GENESIS BANK
INSTITUTE FOR ENTREPRENEURSHIP

# CREDIT CARD DEBT: 5 REASONS TO PAY IT OFF ASAP

Tackling credit card debt can be challenging, but the results are definitely worth it.

**Less Is More**
Experts recommend keeping your credit utilization ratio under 30% to avoid hurting your credit score and under 7% to help you get the best score.

**Credit Card Debt: 5 Reasons to Pay It Off ASAP**

It’s time to get serious about paying off credit card debt.

When you’re carrying credit card debt, it can weigh on you month after month – all the while growing bigger and bigger and dragging down your finances. Wouldn’t it be nice to pay off those cards for good? Tackling credit card debt can be challenging, but the results are definitely worth it. Here are five positives you can enjoy when you knock down debt.

1. **Lower your interest charges.** Let’s cover the basics: a credit card is connected to a line of credit that lets you borrow money to make purchases. When you use your card, you agree to pay back the amount you borrow, plus any interest that accrues on balances that you haven’t yet repaid. The more credit card debt you carry, and the longer you go without repaying it, the more interest you’ll rack up over time.
2. **Lower your stress.** Worrying about how you’re going to pay your bills and cover all your other living expenses can be stressful. Sometimes very stressful. While occasional stress isn’t that

harmful, constant stress can be very unhealthy, leading to headaches, higher blood pressure, and other serious issues. Being debt-free can reduce your anxiety and help your financial, mental, and physical well-being.

3. **Help raise your credit score.** Your credit score is determined by several factors: one is your payment history. Another is the percentage of the total credit you're using – your credit utilization ratio. Some people believe that carrying a credit card balance can help your credit score, but that's a myth. In fact, high credit card balances mean high credit utilization, which can negatively affect your credit score.

   A lower balance translates into lower credit utilization, so making regular, on-time payments and keeping your balance low can help your credit score. And a better credit score can help you qualify for better interest rates when you go looking for other loans or a mortgage. One more incentive to pay those cards off!

4. **Free up more of your budget.** Another incentive is the possibility of putting more cash in your pocket. If you paying for things using your credit cards, by taking on debt, you have less money for what you really want or need. So you put those things on your credit cards too – creating even more debt. Paying off your cards can help end this vicious cycle and give your budget some breathing room. You can use that cash you're not paying on interest for other living expenses, savings, or maybe a vacation getaway.

5. **Help future you.** Being saddled with credit card debt makes it harder to save for emergencies or to put money away for retirement. Plus, when you charge something today, you're really just borrowing from your future income. The more you charge and the higher your payments, the less money you'll have to live on. So, do your future self a favor by taking steps toward being debt-free.

6. **Pay Off Debt or Build Your Emergency Fund?** We mentioned saving for emergencies, and it's a good idea to have money put away for unexpected events like car repairs, medical bills, or other unforeseen situations. Generally, you'll want to have accessible cash to cover three to six months of living expenses. However, if you have credit card debt, the interest you're paying can make it difficult to save. Some experts recommend putting extra cash towards paying off your credit cards first because you'll save more in the long run.

Let's look at an example:

If you had a credit card balance of $6,000 and an interest rate of 17.9%, and paid only $200 per month, it would take 41 months to pay it off. And you'll have spent $2,014 in interest alone – making your total $8,014 ($6,000 + $2,014).

Some experts feel this is better than the alternative. If you put that $200 each month toward building an emergency fund from scratch in a high-yield savings account with an annual percentage yield of 1.01%, in three years you'd have just $7,307, including $107 in interest earned on your balance. However, you'd still have your credit card debt.

Mathematically, at least, focusing on high-interest debt repayment makes more financial sense.

You'll want to think about what works best for your personal situation: tackle debt and save big on interest charges or put money away for emergencies and continue to rack up even more interest on your credit card balance.

**Your Journey to Being Debt-Free**

As you can see, there are lots of plusses to paying down your debt. While credit cards can be handy in certain circumstances, it's important to use them responsibly and stay within your budget when possible so you don't start back on the credit card debt treadmill. If you have questions or want help managing your finances, reach out to your financial institution.

Interested in more?
Visit **mygenesisbank.com/GBIE**

For more information on how you can get involved with the Institute, please reach out to **Dani Feigin** • Head of Brand Partnerships

**E** dfeigin@mygenesisbank.com **P** 949.273.1497
**A** 4675 MacArthur Court, Suite 1600 Newport Beach, CA 92660