

Cards and over-indebtedness

The danger of credit cards, revolving cards, and Buy Now Pay Later (BNPL)



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What is it?

Over-indebtedness is one of the biggest economic problems that a family can face due to the terrible consequences it entails. When we talk about the health of our finances, we refer, precisely, to everything we have to do to prevent situations of over-indebtedness that lead to the non-payment of our debts and thus avoid the extreme case of the loss of mortgaged assets, such as the family home.



How do we get into debt?



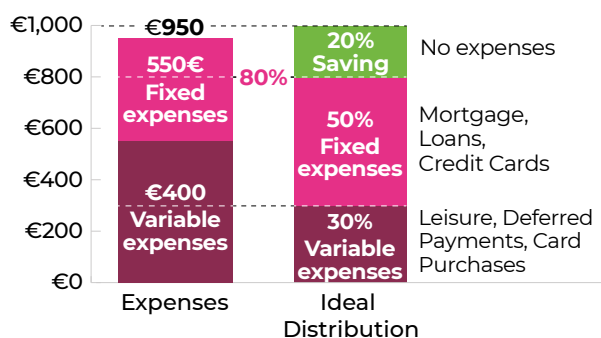
Borrowing money to pay for a good or service. What is technically understood as **requesting financing**. Money can be borrowed from a bank, which is the most common, or from other financial institutions and even from lenders outside the banking circuit. There is also an informal loan circuit amongst relatives or, simply, individuals. That is also debt that must be compensated for.

When are we in an over-indebted situation?

When our income begins to be insufficient to cover the debts we have or when we are forced to resort to additional funding in order to cope with them.

¿Are you over-indebted?

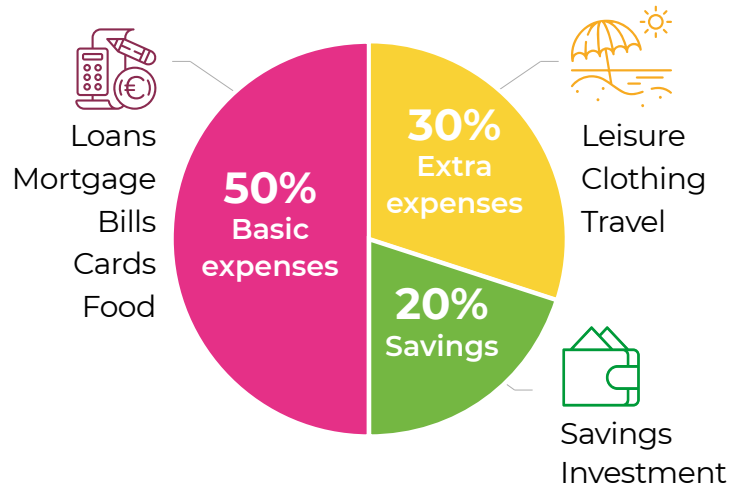
ASSUMING A €1,000 SALARY



If your expenses are 80% or more of your income, watch out!

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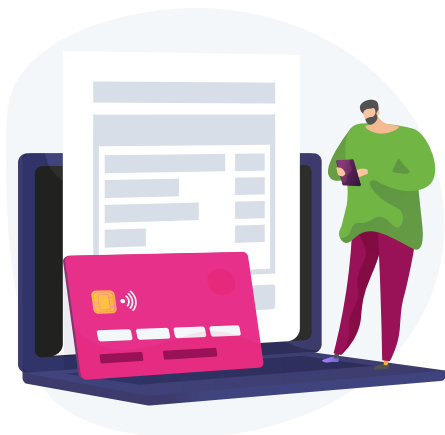
It is advisable to follow the 50/30/20 standard



- 50% of income to cover basic needs: food, mortgage/rent, electricity, etc.
- 30% for usual expenses that are not basic (leisure, gym, subscriptions, etc.)
- The remaining 20% to savings.

Cards and over-indebtedness

The use of credit cards or other more dangerous modalities, such as revolving cards, or those that contain the BNPL modality (Buy Now, Pay Now/ Buy Now Pay Later), increase the chances that we fall into a situation of over-indebtedness.



