John S Kiernan, The Pros And Cons Of Credit Cards

Credit cards have both pros and cons, though with responsible use, the benefits far outweigh the downsides. The pros of credit cards range from convenience and credit building to 0% financing, rewards and cheap currency conversion. The cons of credit cards include the potential to overspend easily, which leads to expensive debt if you don’t pay in full, as well as credit score damage if you miss payments.

To help you make the most of the positive features while steering clear of the pitfalls, WalletHub put together a list of the biggest pros and cons of credit cards. Hopefully, this will make it clear why responsible credit card use is a no-brainer. You don’t even need to make purchases with a credit card to benefit.

Biggest Pros and Cons of Credit Cards

Rank	Top 10 Credit Card Pros	Top 10 Credit Card Cons
1	Credit Building	Overspending and Debt
2	Convenience	Fraud
3	Rewards	Fees
4	Pay Over Time	Fine Print
5	Theft Protection	Vague Approval Requirements
6	Online Shopping	Harmful When Misused
7	Hotel & Rental Car Reservations	Deferred Interest Financing
8	Balance Transfers	Short-Term Credit Hit
9	Travel Insurance	No Business CARD Act
10	Cheap Currency Conversion	No Preset Spending Limit

Below, you'll find explanations for each of the top pros and cons of credit cards.

Top Credit Cards Pros

1. **Credit Building**

   Credit card companies relay account information to the major credit bureaus on a monthly basis. If you use your card responsibly, the positive information reported to the credit bureaus will allow you to build or rebuild a solid credit history. You also don't need to use your credit card to benefit. As long as you have an open account that is in good standing, positive information will appear on your credit reports every month.

2. **Convenience**

   A credit card is easier to conceal and carry than cash, and it's also a lot easier to keep tabs on a card than the exact amount of cash you have with you. Plus, with a credit card, you don't need to worry about having a lot of cash on you for big-ticket purchases. In the unfortunate event that your credit card is lost or stolen, you aren't liable for any unauthorized charges and therefore won't lose any money. You can't say the same for cash.

3. **Rewards**

   Many credit cards provide rewards in the form of cash back, airline miles, hotel points or gas rebates. These rewards subsidize the cost of purchases and can be traded for unique amenities. Some rewards cards also offer discounts and exclusive access to shows, ball games and concerts; VIP treatment in airports and hotels; concierge services; special gifts; and much more.

4. **Pay Over Time**

   Credit cards give you the ability to buy now and pay later, even over the course of months or years. Plus, many credit cards offer 0% introductory APRs. Using such a card for a big purchase can save you a lot on interest, as long as you pay off your balance before the regular rate takes effect.

5. **Theft Protection**

   Credit cards have $0 liability guarantees, meaning you won't lose any money if your card gets lost or stolen. You can't say the same for cash.

6. **Grace Period**

   You have at least 21 days from the time you receive your credit card bill each month to pay it. This means that if you pay your bill in full every month, you may have up to 51 days (21-day grace period + 30 days in a billing cycle) before you have to pay your credit card issuer back for the purchases you make. This helps your cash flow and comes in handy in the rare event that you detect unauthorized charges on your account. A credit card gives you a substantial buffer to sort out any problems before they truly affect your bank account and the rest of your finances.

7. **Online Shopping**

   You may be able to use other payment methods to buy things online, including debit cards, prepaid cards, gift cards and PayPal. But credit cards are best suited to the task. Virtually all merchants accept credit cards, which also happen to have both the best fraud protection and the most generous rewards.

8. **Hotel & Rental Car Reservations**

   It's possible to rent a car or hotel room without a credit card in some cases. But credit cards make it easier and less expensive. Car rental companies and hotels typically place a hold on your account for incidentals. And it's better to have your credit line tied up than the actual money in your bank account. Plus, booking with a credit card allows you to earn rewards and take advantage of any travel insurance your card might offer.

9. **Balance Transfers**

   Using a 0% balance transfer credit card can help you drastically reduce the cost of what you owe and get out of debt much sooner. It doesn't have to be credit card debt, either. Some credit card companies let you transfer balances from various types of loans.

10. **Travel Insurance**

    Credit cards can provide insurance against cancelled or delayed trips, travel accidents, lost luggage and even death. The amount of coverage you get depends on the card you have, so make sure to look into the details before traveling.

11. **Cheap Currency Conversion**

    Credit cards do the conversion automatically when you make an international purchase. And they provide some of the best exchange rates possible. By using a Visa or Mastercard with no foreign transaction fees when traveling abroad, you'll save up to 8% compared to popular options for exchanging hard currency. Just make sure to steer clear of dynamic currency conversion.

12. **Improving Financial Literacy**

    Credit cards are an important aspect of teaching your kids financial literacy. If used correctly by parents, credit cards can be an excellent tool for teaching kids to not spend beyond their means, even if given the temporary ability to do so.

13. **Expense Tracking**

    Credit cards make it easier for anyone to track their spending over time. This pays off when it comes to household budgeting, cash flow management and more.

14. **Small Business Perks**

    Business credit cards provide a number of helpful features tailored specifically to the needs of small business owners. They include more rewards on things like office supplies and telecommunication services. You also get robust expense tracking tools, plus the ability to give employees cards with customizable limits whose rewards you keep.

15. **Car Rental Insurance**

Many credit cards automatically provide supplemental rental car insurance, which covers you in the event of damage or theft. That means you don't need to buy the insurance the rental company offers. In fact, if you do buy it, the coverage your card provides will be nullified.

