Credit Card Usage and Debt Trap: Empirical Evidence from Nizamabad District

Dr. Ch. Srinivas

Assistant Professor ©, Department of Applied Economics. Telangana University, Nizamabad.

Abstract—The rapid expansion of credit card usage in India has transformed consumer payment behaviour while simultaneously increasing concerns about rising personal indebtedness. This study examines whether credit card usage leads to a debt trap among cardholders by analysing their spending patterns, repayment behaviour, and awareness of credit terms. Primary data were collected from 165 credit cardholders using a structured questionnaire. Cross-tabulation is employed to examine associations between socio-economic variables, credit card usage behaviour, and debt-related outcomes. The findings reveal that minimum due payment behaviour, frequent card usage, low financial literacy, and multiple card ownership significantly contribute to credit card indebtedness and financial stress. The study highlights the need for stronger financial literacy initiatives and responsible lending practices to mitigate credit card–induced debt traps.

Keywords— Credit Cards, Debt Trap, Consumer Credit, Financial Stress, Financial Literacy

I. INTRODUCTION

Credit cards have emerged as one of the most widely used consumer credit instruments in modern financial systems. In India, the rapid expansion of banking services, digital payments, and consumer credit has significantly increased the number of credit card users. Credit cards provide convenience, short-term liquidity, and purchasing flexibility. However, the same features such as revolving credit, minimum due payment, and high interest rates—often lead cardholders into persistent indebtedness.

The concept of a debt trap refers to a situation in which a cardholder repeatedly relies on credit to meet existing obligations, resulting in escalating outstanding balances, interest burden, and financial stress. Many cardholders lack adequate awareness of interest compounding, penalties, and long-term repayment consequences. Understanding cardholder experiences is essential for designing effective financial literacy programs and regulatory policies.

II. REVIEW OF LITERATURE

The study of Singh and Shrivastav (2022), indicates that credit cards significantly influence impulsive buying behaviour, financial mismanagement, and debt accumulation. Using advanced analytical techniques such as random forest models, the study found that consumers who fail to manage previous bills and repayment patterns have a higher likelihood of slipping into debt traps. The research highlights behavioural predictors of indebtedness specific to the Indian environment of rising credit use and digital convenience.

The study of Ahmar Uddin (2020), shows that credit card consumption often outpaces users' understanding of interest costs and financial obligations. Studies on credit card literacy and usage behaviour in India find that limited awareness and financial education significantly increase the risk of maintaining high outstanding balances and poor repayment behaviour. These findings reinforce the importance of financial literacy initiatives to mitigate credit card indebtedness

Study by Karhick (2023), focusing on Indian middle-class households reveal that credit cards can both enhance purchasing power and contribute to financial stress when misused. Research involving primary survey data suggests that middle-class users, particularly younger adults, face significant challenges paying credit card bills, and high debt levels affect household savings and financial planning. These dynamics are critical in understanding the socio-economic impact of credit card debt within India's expanding consumer economy.

Kumari (2025), highlights that credit card usage in India has surged over recent years, making it a core component of household debt portfolios. With active credit cards surpassing 11 crore and transaction values growing sharply, the trend indicates a

consumption-driven credit culture. She also stated that rising unsecured credit, including credit card debt, continues to challenge household debt sustainability, underlining the broader financial vulnerability in the Indian context.

III. OBJECTIVES OF THE STUDY

Primary Objective:
1. To examine the role of credit cards in creating a debt trap among cardholders.

Secondary Objectives:
1. To analyse spending and repayment behaviour of cardholders.
2. To assess awareness about interest rates, penalties, and minimum due payments.
3. To identify factors contributing to credit card indebtedness.
4. To examine the financial stress experienced by indebted cardholders.
5. To suggest measures for responsible credit card usage.

IV. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design. Primary data were collected from 165 credit cardholders of Nizamabad district of Telangana state by using a structured questionnaire. Convenience sampling was employed due to accessibility constraints. Cross-tabulation is used to analyse the data.