Credit cards, associated with our bank account, allow you to obtain money immediately, without procedures or paperwork in the transaction, which poses a risk to the consumer who may not be aware of the numerous interests that this practice entails, nor of the size of the debt you are contracting.

Especially dangerous **are revolving cards**. With a revolving card, the user does not establish a term to repay the contracted debt to the bank, only the fee for returning the amounts. This is the closest thing to having an open line of credit.

These cards also allow you to make purchases or payments whether or not we have funds in the associated account. There are three types of installments:



Fixed installments with indeterminate term: every month we pay the same amount until full amortization of the debt.



Fixed installments with fixed term: following the French amortization system.



Percentage on the outstanding installment with indeterminate term: in this case we can choose the percentage of the debt we want to repay, so that the amount will vary each month depending on the total due.

When marketing these cards, lenders often use attractive messages such as “without issue or renewal commissions”, even offering incentives such as the return of a percentage of the purchases paid with them..

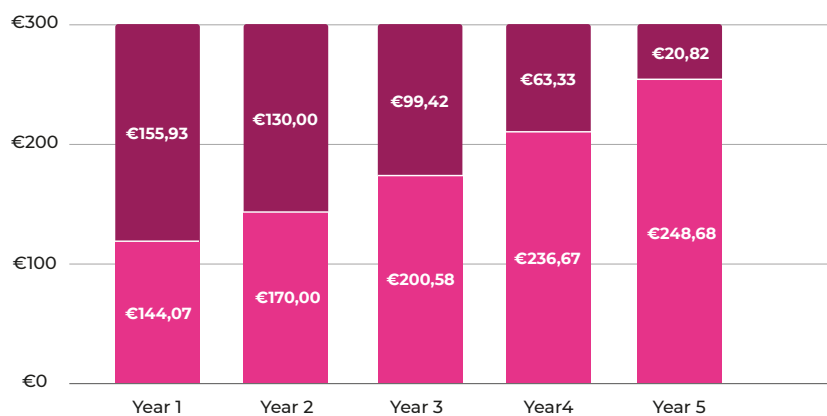
These cards are not only used to finance purchases, they also allow cash to be available on credit at the cashier or to enter a current account, which is even more dangerous, since in these cases a commission must also be paid at the time of application.

Where's the danger?

The biggest danger of revolving cards is that **the amount of outstanding debt that we are paying month by month, is again available on credit for the following month.** In this way, if we initially contract a debt of 1000 euros and, we return 100 euros the first month, it is not subtracted, but automatically available to us. The amount to be returned does not become 900 but remains at 1000. This causes the interest to be recalculated and thus generates a spiral of infinite over-indebtedness.



AVERAGE RATES FOR REVOLVING CARDS DECEMBER 2022



Initial amount	€1,000
Interest generated	€469,50
Interest rate	€1,461.48
Interest rate	21,15% APR
Fee	€25 / month
Legend	
■	Interest paid
■	Amortized capital

BNPL Mode

Buy Now, Pay Later

This payment method, accessible from many of the cards that are marketed in Spain, allows you to defer, usually without cost, some of the purchases we make and debt that we have contracted. It's the well-known 'buy now, pay later. **They allow you to buy beyond the balance,** due to the option of splitting the operations at the time of purchase.



The danger of credit cards, revolving cards, and Buy Now Pay Later (BNPL)

If it's free, what's the problem? The 0 cost invites you to contract debt and **enter the credit circuit**. Deferring payments can make it easier for consumers to lose control over their debt, bringing them closer to over-indebtedness.

With **BNPL** we facilitate, we could say, the creation of the à la carte credit. If the conventional credit allows, normally, to defer the payment of all charges incurred during the expired month period, or in successive months, the BNPL allows you to do the same with specific charges and in a different way, according to each persons' needs. A certain purchase can be deferred for two months; another, for ten months.



Tips for maintaining healthy finances



Contact

Let's talk!



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De 09:00 a 18:00h.



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