In making judgments about paying and using your credit card, you should understand what does and does not happen if you fail to pay your credit card. You are only required to make the required minimum payments on your credit card, but if you do so it will take many years to pay off your debt and you will likely pay thousands of dollars in finance charges. Nevertheless, if you consistently make the minimum payment, you will be avoiding late charges and your credit report will show your payments are on-time and current. The card issuer cannot raise your interest rate on charges you have already incurred if you keep current on your minimum payments. It is unlikely that you will lose the ability to use your card—assuming you have not maxed out the card.

If you stop making even the minimum payments, then your overdue credit card payments will almost certainly show up on your credit report, first as overdue, then 30 days overdue, then 60, then 90, etc. Your credit score will likely take its biggest hit when the card is 30 and then 60 days overdue. After the card is 60 days overdue, the card issuer can then increase the interest rate on your card even for existing charges that you have already made.

At some point, the card issuer will revoke your card privileges so that you cannot use the card any more—while you cannot use the card, you will still remain obligated on the debt. Not being able to use the card may not be the worst thing because you will not be ringing up more debt. Nevertheless, there are times when a credit card is very useful or even necessary. Nevertheless, there are alternatives to a credit card that perform similar functions. If you have a bank account, you can get a debit card. You can obtain a prepaid card even if you do not have a bank account.

At 180 days, the card issuer is likely to “write-off” or “charge off” your debt. This does not mean it will stop trying to collect on the debt or that you do not owe on the debt. It just means the card issuer will treat the card account differently for their internal accounting purposes. Most card issuers at 180 days will stop sending you statements and also stop assessing new interest or new late charges. They will cancel the card if that has not happened already and turn the account over for collection if that has not already happened.

At 180 days, when the card is written off, your credit score is likely to take another hit, but after that date your score will not be affected much even if you continue to not pay on it. Similarly, when your account is sent out to a collection agency (either before 180 days or at 180 days), the collector likely will report the account under its own name, which will also result in another hit to your credit score.

Being contacted by a debt collector is never fun, but you can stop the collector from contacting you (see Chapter 2[1], above). The debt collector may also threaten to ruin your credit score, but by the time the account is turned over to the collector, your score has already been lowered a lot. Not paying the collector will have little additional effect on your score, no matter how much the collector threatens to ruin your credit rating. Also, if you pay off a debt that was already reported by a collector, that collection item will show as “paid” but will not be removed from your credit report—if you want it removed, you must get the collector’s written agreement to delete it and not all collectors will agree to do so.

At some point the credit card company or a debt buyer will decide whether to sue on the debt, but this may be years after you stop paying on the card. Moreover, particularly if the amount is relatively small, you may never be sued on the credit card debt. If you are sued, and you contest the lawsuit, the creditor may drop the case, particularly if the case is brought by a debt buyer or the amount is relatively small. See Chapter 4[2] on defending such a lawsuit.

If you are sued and the judge rules for the creditor, then the debt becomes much more serious. You do not have to pay the debt all at once. But it is possible part of your wages will be garnished, your bank account seized, or even some of your property sold. The extent to which you are vulnerable to these creditor post-judgment remedies is examined at Chapter 21[3], below.

Even if you lose the lawsuit, you may not have to pay the debt all at once. If your income and bank accounts are protected by law, you may not even have to pay anything on the debt. For more information on what may or may not happen when you lose a collection lawsuit, see Chapter 21[3], below.

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