Table 1: Age of Cardholders and Outstanding Credit Card Balance

Age/Outstanding Credit Balance	Low	Moderate	High	Total
25-35	09	17	21	47
36-45	05	19	35	59
46-55	09	21	06	36
Above 55	07	11	05	23
Total	30	68	67	165

Source: Field Study

The above table presents the relationship between age of cardholders and their outstanding credit card balance. The results indicate noticeable variation in the level of outstanding balance across different age groups. Among cardholders aged 25 to 35 years, a higher proportion is observed in the high

outstanding balance category (21 out of 47), suggesting greater reliance on credit cards during early earning years. Similarly, the 36 to 45 age group records the highest number of cardholders with high outstanding balances (35 out of 59), indicating sustained credit usage during mid-career stages. In contrast, cardholders in the 46 to 55 age group predominantly fall under the moderate outstanding balance category (21 out of 36), while relatively fewer report high balances. Among respondents aged above 55 years, the majority maintain low to moderate balances, reflecting comparatively cautious credit behaviour and better repayment discipline.

This confirms that age plays an important role in determining the level of credit card indebtedness, with younger and middle-aged cardholders being more vulnerable to higher outstanding balances.

Table 2: Income Level and Credit Card Repayment Behaviour

Income Level/Credit Card Repayment Behaviour	Full	More than Minimum	Only Minimum	Irregular	Total
Less than 25000	02	05	13	04	24
25000 – 50000	06	11	45	09	71
50000 – 75000	27	07	06	03	43
More than 75000	18	05	03	01	27
total	53	28	67	17	165

Source: Field Study

The table reveals a clear relationship between income level and repayment behavior. Among respondents earning less than ₹25,000, a majority (13 out of 24) pay only the minimum amount, while 4 respondents make irregular payments; only 2 are able to repay the full outstanding amount. A similar pattern is observed in the ₹25,000–₹50,000 income group, where 45 out of 71 respondents rely on minimum payments and 9 repay irregularly, indicating financial strain among lower and middle-income groups.

In contrast, higher-income respondents show better repayment discipline. In the ₹50,000–₹75,000 group, 27 out of 43 respondents repay their dues in full, and only 6 make minimum payments. Likewise, among those earning above ₹75,000, 18 out of 27 repay in full, with very few showing repayment stress. Overall, the findings indicate that repayment capacity improves significantly with income, while low-income groups are more prone to minimum and irregular payments, increasing their risk of falling into debt.

Table 3: Frequency of Credit Card Usage and Outstanding Balance

Frequency of Credit Card Usage / Outstanding Balance	Low	Moderate	High	Total
Rarely	14	04	02	20
Occasionally	15	07	05	27
Frequently	05	11	59	75
Very Frequently	07	13	23	43
Total	19	49	97	165

Source: Field Study

The table demonstrates a strong association between frequency of card usage and outstanding balance. Among respondents who use credit cards rarely, most have low outstanding balances i.e. 14 out of 20, and only 2 report high balances. Similarly, occasional users are relatively better positioned, with 15 out of 27 having low balances and only 5 reporting high balances.

However, among frequent users, a sharp increase in high outstanding balances is evident, with 59 out of 75 respondents falling in the high balance category. A similar pattern is observed for very frequent users, where 23 out of 43 respondents have high balances and 13 have moderate balances. Overall, out of 165 respondents, 97 report high outstanding balances, largely concentrated among frequent and very frequent users, suggesting that higher usage intensity directly contributes to mounting credit card debt.

Table 4: Minimum Due Payment Behaviour and Debt Trap Status

Minimum Due Payment	Debt Trap	Debt Trap	Total

Behaviour/Debt Trap Status	Yes	No	
Full	07	28	35
More than Minimum	19	02	21
Only Minimum	73	08	81
Irregular	15	03	18
Total	121	44	165

Source: Field Study

This table clearly highlights the role of repayment behavior in pushing cardholders into a debt trap. Among those who pay only the minimum amount, an overwhelming 73 out of 81 respondents are classified as being in a debt trap. Similarly, respondents making irregular payments show high vulnerability, with 15 out of 18 falling into the debt trap category.

In contrast, respondents who repay the full amount show strong financial stability, with 28 out of 35 not in a debt trap. Interestingly, even among those paying more than the minimum, 19 out of 21 respondents are still in a debt trap, suggesting that partial repayments may not be sufficient to escape accumulating interest charges. Overall, 121 out of 165 respondents are trapped in debt, underlining the seriousness of minimum-payment culture in credit card usage.

