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## Store cards: 3 times when opening one is a good idea

By [Matt Alderton](#) and [Jeff Herman](#)

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Getting a store credit card is like adding a candy bar to your cart at the checkout counter. You typically sign up for a store card on a whim because it's handy and seems like a great idea at the time. But like scarfing down that sugary candy bar, a store card is not always a good idea.

And for good reason: Retail credit cards have an average annual percentage rate of 23.23 percent, which is more than eight points higher than the national average for general-purpose cards, according to the [CreditCards.com 2014 Retail Credit Card survey](#). Like your favorite sugar-coated snack's calories, that store card carries a lot of extra interest.

#### What's wrong with store cards

"A lot of consumers have these cards because they fall for the gimmicks that retailers use to get people to sign up," says Harrine Freeman, CEO and owner of H.E. Freeman Enterprises, which provides credit repair and counseling services to consumers.

"For instance, they'll offer you 10 percent off your purchase if you sign up. The problem is, that discount encourages you to spend money."

Another problem is store cards' [credit limits](#), which typically are low compared to bank-issued cards.

"[Credit utilization](#) is 30 percent of your credit score; if you open a store card to take advantage of a promotion, odds are your utilization is going to be high," says personal finance coach Debbi King, author of "The ABCs of Personal Finance." "For example, you are buying an \$800 television. Your card is approved for a \$1,000 limit. This is an 80 percent credit utilization."

"If you're the kind of person who can't pass up discounts, promotions and coupons, I would avoid opening a store credit card," says Kendal Perez, a spokeswoman for couponing website and app Coupon Sherpa. "The perks that come with it are going to be too much of a temptation."

#### When opening a store card can make sense

Despite their negative reputation, there are three times when opening a store card may make sense:

##### 1. When you're making big or frequent purchases.

Perez has only one store card in her wallet, for the women's clothing store The Limited. "I've gotten some great perks from the card," she says. "I get free shipping when I shop online, and when I spend a certain amount I get a \$15 reward coupon, which I've used to save quite a bit — especially when I've coupled it with storewide sales and other coupons."

The perks are worthwhile because Perez frequents the store, avoids overspending and doesn't carry a balance. "If it's a store you shop at frequently and you're good about paying off your balance in full every month, then it absolutely can be a good deal," she says.

Perez generally discourages opening a store card just to get a discount. One exception to her rule, however, is if you are purchasing a big-ticket item.

"When my husband and I purchased a washer, dryer and refrigerator for our new home, he opened a Sears credit card to receive an extra 10 to 15 percent off," she says. "The option was to get special financing or a discount, and we chose the discount since we had enough money to pay off the balance in full before interest kicked in."

If you do open a card for the "signing bonus," you may be tempted to close it as soon as you've claimed the initial discount. Doing so won't erase the card from your credit report, however. In fact, the credit inquiry that was posted by the issuer when you applied for the card will still be there, and the inquiry can affect your credit score for up to a year. The account itself, meanwhile, will remain on your credit report for up to a decade and will lower the average age of your accounts, which determines 15 percent of your credit score.

##### 2. When you need more credit.

If you've maxed out the credit limits on your bank-issued cards, opening a store card can lift your credit score by increasing your total credit utilization.

For example, if you have a bank credit card with a \$5,000 limit and your monthly balance reaches \$4,000, it can hurt your credit score because it looks as if you're maxing out your cards. Although you must be equally vigilant with credit utilization on store cards, opening one and keeping a zero balance on it every month is one way to temporarily boost your credit score as you work on paying down that high balance.

The key, of course, is to never carry over a balance on the store card; otherwise this credit-boosting exercise is moot. And since credit limits on store cards typically are much lower than on bank credit cards, the credit boost won't be huge.

##### 3. When you need to establish or re-establish credit.

If you're trying to establish credit for the first time or restore your credit after a bankruptcy, foreclosure or divorce, a store credit card can help. That's because retail cards, much like [gas cards](#), typically are easier to get approved for, with their higher APRs and smaller credit limits. And unlike [secured cards](#) — another popular credit-building option — retail cards don't require a security deposit.

"It's easier to get approved for a store credit card than for a traditional bank credit card because their guidelines are less stringent," Freeman says.

Echoes King, "I have one store card with a low limit. Every few months, I buy an item that is in my budget on this card and pay it off in full. This keeps my utilization at 0 percent and shows I pay responsibly."

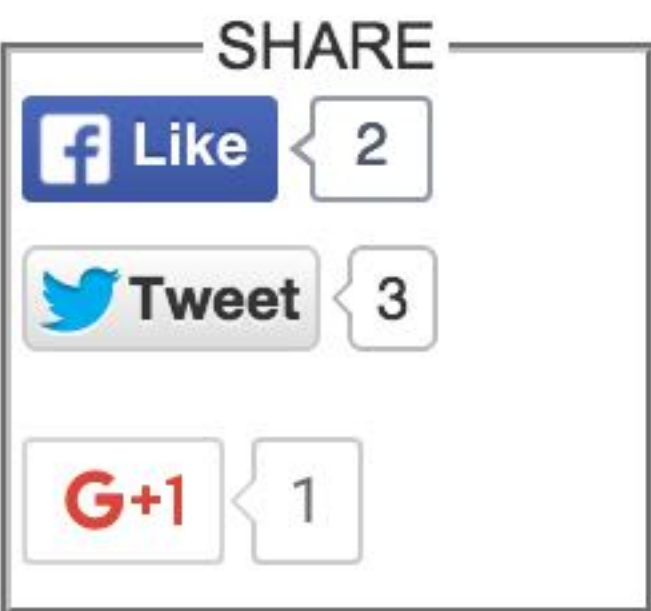
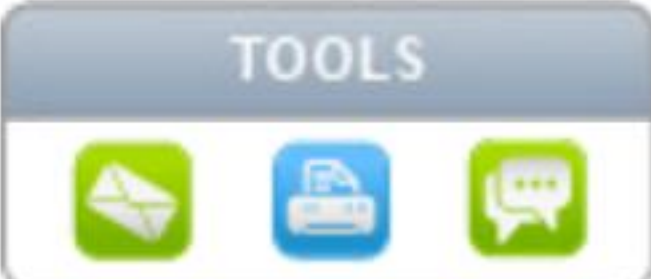
Indeed, responsibility is what credit is all about — whether your card is issued by a bank or a retailer. Much like choosing that candy bar at the checkout counter, opening a store credit card account can be a good idea depending on your needs.

"[Store credit cards](#) aren't bad; it's what we do with them that's bad," King says. "Like any other credit card, it's up to you whether you're going to use them properly or not."

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