Credit Card Debt: How It Hurts And How You Can Escape

Total up the credit card debt of all the people in America, and it gives each household a staggering balance of $7,115 according to the Federal Reserve. Among just those who have debt, the average balance in $15,252. About half of households regularly carry a credit card balance. With high rates of unemployment, circumstances often force people to use credit cards to finance their lifestyles. This "strategy" leads to significant levels of indebtedness and low chances for repayment.

Yes, this debt level is staggering. It can be the biggest enemy of people who are trying to build wealth. Let's look at some of the costs of credit card debt and what you can do about it.

The financing costs are high

In February 2014, the average APR on a credit card was about 15 percent. That means, before considering potential late fees and other expenses, the "debt service" cost on the average household's debt is $2,287. That's the amount the debt will grow assuming that no other spending on the cards takes place. If you have a complicated credit history, your interest rate could be as high as 22 percent. Your debt service then grows to $3,355.

As your credit card statement is legally required to inform you, the debt service costs exceed the minimum payment. This cost will continue to grow forever, even if you never spend again. Interest rates, though, are only the tip of the iceberg.

Credit card companies also stack late fees, collection fees, and other miscellaneous charges on top of these fees. These fees then contribute to the debt load and are charged interest at the same rate. Carrying long-term and high amounts of credit card debt is among the worst things you can do for your personal financial health.

The hidden costs are high

One of the biggest factors in determining your credit score is a figure called your "debt utilization ratio." This is the percentage of your available credit that you're currently using. Say you have a credit limit of $5,000 and you carry a balance of $2,500. That means your debt utilization ratio is 50 percent. Anything higher than 7 percent can negatively impact your credit score, making it more difficult to get other kinds of credit (such as an auto loan or home mortgage).

It doesn't stop there, though. That lower credit score also translates into higher interest for unsecured loans, like credit cards. This increase in cost eats up your credit limit faster, driving your credit score down, and contributing to even more debt.

Not only does it hurt you financially, but many employers now use credit checking as a way to assess the trustworthiness and long-term planning of a potential employee. Having a low credit score could cost you a chance at your dream job.

The investment opportunity is tremendous

Savvy investors always like to talk about "ROI" (or return on investment). That's the percentage of the money they invest that they get back and the rate at which they get it. Warren Buffett, perhaps the shrewdest investor of our time, gets an average return on investment of 17 percent for his investment company. This is the best work that the best investors in America can hope to achieve. They have to hunt long and hard for places to earn that kind of return.

The interest rates on your credit card debt are right around 17 percent. Getting rid of your credit card debt can achieve those kinds of returns by saving you an extra 17 percent on every dollar you pay down. It's the smartest investment decision you can make.

MembersAlliance credit union can help

Most habitual credit card users fall into a trap. They charge a great deal to one card then sign up for another to take advantage of low interest rates on balance transfers. They carry this huge ball of revolving debt with them and don't see much of a way out.

Fortunately, your credit union is there to help you get out of the crushing cycle of revolving credit card debt. You can get a debt consolidation loan that will help repair your credit score, consolidate your monthly bills into one payment and make that debt cheaper with a lower interest rate. Here's how they work. You agree to a term of repayment, usually 60 months, and an interest rate. Your credit union issues you a loan for your credit card balance. You then pay them the same fee every month for that 5 years until your debt is repaid. You walk away with an improved financial history and no debt. Congratulations, you are now ready to start saving and investing in your financial future.

Debt consolidation loans aren't the silver bullet to your financial problems. They work in conjunction with credit counseling, financial education, and budgeting help to get you on the path to financial well-being. It's time to get control over your financial future. Stop by the credit union today to discuss a debt consolidation loan.