



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

Consumer Tips September 2009 Using Credit Wisely



In today's economy, many people find their spending spiraling out of control and borrowing money to live on from month-to-month. This column will suggest ways to take control of your debt and get your financial life back on track.

Debt reduces your net worth and the interest you pay on credit card balances is money that cannot be saved or invested. Debt is good for purchasing a home, an automobile or paying for a college education. However, if you use your credit cards to pay for your daily living expenses, you may need to re-think your financial situation.

Our national economic recession has hurt many families and individuals who have lost their jobs and homes. Unfortunately, many Americans have resorted to using their credit cards just to get by day to day. Ideally, you should have a rainy day fund to cover three to six months of living expenses in the event of hard times.

One way to change your thinking is not to use your credit card unless you are buying something that is a necessity AND you will still have that item when you pay your credit card bill. That eliminates paying for food and entertainment using credit cards.

Another way to look at it is that if you would feel silly asking your banker for a loan to buy an item, don't use a credit card. In essence, when you use your credit card, you ARE asking a banker for a loan.

If possible, pay your credit card bills in full each month. With the annual interest rates on credit cards often as high as 20 percent or more, it is more like paying a high-interest loan.

To help reduce your credit card debt, set a monthly limit on how much you charge to your card and limit the number of credit cards you have. Choose the card with the lowest interest rate and one with the lowest or no annual fee. Understand that the blank checks often enclosed in your monthly statement are cash advances that may carry a higher interest rate. Remember that the way you handle your credit will be reflected in your credit report, which lenders will use to see if you are a good credit risk.

You should not throw away all of your credit cards and spend only on a cash basis. Creditors look to your credit history to decide how good of a credit risk you are.

Keep your credit in good standing by making sure your monthly bills are paid on time. Late payments are reported to the credit reporting agencies and can affect your credit score. Although all late payments are problematic, 90-day late payments can continue to damage your credit score even after you have paid the bill. To help you with budgeting and paying bills on time, you may want to consider setting up your monthly payments on automatic debit and eliminate the worry of late payments.

Lenders are more wary of loaning money in these economic times. At one time, a score of 620 was considered to be a good score when applying for a home loan. Now that score needs to be at least 760 to get the best interest rate.

If you find yourself drowning in debt, do not give up. There are credit counseling programs that will give you advice for free or at a low cost. They may recommend a debt management plan or negotiate payment plans with your creditors. If your debts are overwhelming, you may want to consider a debt settlement company that will work with your creditors to convince them to let you pay a lesser amount than you owe. The alternative is bankruptcy and most creditors would prefer debt settlement than bankruptcy where they may receive nothing.

Be sure to do your research before signing up with a debt settlement company. Many of these companies are scams and you might be better off negotiating a repayment plan with your creditors on your own rather than through a debt settlement company that may also charge high fees.

The best solution for controlling your debt is to keep a monthly budget and be aware of payments and interest rates versus your monthly income.

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