16. **Extended Warranties**

    Some credit cards offer extended warranties on purchased items as a benefit. People sometimes waste money on extended warranties from retailers, not knowing their credit cards provide that perk for free.

17. **The CARD Act (applicable only to consumer credit cards)**

    The Credit CARD Act of 2009 made using a credit card a whole lot safer. It's the reason you no longer need to worry about excessive fees. And it's why your balances won't suddenly become more expensive without cause. It only applies to credit cards for personal use, though.

Top Credit Cards Cons

1. **Overspending and Debt**

   When people use a credit card, they often spend more than they would have with cash. When our payments aren't tangible, they don't feel as real, which is especially true if we know we won't have to deal with the bill for weeks.

   Many people view their credit cards as supplemental forms of income, and shop based on their desires rather than necessities. Habitual overspending with a credit card will leave you with expensive debt. And from there, it is easy to find yourself unable to make monthly payments, putting you at risk for delinquency, collections or even a lawsuit.

2. **High Interest Rates**

   Credit card APRs are high compared to most other interest rates you'll come across. For example, the average APR on a new credit card offer is 20.16%, according to WalletHub's latest Credit Card Landscape Report. For comparison, auto loan interest rates tend to range from around 3% to 7%, and mortgage rates usually range from 3% to 6%. That's why you should pay credit card balances in full whenever possible.

3. **Fees**

   The average credit card charges an annual fee of $22, which isn't terrible. Besides, it can be worth paying an annual fee to get better rewards. It may also be worth paying a balance transfer fee to move your debts to a card with a lower interest rate. But other fees are just a costly nuisance that should be avoided. They include cash advance fees, account overdraft fees and foreign transaction fees.

4. **Fine Print**

   Credit card application disclosures are notorious for being difficult to read. But you have to review them to avoid surprises, such as increased interest rates or unexpected fees.

5. **Vague Approval Requirements**

   Credit card companies will tell you that approval is based on your credit history, income and debt. You might even know the minimum level of credit (i.e. Excellent, Good, Fair, Limited or Bad) that's required. And some issuers give you the opportunity to check for pre-approval before you apply. But other than that, you're pretty much flying blind, without much in the way of specifics.

6. **Fraud**

You're assured $0 liability for unauthorized transactions made with your account. But disputing the charges can be a hassle. Fraud can also cause temporary damage to your credit report if it causes you to miss payments. So it's important to protect your personal information and check your credit card statements for errors each month.

7. **Deferred Interest Financing**

   It's become common practice for retailers to advertise 0% introductory interest rates on their store credit cards for extended periods of time, with a catch called deferred interest. If you don't bring your balance to zero by the end of the 0% intro period, or you're late with a monthly bill payment along the way, the 0% rate goes away.

   Worse still, interest retroactively applies to your entire original purchase amount at a high rate. It's like the 0% rate was never there. So you go from thinking you'll save a lot of money to paying through the nose. At the very least, this means you need to be very careful with retailer financing offers. But it's important to note that general-use credit cards with 0% APRs don't use deferred interest. Those are cards with a Visa, Mastercard, American Express or Discover logo.

8. **Harmful When Misused**

   Credit cards are the best tools available for credit building. They're fairly easy to get; they can be free to use; and they report account information to the major credit bureaus each month. But monthly credit-bureau reporting represents a fork in the road. It's an opportunity to either build your credit or ruin it, depending on how responsibly you use your card.

   If the information is negative, including missed payments and high credit utilization, for example – your credit score will suffer. Credit score damage will make it harder to get good rates on future loans, apartments, credit cards, etc. Past-due balances can also lead to collections accounts and even lawsuits. So the repercussions of serious credit card debt are pretty severe.

9. **Short-Term Credit Hit**

   Each time you open a new credit card account, your credit standing will take a short-term hit, lasting a few months. It's therefore a good idea to never open a credit card right before you need the best credit score possible, such as if you are applying for a loan.

10. **No Business CARD Act**

    Unlike consumer credit cards, business credit cards lack the protection of the CARD Act. Most importantly, this means creditors can increase the interest rate on business-card balances whenever they want. Fortunately, some issuers have proactively extended certain parts of the CARD Act to their business-branded products.

11. **No Preset Spending Limit**

    Some credit cards have spending limits that can change monthly based on your usage habits and the economic environment. They're known as No Preset Spending Limit, or NPSL, credit cards. Such cards make it difficult to manage your credit line and plan expenses. The way they report information to the major credit bureaus can also make it seem like your credit utilization is higher than it really is. That can cause undue credit score damage.

12. **Household Income System**

    The CFPB's decision to allow the use of shared income on credit card applications was viewed as a significant victory for stay-at-home parents.

But the ruling also makes it harder for credit card companies to judge how much spending power to give us. Because applicants only have to list individual debts, credit card underwriters can't determine how much disposable income a person really has.

In other words, someone could list their combined income with a spouse, along with their personal debts, on a credit card application. But what if the spouse already owes a lot of money? There wouldn't be as much left over to pay for that new credit card. And that would increase the odds of delinquency and default.

Bottom Line

Credit cards have both pros and cons, but they still do more good than harm at the end of the day. When used responsibly, a credit card can help you build the credit history needed to buy a home or a car. It can lower the price of everything you buy, thanks to rewards. And it provides everyday convenience. Furthermore, the credit card market is as consumer-friendly as it's ever been, thanks to the CARD Act.