

PERSONAL FINANCE

Are Credit Cards an Alternative Source of Income?

Thinking that having credit available means you have another source of income is misguided.



Why would a bank take \$15,000 out of a client's account with no explanation or any chance for the client to stop the action?

That's the question my friend asked herself after receiving a distressed call from her son, an accomplished entrepreneur. What happened next highlights the danger of relying too heavily on credit.

A cautionary tale

My friend's son has started several successful businesses and worked in various fields, but as an entrepreneur, his income can be cyclical, sporadic and, at times, volatile. He'd called in a rare panic, blurting out information he usually wouldn't share so freely and confessing that \$15,000 had been stolen from one of his accounts.

My friend is nothing else if not a very protective mother bear; she doesn't necessarily become involved in her son's escapades, but because he seldom shared this type of information with

her, she became concerned. She wanted to know what was going on, and eventually, he shared the story in painstaking detail.

As it turned out, even though he had maxed out all his credit cards while in between business ventures, he'd put together a plan to go to Europe and said he kept an account with \$15,000 that was now gone.

When my friend asked how this money had been stolen, he told her it had been taken directly from his account without any warning or explanation.

She asked if the bank was applying it to his credit card debt.

He said that wasn't possible because the credit card debt had been through a different bank.

She wondered if there was a paper trail proving the bank took the money without his authorization. If so, he could request it be returned to his account.

She kept asking questions until he specified which account and bank the money had disappeared from. The answer took her by surprise because she didn't even know he had accounts with that bank.

She dug deeper and soon discovered that no, in fact, he did not have a checking or savings account with that bank.

But he did have a credit card. And that card had \$15,000 of available credit — the money he'd been "saving" for his trip.

What had happened was not that the bank had stolen his money. When all his other cards were maxed out, his credit score had gone down, so the bank lowered his credit limit. That wasn't his money, and it hadn't been stolen; it had never been his to begin with.

No, he insisted. That was his money. He was saving that credit as his only source of income.

But what is income?

Credit doesn't provide an opportunity to save

Income is generally defined by its function: providing consumption and saving opportunities.

I've always maintained that credit cards are not an alternative source of income.

While having credit available on a credit card does offer a way to provide ourselves with consumption, it does not offer us a saving opportunity. Much the opposite, in fact, most of the time.

Under certain conditions, credit can offer us a way to leverage our money. If we use our credit cards to make purchases, we will have a clean and easy paper trail of what we've purchased and when. Credit cards also offer many perks as incentives compared to other payment methods.

How to use credit cards to your advantage

That said, there are only two ways to use credit cards to your advantage:

If you pay your card off in full before the end of the billing cycle each month, you will receive your rewards and incentives. It can be easier to pay one monthly bill than to account for each expense.

Often, credit cards provide promotional offers of no interest or fees on purchases within a specific time if you pay the monthly minimum payments.

Both options are available, but you must understand the specific terms and conditions precisely. Once you exceed these parameters, the interest, fees and penalties are costly because interest is calculated continuously and compounded. Paying the total amount doesn't eliminate the average daily balance calculations, so it can take several months, with no additional charges, to clear your account.

Credit is not income

Thinking that having credit available means you have another source of income, as my friend's son had done, is misguided. Income is earned a) in exchange for labor or services, b) from selling goods or property or c) as profit from investing.

Credit is not income.

Just because you have the credit available doesn't mean you have the income to pay the debt, and the bank lowering your limit doesn't mean they are stealing from you.

Credit cards are not an alternative source of income.

NYSUT NOTE: Already accumulate too much debt on your credit cards? [Cambridge Credit Counseling](#) (endorsed by the NYSUT Member Benefits Corporation) might be able to help. Typically, Cambridge's debt management clients have their credit card debt eliminated in an average of only 48 months. Sign up for a free consultation today.

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