



Consumer Credit Savvy

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Credit can be a good news or bad news tool! Used wisely, credit can help increase net worth and manage cash flow. Used poorly, credit can be the cause of great distress and possible financial disaster.

The focus of this publication is revolving or open-end credit accounts. Most people access these accounts with “plastic” cards from banks (Visa, MasterCard, etc.), gasoline companies and department stores, where credit is granted up to a predetermined limit. The amount charged is repaid in full or in a series of equal or unequal payments. The minimum monthly payment required is usually 2 - 5% of the unpaid balance.

How much consumer debt is manageable?

Financial advisers recommend that it is unwise to spend more than 15 - 20% of your net (after tax) income on short-term credit purchases, e.g., car, furniture, and school loan payments, charge accounts, etc. Give yourself a quick debt check-up by adding up all of your monthly debt payments (excluding mortgage payments). Divide this figure by your monthly take-home pay to determine your debt ratio and if your debt situation is likely to be problematic.

$$\frac{\text{Monthly short-term debt payments}}{\text{Monthly take-home pay}} = \% \text{ debt ratio}$$

Example: $\frac{\$300}{\$2000} = 15\%$

How are you doing?

10% or less	Congratulations! You're within a safe limit.
11-15%	You are in the high average group. Do what you can to get your debt closer to 10%.
16-20%	You are fully extended and have more debt than most people with your income. Start working to reduce your debt.
21-25%	RED ALERT! You are overextended. It's time for some dramatic changes.
26% or more	You are on a disaster course because you have more debt than you can handle. Seek help immediately.

Credit is a purchase. Shop wisely!



You buy credit just like food or furniture! So it's important to shop around for the best value. Find out what the credit costs, what you get for your money, and compare the different agreements. Features and costs to check include...

Annual percentage rate (APR): The annual interest rate that is charged on your unpaid balance. Some credit cards have set rates while the APR changes on cards with variable rates. Beware of short-term "teaser" rates printed on the front of promotional offers. Generally speaking, if you don't expect to pay off your card balance most months, look for a card with a low interest rate and

the right mix of rebates or rewards to justify any fees. The APR is far less important if you expect to pay your credit card bill in full each month.

Grace period: The number of days (usually 20-25) that you have before a credit card company starts charging interest on your new purchases. In most cases, an interest-free grace period applies only if you have paid your previous month's bill *in full*.

Fees: These may include an annual fee (from \$0 - \$200) that you are charged for the right to use a credit card, transaction fees for cash advances, late payment fees, and fees for going over your credit limit.

Credit limit: The maximum unpaid balance that you can carry in your account. Is it large enough to meet your needs? OR, is it too high and a temptation?

Method of calculating finance charges: The most common and advantageous method is the 'average daily balance' method where companies add the new purchases to any old debt after the end of the grace period, and then divide by the number of days in the billing cycle to compute the balance on which you pay interest. Some cards have much costlier calculation methods.

Credit cards: The pros and cons

The pros. Few would argue that credit cards provide many useful benefits: use of a product or service while paying for it; convenience; reduced need to carry lots of cash. Certainly credit cards can be helpful in emergency situations or when special sales come along.

The cons. If poorly managed, however, credit cards can be costly in both dollars and opportunity. Stretching credit card payments over time increases the cost of your purchases and ties up future income that may be needed elsewhere. A poor credit repayment history or too much open credit may stand in the way of important loan approvals. And without a doubt, credit cards can lead to overspending.

Your credit history and credit reports

Information about your use of credit travels with you throughout your life. Data about your credit history is kept by one or several of the national credit bureaus. Your credit record includes:

- **Your name, current and previous addresses, social security number, phone number, date of birth and current and previous employers.**
- **A record of your payments on such obligations as charge cards, credit cards, car loans, student loans and home mortgages for the past several years as reported by companies that have granted you credit or loaned you money.**
- **Information about you from public records such as overdue property taxes, bankruptcies, judgments and overdue child support payments.**

Lenders, landlords, insurance providers, and employers may request copies of your credit history

in order to evaluate how responsible you are with your personal finances. Consequently, it's a good idea to check your credit report periodically (many suggest annually) to be certain that the information is correct. This is especially important before applying for a mortgage or major loan.

You may request a free copy of your credit report if you have been denied credit, insurance, employment, or a rental dwelling within the last 60 days because of information supplied by the credit bureau. Otherwise, in most states, you will be asked to pay a small fee, usually \$8.50 per report.

