



## **Credit Counselling Service** of Newfoundland and Labrador

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### **Credit Cards**

They're about 8 1/2 x 5 1/4 centimeters. They've become more common than cash. The whole story of your use of them is maintained on that small magnetic strip on their back.

There are about 2.5 of them for every human in Canada, about 75 million in all by some estimates. Finding out how much is owed depends on whom you ask. Some estimates suggest an average balance of \$1,200.00. They weigh one fifteenth of an ounce each. So 106 of them will make up a pound of plastic and the 75 million weigh about 720,000 pounds. However their financial weight is well over 100 billion dollars.

Like anything credit; they're wonderful. Wonderful that is, if used wisely, appropriately and with prudent discretion.

Credit cards and the public's almost fervent consumption of goods and services using them began in the mid 1960's. If you're in your 30's you can't recall not having a credit card or two. But if you're in your 50's you can well recall your first. By the 1970's the pace of use had picked up and by now, say 45 years or so later, virtually everything we consume is a credit card consideration or can become one.

It's interesting, to also note, that the real "measurement" to our standard of living came into play with common use of credit and credit cards in the 1960's. Marketers with large national retail chains began to understand that people rarely "saved" for a major purchase, at least working class people didn't. But they put great priority on maintaining their good name and so they always paid their debts. Then as now, 99% of the population always paid up. Only 1% needed to be "chased". Almost half of this 1% paid if prodded, so losses were minimal. The evolution of this mentality and the acceptance of the financial reality by business allowed people to begin consuming goods and services much sooner than had previously been possible. Homes began to fill up with "stuff", the economy improved and ultimately 2 people working in each household was necessary to keep ahead – but that's a story for another week.

Regrettably the interest rates charged were oppressive, at least with certain retail cards. Many consumers paid 30% or more for their new sofa. 10 or more years passed before bankers began to recognize this lucrative credit market. But when they did, consumers won again with lower borrowing costs.

But where did credit cards come from? Actually from Frank X. McNamara. Frank, (I suspect his name was Francis Xavier, but I really don't know for sure) was dining out one evening in New York City. When the waiter brought the check, an embarrassed McNamara, who was the head of Hamilton Credit at the time, discovered he'd forgotten his wallet. He decided to invent the credit card, which appropriately enough he called "Diners Club". His card was soon used by 20,000 New Yorkers, who preferred to present it not only at restaurants, but also for gasoline. McNamara was convinced his metal card was only a fad, and so he sold his interest in the business off; poor Frank. But I digress...

In any event, over time the market place continued in its natural evolution. By the 1990's things had come almost full circle and our need for a credit card from almost every outlet where we did business had diminished. This was because most stores accepted either or both of the bank issued Visa or Master Card. This was a good thing for consumers too, since bank credit card rates are so much lower for the most part.

Oddly though, in spite of the numerous changes to the credit card market, the majority of the "good ideas" for their use, which evolved 50 years ago, still apply. Think about these facts;

- We should never allow our credit availability to exceed what we need.
- We should not allow ourselves to be up – sold just because we've got a credit card in our pocket.
- We should pay the balance in full each month, and we should always make as large a down payment as is possible on a big-ticket item.
- We should reconcile our credit card statements every month.
- We should keep our credit card balances written down, and we should list it among our liabilities.
- We should always know the location of our credit cards.
- We should never allow ourselves to adopt a "minimum payment only" mindset. \$2,000.00 in appliances will cost over \$9,000.00 if we make only minimum payments of 3% of the balance each month, presuming the annual rate of interest is 29%.
- We must remember that time is money! Making minimum payments means you'll need more time, and more time and you guessed it, still more time. 30 years plus 6 months to be exact if you make minimum payments of 3% of the balance at an annual interest rate of 29%.
- If you're in trouble with credit cards, consider radical action as the cheapest way to resolve the problem. Radical action includes prioritizing the cards, cutting back on expenses to "create" cash for payments, or even selling off some of your assets. Consolidations works too, but this should only be chosen if you've taken steps to cut the sources of credit in the first place.
- Recognize that it's not "your" credit card. The pieces of plastic fantastic that you use are actually owned by the financial institution whose name appears on them.

Some of the NEW REALITIES of credit cards for consumers today to be careful of are:

- Don't get caught up in loyalty points plans as your only reason for using a credit card.
- Don't use a credit card for a cash advance unless you're in an extreme emergency.

Next time, I'll be talking about "Buy Now Pay Later" programs.

Al Antle  
Executive Director  
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