

Credit Control



Buying on credit lets you have what you want when you want it, even if you don't have the cash. Buying on credit has both advantages and disadvantages.

Advantages

- **Convenience.** Charge accounts and credit cards are convenient. You don't have to carry lots of cash.
- **Timing.** Buying on credit gives you goods and services you can't afford to pay for now. The item may be less expensive now than later.
- **Installments.** It may be easier to borrow and pay off the debt in smaller regular payments than to save the money before making the purchase.

Disadvantages

- **Overspending.** You may buy more than you really need or can afford because it may be easier to buy on credit.
- **Interest.** You pay an additional charge (interest), adding to the overall cost.
- **Future payments.** Committing your income to future payments gives you less flexibility and choice in your future spending.

How Much Credit Should You Use?

A financial mistake many families make is using too much of their income on credit. Credit counselors suggest you commit no more than 20 percent of your take-home pay toward consumer debt, with 10 to 15 percent being a more manageable level. (Consumer debt does not include your home mortgage.)

Maybe a safer and more realistic way to decide how much credit you should use is to determine your own credit limit. The amount of consumer debt you can safely handle depends on several factors, such as the size of your family, the security of your job, your income level, how much money you have in savings for emergencies, and how much consumer debt you already have.

Worksheet 1, Personal Credit Limit, helps you determine how much consumer debt your family can safely handle.

Compare Before You Borrow

The cost of credit varies from one lender to another. Before borrowing, shop for credit just like you shop for products—compare prices.

Before you borrow, compare the cost of credit from various sources. Learn the interest rate (annual percentage rate), the finance charge in dollars and cents, the monthly payment, the number of months, and the total amount you will pay.

If you have a savings account, investigate the cost of a secured loan using your savings as collateral. If you have a life insurance policy with a cash value, investigate the cost, advantages, and disadvantages of borrowing against the policy.

Types of Credit

The two most commonly used forms of consumer credit are installment credit and credit cards.

Installment credit. The buyer signs a conditional sales contract for the amount of the item he or she is buying. The amount of each payment is already set and stated in the contract. Read the contract carefully before signing. Finance charges are added to the purchase price and included as part of each monthly payment. The seller keeps the title to or a security interest in the goods. Not fulfilling the contract at any point can mean the seller takes back the goods. This is called "repossession."

Revolving credit. Credit cards are an example of revolving credit. These may be for one store or company or for a variety of sellers. There is usually a limit to the total amount of debt allowed per card at any one time. This type of credit is called "revolving credit" because as you pay the credit off, it becomes available for you to use again and again. Payments can be flexible, although there is usually a minimum monthly payment. You can make payments larger than the minimum. If possible, it's wise to pay the total balance each month to avoid interest. Carefully study and be ready to follow the terms and conditions for using the card. Credit card conditions tell how to correct billing errors, where and how to report lost or stolen credit cards, your liability if such misfortune occurs, and fees. Be sure to shop around and compare credit card fees and interest rates. Late fees can be very costly!

When using a credit card, be sure the charges are correct and the total is clearly shown before you sign the sales receipt. Keep your receipts. When you receive your credit card bill, compare the purchases listed with your purchase receipts. If errors occur, have them corrected immediately. When you receive a new credit card, sign it immediately. This decreases the chance of it becoming a shopping tool of a dishonest person.

WORKSHEET 1
Personal Credit Limit

An individual credit limit is more safely determined by considering your own personal needs and situation, rather than basing it only on averages or suggested guidelines. To realistically decide how much additional credit you can afford, complete this worksheet, making sure to be totally honest with yourself.

1. List the amount of your monthly take-home pay. (This is your income minus all deductions: federal and state income taxes, social security, insurance, etc.). \$ _____
2. List the amount of all of your current debt obligations, including your home mortgage.

Debt	Amount
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
TOTAL	\$ _____

Subtract the total debt from your take-home pay listed in Step 1.

Monthly take-home pay (Step 1)	\$ _____
Total current debt (Step 2)	\$ _____
TOTAL	\$ _____

3. List the amount of your monthly living expenses. (Refer to your bank statements from the past 6 months to 1 year or your personal records for average amounts.)

