

Just in the time for holiday shoppers: Personal finance professor offers advice on breaking credit addiction

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Tahira Hira is an ISU professor of personal finance and consumer economics who serves on the President's Advisory Council on Financial Literacy. Here, she answers a question at the council's listening session last November in Des Moines. Photo by Michael Adams, Greater Iowa Credit Union

(PhysOrg.com) -- An October survey of 3,800 consumers by the National Foundation for Credit Counseling found that more than two thirds (68 percent) planned to pay in cash for their holiday purchases this year, while only 22 percent planned to charge them to their credit cards.

That's good news to financial literacy advocates like Tahira Hira, a professor of personal finance and consumer economics in the Department of Human Development and Family Studies at Iowa State

University. But with money being so tight for many people this holiday season, Hira suspects some may not be able to resist the credit temptation when making their purchases.

And for those who may suffer from a credit addiction as they literally "charge" their way through the [holiday season](#), Hira has a plan on how they may be able to kick the habit.

"If you feel that you are addicted to credit cards and have large outstanding balances on your cards, then you need to first understand what the current reality is and what exactly you did to create this situation," said Hira, who serves on the President's Advisory Council on Financial Literacy and is an internationally known financial literacy researcher. "Then, and only then, will you be able to recognize what you need to do differently to change the situation. We cannot expect a change in our situation if we continue to do the same things."

After facing up to your financial problem, Hira says there are steps you can take to break the credit addiction.

Step one is to take stock of your credit card behavior by answering these questions:

- How many credit cards do you have?
- What is the current balance on each of those cards?
- What exactly do you use the credit cards for? "Do you buy items that are part of the carefully developed spending plan, or use your cards to buy whatever you want, whenever you want, without any thought to whether there will be funds to pay the bill?" she asked.
- What is your payment style? Do you make minimum, partial, or full payment?
- What interest rate do you pay on your balances for each credit card?

Step two requires you to take these actions:

- Move all your current balances to the lowest interest rate card or cards. "If your balance is too large for one or two cards, you may have to work with a credit counselor to assist you," Hira said.
- Once the credit card balances are paid off, cancel each of those cards -- leaving only the low-interest card, or two at the most.

Step three is a move to freedom through these measures:

- Do not charge any purchases on the cards you have left. "Don't carry them with you. Put them away safely," Hira said. "You just have to live within your means, and not buy things for which you do not have cash. Live your reality and not the illusion."
- Make as large of a payment as you can on the card or cards you now have left to pay down the balance. "You have to stay with this plan till you get rid of all the money you owe on these cards," she said. "The length of period it will take you to pay off this balance will depend on the size of your balance. And the size of your monthly payment."

Step four is the "liberation stage" and a time to celebrate.

"Once you have paid off all the outstanding balances on your credit cards, take time to celebrate," Hira said. "This is a huge accomplishment and you need to recognize that you have given yourself the best gift -- the power of being in control of your situation and living within your financial reality."

Going forward, she advises recovering credit addicts to only use credit cards on purchases when they know they have the money in the bank already to pay for them. In the case of large purchases -- such as a car, home, college tuition, etc. -- that may exceed your bank balance, she recommends finding a best alternative to borrow the money, with a plan to pay it off within a defined period.

"Remember, when you charge a consumption item (food, clothing, entertainment) and you don't pay the full amount when you receive your monthly bill, you are 'borrowing' money at the highest interest rate possible. And due to the power of compounding, your consumer debt will start growing at a very fast rate," Hira said. "In a very short time, you can get yourself deep in [credit card](#) debt, which then starts to claim larger and larger proportion of your cash -- even when you are not charging anymore and are making minimum or partial payments."

Provided by Iowa State University ([news](#) : [web](#))

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