paid all of your bills on time in full every month. If you begin to feel like you're in over your head, it means that you have too many cards open. It doesn't mean you have to close a few of them. You can just keep them in a drawer somewhere and leave the line of credit open because that can be good for your credit score as well, because the average age of your accounts is another factor that goes into your credit score calculation. So you might have a credit card you haven't used for a long time. You're thinking, Well, I want to clean out my wallet. I should cancel this and cut it up. Not necessarily. If it's an account you've had for ten years, you want that history on your side. So let's say you have a card that charges the annual fee. You can talk to the credit card company and see if there's another card that they offer that has no annual fee and they can transfer your account to that no annual fee card. So what you need to do is just use the card once in a while to keep the account active, but then otherwise pay it off, keep it in a drawer.

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Delyanne Barros

So all these steps Sara just mentioned, picking the card that's right for you, getting the perks you can afford, raising your credit score. These are all signs that you are making your credit card work for you. And if you haven't mastered this yet, don't worry. The modern credit card system, as we know it is relatively new. It's only been around for about 60 years, and initially it was only available to select groups of people. Women weren't even allowed to open personal credit card accounts until 1974. That's less than 50 years ago. It's a good thing that credit cards are now more accessible, but it also means it's easier to be overly reliant on credit cards, to regularly use them to fill in your financial gaps. This is something Miya, the financial writer we met earlier in the show, pointed out.

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Miya David

How do you stop using credit cards as like a crutch? Like, thank God for getting this job, honestly. But if I was still in grad school, how do I not depend on it? How do I make sure I still live? How do I make sure I don't accrue debt? How do I live without basically relying on the credit card for so many things?

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Sara Rathner

So I would say for a month, take a piece of paper and a pen, and every time you spend money, write down what you spent money on and how much you spent, and don't judge yourself. The exercise is not to make you feel guilty. It's to give you information. And you might look at that list after a month and say, Hey, I actually can see five places right off the bat where I could have not spent that money and my life would have been the same. So next month, I'm not going to spend money on that anymore. And then you've just boom, you've just saved like 100 bucks.

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Delyanne Barros

In my twenties, I chronically carried a \$5,000 balance per month, which stemmed from just trying to keep up with like this New York City lifestyle that I was in. And it wasn't until I was able to align my lifestyle with my income that I was able to stop that cycle.

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Sara Rathner

Yeah, there's a lot of pressure to keep up with the Joneses. It's really about asking yourself where what do I actually want to spend my money on? What's important to me? What do I enjoy? What do I not enjoy that's expensive? You know, if you've got friends who have a weekly habit of going out to a really expensive dinner out. And you go because you want to see your friends, but you don't love the restaurants. You're not having a great time. It costs you like \$75. All of your friends want to split things evenly, even though you just got a salad. You know that whole story. Maybe don't go as often to those dinners because they don't make you happy. They leave you feeling stressed out, and maybe you can find other ways to spend time with those same friends that cost less money. And then from there, you might have to rethink your budget for other things. You could cut to a point. I know people have been cutting to the bone over the last few years, and once you cut down as much as you can, then it's a question of can I be earning more money? And that's a question a lot of people have been asking themselves during this great resignation time. So this could be a golden opportunity to find a higher paying job, even for the exact same work you're already doing. And if you're in grad school and you have the ability to take on a job in addition to your studies, that's a great way to have more money available to support yourself.

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Delyanne Barros

I hope that was helpful, Miya, and thank you so much for being open and honest. And I agree with Sara that people tend to focus on budgeting and cutting expenses, but if you've already optimized your spending and still need a credit card to fund your day to day expenses, you're just not getting paid enough. I want to add that Miya's question is also about debt management. Only about a third of all credit card holders pay their balance in full. The majority of folks carry a balance each month. So I asked Sara, what can people do to manage their credit card bills, especially if we go into a recession or if people lose their jobs and can no longer pay off their credit cards?

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Sara Rathner

Number one thing is to know where you stand. It's so easy to bury your head in the sand when it comes to credit card debt because there's so many negative emotions surrounding debt, so much guilt and shame and fear and anxiety. So it's time to sit down and pull up all of your recent statements for all of your cards and write down on card number one. I owe this amount and this is my interest rate. On card number two, I own this amount and this is my interest rate. And just figure out, okay, here's where I stand today. From there, you can begin to prioritize certain debts over others. There are different debt repayment methods. The two big ones are called debt avalanche and debt snowball. And in both cases, you list your debts and you make minimum payments on all of them, and then you prioritize one of the debts with any extra money in your budget. And then once you pay that off, you move on to the next debt. On the list. The differences with debt avalanche. Do you prioritize them in order from highest to lowest interest rate? And with debt snowball, you prioritize them in order from lowest balance to highest balance. Mathematically speaking, with debt avalanche, you'll pay less interest overall, but debt snowball can be quite motivating for people because you knock that first debt out really quickly because it's the lowest balance and then from there you keep knocking debts out. And so you might find that very motivating. And honestly, whatever you find motivating, do it. Start it today.

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Delyanne Barros

I agree. I mean, paying off debt is a slog. It's not fun. I did it when I was paying off my student loans. I used the debt avalanche. But whatever gets you paying it, use that. Really like that's the right answer.

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Sara Rathner

Credit cards can feel complicated to manage. A lot of financial stuff can feel very complicated. It's very weighted with a lot of emotions. Every life decision is a financial decision. When you decide to marry somebody, when you decide to buy a house, when you decide to have children, when you decide what school to send your kids to. These are emotional decisions. They're personal decisions, but they're also financial decisions. And you should treat them as such. So you do the appropriate research to make as informed a decision as possible. So you're avoiding these tiny mistakes that can cost you big over the long term. And when you find something out, tell a friend, be that money friend who shares all their knowledge when you're out with your other friends because you can spare somebody else an expensive mistake in their own lives too.

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Delyanne Barros

Thank you so much to Sara for all of your expertise. In today's world, it's unrealistic to expect people to live without credit cards or a credit score. Credit cards have great benefits that can help streamline your life and protect your money as long as you use them responsibly. There's no reason why you can't swipe your way to dream vacations and financial security. I know we covered a lot with Sara. So let's recap with some money gems. Money gem one. I know it's tough, but if you're having trouble paying off your credit card each month, take time to figure out if you have a spending issue or an income issue. You can only budget so much before you realize that your income is a reason why you're trapped in credit card debt. Consider asking for a promotion, getting a job with higher pay or starting a side hustle. Money gem two. Don't spend money just to get the rewards, especially if you're going to carry a balance. The whole idea behind the points system is to benefit from money that you were already planning to spend. And if you carry a balance, that interest rate will cancel out any of the perks. Money gem three. If you don't have any credit history, consider applying for a secured credit card. You'll need to give a security or cash deposit, which essentially becomes your credit limit. If you're able to consistently pay your bills on time and don't max out the card, you'll build your credit score and will likely be eligible for an unsecured card, which tends to have better benefits and higher credit limits. That's all for today. But this is not the end of us talking about credit cards. This is a huge topic and we'll definitely be returning to it later on. Next Monday, we're switching gears to cover a story that has been dominating the headlines the past couple of weeks, abortion. We are going to look at the economic effects of the Supreme Court overturning Roe v Wade.

00:26:53

Linda Goler Blount

By removing this ability to make the best health and financial decision from a woman you condemned her or her family and future generations to persistent poverty from which they can't escape.

00:27:09

Delyanne Barros

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