

# Should you really open up that store credit card?



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**W**e've all been through the scenario of shopping at a retail store and when you arrive at the cash register the employee asks you "would you like to open up a store credit to save x amount on your purchase today?" If you're spending a significant amount of money or you're shopping on a budget you might think to yourself "Hmm... this could save me a lot of money, maybe I'll sign up!".

So, the question is: is getting the store credit card really a good deal? Well, let's look at the numbers. Let's say you're shopping at Karin's Closet and you gather enough items to spend \$300. When you get to the cash register you can save 15% on your first purchase by opening up a store credit card. Therefore, it would save you \$45 right on the spot, so you decide to go ahead with opening the credit card.

Here comes the bill! When you get the bill for the \$255 purchase (\$300 less the \$45), the store card will list the full balance due and the minimum payment due. You might be tempted to pay just the minimum as it is more affordable. The minimum payment is 3.25% or only \$8.28 for the month and you decide to pay it off that way. Sounds like a good deal right? *Not so fast!*

What happens if you only pay the minimum? By paying only the minimum payment of \$8.28 each month, the full balance of \$255 charge will take you over three years to pay off. In addition, the credit card carries an interest component of about 25%! The interest on this charge will continue to grow and at the end of the 3½ years you will have paid an extra \$125 in interest. Now, not only did you lose your 15% savings, but you're about \$80 more in deficit than you would've been had you not opened up the store credit card.

Is 25% a high rate of interest? Rates are based on your credit score ([click here to learn more about credit rates](#)), but as an average...let's compare by looking at some common current rates:

- 30 year mortgage rate 3.25%
- Student Loan rate 7.0%
- Auto Loan average rate 5.30%
- Average Bank Card rate 18% - 20%

Another way of understanding it, is for every \$100 you borrow, you will pay back \$125.

But what if you don't just pay the minimum payment? It is best practice to pay off your credit cards in full every month. Let's say by

accident, you miss your payment on the credit card just once. By missing a payment, you're faced with a late fee around \$38. This late fee almost completely wipes out the original \$45 in savings you got on the initial purchase.

Major stores and retailers try to get you by offering those seemingly large up front savings but are hiding behind a large interest rate and high late fees. Thus, if you're only making the minimum payments or not paying the entirety of your bill when the bill comes, the high interest will continue to rack up and you will end up owing a lot more than you originally owed.

Having outlined the dangers, it's not always a terrible idea to open up a store credit card as long as you do it responsibly. They often come with perks just as monthly coupons, point systems, and much more. If you're wanting to open up a credit card in order to earn these perks at one of your favorite stores, try your best to pay your balance off in full. That way, you earn the rewards of the initial savings and continue earning rewards, without having to be worried about the steep interest rate.

Most of all, stay within your budget ([learn more about that here](#)), and enjoy your shopping experience!



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