

Prepaid Cards Instead of Credit Cards for Bad Credit

The uncertainty of the recession has caused most people to examine their financial plans and budgets, and set a course for cutting costs and saving more. When the economy was good, carrying outstanding balances on a credit cards had been a habit of some people in this country. That has led some to accumulate debt they are now struggling to overcome. Credit card companies have been affected by the 2008 upheaval in the credit sector and the recession. They have taken steps to reduce their exposure to risk. Consumers applying for a new account are confronted with more stringent lending requirements now. Higher credit scores are required to obtain the best rate cards. People with current accounts are also being examined. Customers with active credit cards have seen their rates increased and their maximum limits for credit decreased. Banks are even closing accounts for customers whose cards have not been active recently. Decreased credit limits mean a higher debt to credit ratio for those who carry balances. That will have a negative impact on a credit score. More consumers are having to turn to credit cards for bad credit, as a result of the recession and more stringent requirements set forth by banks. Credit cards for bad credit usually come with high interest rates and fees. Consumers frequently find it harder to pay off an outstanding balance and reduce debt, because they are paying so much more in interest in fees.

Many financial advisors recommend prepaid cards in lieu of high rate credit cards for bad credit. Someone cannot buy more than he can afford with a card that has a prepaid balance. With this type of card, a consumer is also instilled with the idea that things purchased on a credit card are his responsibility. Unfortunately, a card with a prepaid balance cannot repair credit or improve a credit score. Credit cards that function on the prepaid balance concept will not appear in credit files and reports. A credit card with a prepaid balance, however, may be perfect for a person who wants to have the ease of a credit card instead of carrying cash or checks, but is forced to consider credit cards for bad credit. A common resource is also a debit bank card. Many banks issue consumers debit cards along with their ATM cards. Debit cards automatically take the amount of a purchase out of the bank account of a consumer. The card will not tempt someone to go on a spending spree that he cannot support. Consumers who decide to open credit cards for bad credit will want to make sure they do not carry a balance from one statement period to the next. Being responsible for every purchase on that card and paying for those when the bill is due assures that the card holder will not incur interest payments and penalties.

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