Reports may be requested from the following companies: Equifax (1-800-685-1111 or <http://www.equifax.com>), Experian (1-888-397-3742 or <http://www.experian.com>), and Trans Union (1-800-888-4213 or <http://www.tuc.com>).

If debt has become a problem in your life, consider one or more of the following options to help regain control of your finances.

Develop a plan for reduced spending and follow it. Involve your family in deciding on the action to take. Options could include establishing a written spending plan, setting up an allowance system, cutting up credit cards, or freezing cards in ice cubes to discourage use.

Leave your credit cards at home. If you want to use them you will have to go home and then return to the store. If it is an impulse purchase, you will have the travel time back home to reconsider.

Is it time for plastic surgery? ...steps to curbing out-of-control debt

Close credit accounts. Send a letter to the credit source stating your account number, name, address, and request to close the account.

Communicate promptly with your creditors about your situation. Work to negotiate a repayment plan that is acceptable to both of you.

Seek help from qualified credit counselors. The Consumer Credit Counseling Service (CCCS) is a reputable source of assistance. Call 1-800-547-5005 for further information

about CCCS locations near you. If you're considering other financial counseling services, take time to confirm that they are accredited and that

counselors are certified. Exercise caution when accessing the rapidly expanding list of financial counseling services being offered on the Internet.

Beware of so-called credit repair companies who claim that they can remove negative information from credit reports. If there are errors, these "repair" companies can do only what you can do yourself for free — dispute the questionable entries and/or provide a brief statement to be filed with your credit report.



Credit Q & A

Q: What are signs of credit overload?

A: *If you find yourself having to borrow to pay current bills, paying your bills late, using credit cards to buy necessities such as groceries, only making minimum payments, working overtime to make ends met, and receiving calls from bill collectors, it's likely that you are not managing your money well and that serious debt problems may be close at hand. A debt ratio of over 16 - 20% is also a warning of impending problems.*

Q: Is it advisable to take a cash advance on my credit card when I'm low on funds?

A: *In most instances, borrowing money to cover day-to-day living expenses is not advisable. Credit card cash advances are usually subject to transaction fees and immediate interest charges and thus are an expensive way to borrow money.*

Q: What is the ideal number of credit cards to have in your possession?

A: *Too many cards make over-spending tempting and too easy. Most experts agree that two or three general-purpose cards should be enough for the average family. Consider one card with no or a low annual fee and higher interest rate for the balance you pay in full each month. Choose a second card with a low interest rate and a grace period for the balance you may not be able to pay in full.*

Consumer credit protection

The Truth in Lending Act limits a credit cardholder's liability for lost or stolen credit cards to the first \$50 of unauthorized charges. However, keep in mind that this could add up if you lose a wallet with five credit cards and a thief makes charges on each. You could be responsible for \$250 in unauthorized charges. Good news is that when you report the lost cards BEFORE they are used illegally, you are not responsible for the unauthorized charges.

The Fair Credit Reporting Act establishes operating guidelines for credit reporting agencies in an effort to reduce errors in credit reports and to assure fairness and privacy of information in agency files. You are guaranteed the right to have disputed items investigated, have incorrect information corrected or deleted with notification to creditors, and the opportunity to attach a brief consumer statement to your report stating your version of disputed information.

The Fair Credit Billing Act helps people who wish to dispute billing errors or make a goods and services dispute (defective goods or faulty service) on revolving credit accounts. Complaints must be made within 60 days after the date the first bill with the error was mailed to you. While the dispute is being investigated, creditors cannot assess interest on or apply penalties for nonpayment of the disputed amount.

Suggested websites

www.DebtHelpNow.com
(Consumer Credit Counseling Centers, Inc.)
Check "Who we are?" for local offices, frequently asked questions and calculators.

www.ftc.gov/bcp/menu-credit.htm
(Federal Trade Commission)
Numerous government credit publications that can be read, or downloaded and printed.

www.federalreserve.gov/pubs/consumerhdbk/default.htm
(Federal Reserve Board)
A consumer handbook about credit protection laws.

www. Money.com/101
(Money Magazine)
An interactive course on managing all your finances.

www.pueblo.gsa.gov
(Federal Consumer Information Center)
A Consumer Information Catalog listing free or inexpensive government publications on numerous consumer topics including month.



Quotes:

"Using credit results in an increase in debt, NOT an increase in income."

"Just about the time you make both ends meet, somebody moves the ends."

Source unknown

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