



# Extension News Column

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We've all seen the ads—apply for a store credit card and get an immediate 10% or even 15% reduction on your purchase. Chances are, you might have been tempted to do it.

In most cases, it isn't a wise move. Check the numbers before you sign on the dotted line.

Most retail stores offer credit cards with interest rates between 23% and 30%, much higher than bank-branded credit cards. According to the LowCards.com Weekly Credit Card Rate Report, the average advertised APR last week among the nation's 1000+ credit cards was 14.04%.

Some cards, such as the Napa Auto Auto Care Easy Pay and the Lane Home Furnishings Credit Card, are charging a 30% interest on credit card purchases. Both Goodyear and Zales have 28.99% APR on their cards; Office Depot Personal Credit Card charges 27.99%; Sears charges 25.24%; and Macy's credit card has a 24.50% APR.

There's a reason for these higher rates. They carry higher interest rates than those issued by banks because they are often held by borrowers who might have a lower credit score and have fewer credit options. Issuers of these cards reported far higher losses on these private label cards than bank cards during the financial meltdown in 2008. In fact, General Electric and Citigroup, two of the largest issuers of private label cards, tried to sell off their private label business but neither could find anyone willing to buy these cards.

There are plenty of reasons to avoid these retail credit cards:

These extra high interest rates applies to every applicant, no matter your credit score. If you use the card to pay for a purchase and know you can't pay it off, figure the complete costs of the purchase before using the card. Add in the cost of your interest penalties to the price of your purchase. If your interest rate is 29.99% on a card with a \$500 balance and you just make the \$20 minimum monthly payment, it will take three years to pay off your balance and you will pay \$295 in interest payments. Instead of paying \$500 for the purchase, you are paying almost \$800. If you received a 15% discount, that is only \$75. The credit costs far outweigh the discounts.

Retail cards can pull down your credit score. Retail cards usually have low credit limits since merchants want to minimize their financial risk. If you carry a balance, this will increase your credit-utilization ratio, which is an important factor in your credit score.

If you apply for multiple retail cards, this can also pull down your credit score for two reasons. Opening these store accounts will lower the average age of the cards in your credit history, and the length of credit history accounts for 15% of your credit score. Secondly, every time you apply for a card, the issuer may pull your credit score, which is a "credit inquiry." Too many credit inquiries can lower your credit score.

It might be more financially advantageous to use a regular credit card, cash, or debit card for your purchase. In most cases, the discount won't pay off in the long run.

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