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Using Quarantine Time to Shop Online?

Beware the consequences to your credit!

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More people following "stay at home" orders during the coronavirus outbreak, and cash is no longer king. With concerns about passing around bills, the homebound are ordering take-out and shopping online using credit instead.

But relying heavily on credit cards could not come at a worse time for the millions who have lost income or suffered a job loss as a result of shutdowns. It's especially bad for those who may have already been in debt.

"Household debt is at an all-time high," said Michael J. Graetz, a law professor at Columbia University and co-author of "The Wolf at the Door: The Menace of Economic Insecurity and How to Fight It." "People have no savings to fall back on. They were maxed out on credit cards with extraordinarily high interest rates even before the coronavirus. It is very worrisome."

Household debt rose to \$14 trillion in the fourth quarter of 2019, a new record, according to the Federal Reserve Bank of New York.

The reliance on credit has already begun, according to a study from LendEDU. Nearly 70% of those who lost a job because of coronavirus are taking on more credit card debt than planned. Of those who have had their work hours cut, more than 60% are using credit more. Even 37% of those whose job remains unchanged are relying on cards more.

Here's how to make the most of credit cards now and avoid getting in trouble down the line.

Use the right card the best way

People turning to their credit cards more than usual need to keep an eye on their total spending in relation to income coming in, said Eric Powell, a chartered retirement planning counselor at RightPlan Financial in Lakeland, Florida.

"There is always the possibility of a decrease or total loss of income, now especially," said Powell. "I like credit cards for the rewards that come with them, but being bored isn't an excuse to buy unnecessary items."

Right now, use the card with the lowest interest rate.

Keep your cost of borrowing as low as possible if you are regularly using credit, especially if you are worried about not being able to pay off the bill at the end of the month. That's more important than credit card rewards right now, Geisbauer said.

There will also be a temptation to pull out money for the instances when you need cash. "Avoid taking cash advances," Geisbauer said. "These are usually the highest rates."

Request the help you need

Regulators, like the Federal Deposit Insurance Corporation (FDIC), are encouraging banks to work with people struggling with payments. Your credit card company may be willing to negotiate with you to reduce your payments, adjust your interest rate or defer payments temporarily.

Top credit card issuers have responded with plans to support users, including Wells Fargo, Citi, Capital One, US Bank, Barclays, Chase, Discover, Bank of America and American Express.

"If your financial world has been turned upside down, the best time to call your credit card issuer and let them know is today," said Matt Schulz, chief industry analyst at CompareCards.

There has been a lot of talk about what the Federal Reserve has done by cutting rates and government relief efforts, but those take time. Some of the changes that an issuer can offer will help you today, said Schulz.

"Reduced APRs that kick in quickly. Waived fees. Extended payment deadlines," he said. "These can be very important in the short term, as you figure out how you will get to the end of this month, or the end of this week."

But be careful. The credit card company may opt to reduce your credit limit, said Howard Dvorkin, founder of Debt.com, a debt resolution resource site. But getting a lower interest rate might be worth the risk.

"I would advise that people drill down on their credit right now and see what opportunities you have to reduce your payment and reduce your interest," Dvorkin said. "To reduce the interest is the ultimate thing."

Keep total debt from spiraling

If you are already deep in credit card debt, Dvorkin said, a balance transfer credit card can help you pay off the debts, so long as you have a plan and get the payments done in the window of 0% interest. The best balance transfer credit card is the one that offers the lowest transfer fees with the longest 0% APR promotion period, Dvorkin said.

But this balance transfer method only works if you pay off your debts as soon as possible, he said, since the rate will be much higher after the introductory period. If you've already lost your job or expect to, and think you might not have income for a while, doing a balance transfer now could put you at risk.

The most important thing to do right now, said Dvorkin, is to avoid taking on too much debt. Only buy the essentials and keep your eye on your debt.

"It's in your best interest to avoid panic buying and unnecessary expenses while this crisis lasts," said Dvorkin. "Know that there is a solution to debt once this storm blows over, and, by not maxing out your credit cards now, you can put yourself in the best position possible."

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