Step Away From the Plastic

The Motley Fool
By Tim Beyers (TMFMileHigh)

Last weekend, my wife was cleaning out her old office whilst I was preparing for a Monday meeting with our accountant. It is tax season, after all. For most of the day it was the usual: occasional breaks to play with the kids, lots of moving boxes hither and thither, and me pattering away on the keyboard.

But then something remarkable happened. My wife showed me a file of credit cards that have long been cancelled, but weren't cut up and thrown away — 20 of them, to be exact. That's right. I really said 20. Our 4-year-old son, thinking this was way cool for some reason, asked if he could "play" with them. And then it hit me. I suddenly remembered how we got into debt in the first place.

How it happened to us

In June, I wrote our story of being more than $45,000 in debt. The response and support from Fooldom was incredible. Many of you poured out your hearts and confessed your own financial sins. It was one of my favorite moments since first strolling into the virtual doors of Fool.com in 1998. But, now that I think about it, we may not deserve your kindness. Well, OK, my wife does. But not me.

Go back to what my son said. My wife's debt from before we were married came from financial hardship. She paid for her own education, for example. She had also dug herself out of debt once before I came along. Me? I bought a truck. And took out — gulp — cash advances on my cards during trips to Vegas. And took out loans on computers that would be obsolete well before I had made even a dent in the original balance. Like my 4-year-old, I had played around with plastic. In '98 alone, that silly behavior cost us more than $8,000... in interest payments alone.

So you've got to think I tore up all those cards, right? I mean, really, how could I responsibly expose my young'un to credit when I had been a Homo moronicuswhen it came to the little plastic beasts? Those are indeed reasonable assumptions. But, no, I didn't tear them up. Instead, I let him play with them as he had asked. But not before crossing out signatures and marking other unused ones "INVALID" on the signature line.

Why? Well, first, because he's only 4. I've got at least two years before the shopping sprees begin. And, second, because I thought the revelation — painful though it was — might provide a chance to teach my kid something. In a five-minute conversation, I confessed that the cards he was holding had made a mess of our lives because I had been irresponsible. Then I promised I wouldn't let it happen again. Maybe he got it. Maybe he didn't. But I felt better.

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Will you be using your Nordstrom card today? Uh, no, thank you

The worst part of the ordeal was seeing all the retail credit cards we had, from stores such as **Nordstrom** (NYSE: JWN) and **Sears** (NYSE: S). Add to those my cards from Mervyn's, a former division of **Target** (NYSE: TGT), several **May** (NYSE: MAY) department stores, and **ConocoPhillips** ' (NYSE: COP) Union 76 unit. Why are these so bad? Because they tempt you with initial discounts and then charge huge interest rates on the back end.

Let's take Nordstrom's card as an example. If you look up the terms and conditions on the company's website, you'll notice that there are five levels of credit you can be offered, presumably based on your credit history. The best deal is pretty darn good for a credit card: 9.15% on purchases. But if you've got some blemishes, you could see a rate as high as 21%. The rate flips automatically to 24% if you're late with a payment. Ouch

Now, if you'll pardon the shameless plug, compare that with The Motley Fool credit card offered through **MBNA** (NYSE: KRB), which features interest rates as low as 6.9% and rewards for those who like that sort of thing. But you need to get the Fool card to get this sort of deal. Lots of other banks offer something similar. (But you'll forgive us if we don't mention them here, won't you?)

The lesson here is simple, Fools: Retail cards are a notoriously bad deal, especially if you plan to carry any sort of a balance

Get yer free credit reports here!

If you find yourself in the situation we did in '98, then one of the first things you should do is get your credit report. It's easy to do, and often free. To find out more, check out this story from fellow Fool and Trump watcher Dayana Yochim, who also happens to be principal of our Fool's School. There you can learn about credit, debt, investing, and brokers, and even get advice on buying a house.

Appropriately, my wife was digging through letters to credit providers and through old reports when we found all those cards. The file alone is massive. But the correspondence and cross-checking really helped us put together the plan that made us debt-free in three years. So, again, if you're in debt, get your credit reports now. And get them free. If you're not in debt but haven't checked your credit recently, you might consider the three-bureau report that TrueCredit offers at a discount for Fools like you.

Say it loud and proud

Being in debt can be a shameful experience, but it doesn't have to be. There are hundreds of others like you. So, do yourself a favor. The next time someone frowns on you when they learn of your debt, tell them you know a Homo moronicus who became a Fool and is tens of thousands of dollars richer as a result. And then proclaim that you're planning the same. You can do it.

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Now, if you'll excuse me, I think I need to go buy my wife some flowers.

Foolish best wishes,
Tim

Fool contributor Tim Beyersbelieves inspiration can be found daily at the Fool's Credit Cards discussion board. Tim didn't own shares in any of the companies mentioned in this story at the time of publication. To see what stocks are in his portfolio, check out his Fool profile, which is here. The Motley Fool is investors writing for investors and has adisclosure policy.