



Consumer Tip August 2017: Are Store Credit Cards Worth It?



While store credit cards might seem like a safe option compared to general-use credit cards, the truth is they can get cardholders into serious debt if not used responsibly. However, if used correctly, they can save money on both big-ticket items and smaller everyday things.

If you're thinking about opening a store credit card, below are some perks and pitfalls to consider when deciding if it's the right decision for you and your finances.

Perk: Store Credit Card Qualification is Easier

The application requirements, such as your credit score, are less strict with store credit cards compared to regular credit cards so there is a better chance you'll be approved.

Pitfall: High Interest Rates

The counter side of store credit cards being easier to get is that they carry higher interest rates. It is especially important to spend responsibly so you can pay off your full balance every month before interest kicks in. Also, retail cards generally carry a lower credit limit.

Perk: Help Build Credit

If you're young and haven't had a chance to build a credit history, or if you're trying to repair past poor credit, a store credit card can be helpful. Again, you can usually qualify for a store credit card with a lack of credit history or lower credit score. Once you get the card, experts recommend you make a purchase or two a month—keeping the total below 10 percent of your credit limit—that you pay off on time and in full every month to build your credit history and boost your credit score.

Pitfall: Applying for Credit Impacts Your Credit Score

Every time you apply for credit, regardless of what type it is, your credit score takes a small hit. For most people, that's fine as you'll build it back quickly, especially if you're using the card responsibly. But you don't want to open numerous retail credit cards over a short period.

Also, if you're planning to refinance or apply for a mortgage, hold off on opening any new lines of credit.

Perk: They Provide Discounts and Incentives

The reason most consumers get store credit cards is for the discounts and other store perks.

The smart thing to do is wait to open a store card until you make a large purchase, on furniture or electronics for example, which can lead to hundreds of dollars in savings. Alternatively, it makes sense to get a card from a retailer you regularly purchase from to benefit from ongoing smaller perks like discounts and in-store rewards.

Pitfall: Temptation is Tough

The hardest part of having a retail card for a store you frequent is the temptation that comes with the special discounts and incentives. Experts advise to throw out coupons unless you were already planning to go to the store for a specific reason. If you wouldn't buy it without the coupon, you probably don't need it with the coupon.

At the end of the day, a credit card is a credit card. If you're borrowing money, which is what credit is, you need a budget and a plan to repay it in full every month. This is even more true with retail cards and their high interest rates. Think about it this way: If you get a 20 percent discount for using a store credit card but the monthly interest rate is 25 percent and you don't pay it in full monthly, you're losing money.

However, there are times when opening a store credit card makes financial sense, but ensure you evaluate whether it's worth it before you're tempted at the register by a salesperson's hard sell.

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