Expense	Amount	Expense	Amount
Food	\$ _____	Clothing	\$ _____
Transportation	_____	TV cable	_____
Electric	_____	Gas	_____
Phone	_____	Water	_____
Child care	_____	Church and gifts	_____
Doctor, drugs	_____	Education	_____
Insurance	_____	Recreation	_____
Personal allowances	_____	Other: _____	_____
Other: _____	_____	Other: _____	_____

Subtract the total monthly living expenses from the total determined in Step 2.	Total in Step 2	\$ _____
	Total monthly living expenses	- _____
	TOTAL	\$ _____

4. Subtract monthly savings for emergency. (2 to 6 months' take-home pay should be a goal for every family.)

Total in Step 3	\$ _____
Savings for emergency	- _____
TOTAL	\$ _____

5. The total in Step 4 is the amount you have available for new credit.

Available for new credit	\$ _____
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WORKSHEET 2
Credit Cards

Make a list of your credit cards, and keep it in a safe place at home. If your credit cards are lost or stolen, you will need this information.

Type of card and account number	Address of company to notify if lost or stolen	Number to call if lost or stolen	Name(s) on card	Other information, credit limit, expiration date, etc.

Treat your card as carefully as you would cash. Be sure you get it back after each use. If your card is lost or stolen, phone the credit card company immediately. Until you do so, you are responsible for all purchases made with your card. Reporting a lost card immediately limits your responsibility for purchases to a maximum of \$50 per card. You can minimize your possible loss by carrying only cards you plan to use. Store the others in a safe place.

Make a list of all your cards, and keep the list in a safe but easy-to-reach place. Include the account number; the issuer's name, address, and telephone number; and other important information. Worksheet 2, Credit Cards, helps you organize your list of credit cards. Whether you lose a card by theft or carelessness, a handy list can help you notify the company quickly. If you lose your credit cards, and you don't have a list of your cards, the credit card number is on past credit charge receipts. Once a card becomes outdated, or you don't want to use it any longer, destroy it by cutting it into small pieces.

Your Credit Rating

When you apply to borrow money, one of the things a lender considers is your credit rating. Your credit file shows your record of payments, past due amounts, or default. Your credit file includes financial information about you that may come from banks, court and police records, employers, and other sources. This information is reported to a credit bureau, a reporting agency that receives and files credit transaction records. Credit bureaus do not make lending decisions; they only process information and make it available to lenders.

The Fair Credit Reporting Act protects you from wrong, incomplete, or out-of-date information in reports. Under this act, you have the right to know what is in your file and who has received a credit report on you within the last 6 months. If you want to check the information in your file, the credit bureau may charge a fee unless you have been turned down for credit. If you have been refused credit because of information in a credit report, the creditor must give you the name and address of the credit bureau supplying the information.

There is no charge to review the credit file if you do it within 60 days after the credit rejection. If you discover a report from the credit bureau is inaccurate, the law requires that the credit-reporting agency reinvestigate. You may request the credit agency add to your credit record a statement describing any dispute or disagreement so it will be furnished to anyone requesting credit information about you.

An amendment to the Fair Credit Reporting Act now gives you the right to get one free credit report from each of the major national credit bureaus each year.

Protect Your Credit Rating

- Pay on time.
- Use only the amount of credit you can afford.
- Talk with your creditors if you cannot pay on time.

Before Using Credit: Think It Over

The cost

- Is it worth the extra cost to buy on credit?
- Is it something you really need?
- Is this something you have carefully planned?
- How will this payment fit into your budget?

The risk

- What if one of you gets sick or has an accident?
- Could you still pay?
- Do you want to risk repossession, a bad credit history, or legal action if you can't pay?

The obligation

- Can you afford to tie up your future income?
- Do you understand the credit contract?
- Will you still want to pay for this item until the end of the contract?
- Would it be wiser to save your money and buy this later?

The answers to these questions may help you decide if you should use credit.

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