Table 5: Awareness of Interest Rates and Level of Credit Card Debt

Awareness Level	Low Debt	Moderate Debt	High Debt	Total
Fully Aware	45	17	05	67
Partially Aware	07	11	27	45
Not Aware	05	15	33	53
Total	57	43	65	165

Source: Field Study

The table indicates a significant inverse relationship between awareness levels and debt severity. Among fully aware respondents, a majority i.e. 45 out of 67 falls into the low debt category, while only 5 are in high debt. Conversely, among partially aware respondents, 27 out of 45 falls into the high debt category, indicating limited understanding of interest and repayment implications.

The situation is more severe for not aware respondents, where 33 out of 53 report high debt and only 5 remain in the low debt category. Overall,

of the 65 respondents in high debt, a substantial majority i.e. 60 respondents are either partially aware or not aware. This highlights that financial awareness plays a crucial role in preventing excessive credit card indebtedness.

Table 6: Number of Credit Cards Held and Repayment Difficulty

No. of Cards	No Difficulty	Moderate Difficulty	Severe Difficulty	Total
One	15	04	02	21
Two	05	17	15	37
Above Three	07	13	87	107
Total	27	34	102	165

Source: Field Study

The table shows that financial difficulty rises sharply with the number of credit cards held. Among respondents owning only one card, most (15 out of 21) report no difficulty, and only 2 experience severe difficulties. For those holding two cards, difficulties increase noticeably, with 15 out of 37 respondents facing severe difficulty and 17 experiencing moderate difficulty.

The problem becomes acute among respondents holding above three cards, where an overwhelming 87 out of 107 respondents report severe difficulty, and only 7 experiences no difficulty. Overall, 102 out of 165 respondents face severe difficulty, largely driven by multiple-card ownership. The findings suggest that holding multiple credit cards significantly intensifies financial stress and repayment problems.

Table 7: Nature of Occupation of Cardholders and Debt Stress Level

Occupation	Low Stress	Medium Stress	High Stress	Total
Government	04	08	13	25
Private	17	25	45	87
Business	07	31	15	53
Total	28	64	73	165

Source: Field Study

Occupational differences in stress levels are evident. Among government employees, stress is relatively moderate, with 13 out of 25 reporting high stress. In the private sector, stress levels are considerably higher, with 45 out of 87 respondents reporting high stress and 25 reporting medium stress.

Businesspersons show a mixed pattern, where 31 out of 53 report medium stress, while 15 report high stress. Overall, 73 out of 165 respondents experience high stress, with private sector employees contributing the largest share. This indicates that income volatility and job insecurity may heighten stress among private employees and business owners compared to government employees.

Table 8: Carrying Forward Outstanding Balance and Financial Stress

Carry Forward	Low	Medium	High	Total
Always	08	31	74	113
Sometimes	05	07	09	21
Rarely	11	05	03	19
Never	07	03	02	12
Total	31	46	88	165

Source: Field Study

The table highlights a strong relationship between balance carry-forward behavior and debt accumulation. Among respondents who always carry forward balances, a large majority i.e. 74 out of 113 fall under high debt, while only 8 report low debt. Conversely, respondents who rarely or never carry forward balances predominantly fall into the low debt category i.e. 11 out of 19 and 7 out of 12, respectively.

Overall, 88 out of 165 respondents are in the high debt category, most of whom regularly carry forward balances. This clearly indicates that rolling over credit card balances is a major contributor to long-term debt accumulation.

Table 9: Credit Card Debt and Impact on Savings Behaviour

Debt Level	Not Affected	Reduced	Highly Reduced	Total
Low	15	11	05	31
Moderate	09	37	15	61
High	09	23	41	73
Total	33	71	61	165

Source: Field Study

The table shows that rising debt levels severely affect household savings. Among respondents with low debt, 15 out of 31 reports that savings are not affected, while only 5 experience a high reduction. In contrast, among those with moderate debt, 37 out of 61 report reduced savings, and 15 report highly reduced savings.

The impact is most severe for high-debt respondents, where 41 out of 73 report that their savings are highly reduced, and only 9 states that savings are not affected. Overall, 61 out of 165 respondents experience a high reduction in savings, largely concentrated among those with high debt. The findings confirm that credit card indebtedness significantly erodes household savings and financial security.

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V.   CONCLUSION

The study concludes that improper use of credit cards can lead to a debt trap among cardholders. Policymakers and financial institutions should strengthen financial literacy initiatives, ensure transparent disclosure of credit terms, and promote responsible lending practices. Limiting the misuse of minimum due payment facilities can help reduce long-term indebtedness.