



The Wise Use of Credit

The word "credit" comes from the Latin word to "trust." This means that someone trusts someone else to repay the money loaned.

In early American history, the use of credit to expand family wealth was not only acceptable but virtuous. However, if it was used for anything other than purchasing land, household goods or production tools, it was considered irresponsible.

Since the end of World War II, America has moved from a cash to a credit-oriented society. "Buy now, pay later" has been embraced by American families. Attitudes toward credit started changing during the 1950's when credit use was broadly expanded. The first plastic credit card appeared in 1952 and the credit card industry was off!

Consumers were torn between the opinion that if you didn't pay cash, you shouldn't buy. On the other hand, new consumers wanted to fulfill their wants and aspirations using present and future income. Luxury items were now within reach with a stroke of the consumer's pen. Where credit previously bound workers to their employers, it now provided more freedom, opportunity, and social status.

Credit cards soon developed into a sign of prestige and material wealth, replacing money in the bank. As a result, consumer credit grew and savings percentages dropped. Today, the average family saves only 4 % of its disposable income and spends more than the recommended 20 % of take-home pay per month on installment debt, excluding a mortgage.

With more and more choices for credit, more rebate offers, coupons, hotel reservations, and free air flight miles, not to mention use at grocery stores and the U.S. Postal Service, the average person has tough decisions to make regarding the wise use of credit.

WHY USE CREDIT?

Credit adds flexibility to our financial planning and allows us to have those things we need and want by buying now and paying later. It allows us to buy big ticket items more easily, such as a car or home. When treated as a privilege, credit can help you have and enjoy more. You need to control credit or it can control you!

Changes in spending are brought about by changes in how you live...Are you contemplating a career change? Expecting a child? Have you had a change in your marital status (married, divorced, widowed)? Or, are you unusually stressed? Will any of these cause you to spend more?

Credit itself is neither a positive nor a negative thing; it can either be used wisely or poorly. Unwise use of credit can lead to serious financial problems. Therefore, you need to consider the advantages and disadvantages of credit transactions.

Advantages of Credit

Helps improve one's general way of living.

Gives ability to take advantage of sales.

Enables the purchasing of large or expensive items and paying for them over time.

Replaces carrying large sums of cash.

Makes managing overall expenditures more effective.

Provides establishment of a credit rating.

Can help beat inflation.

Helps handle financial emergencies.

Provides method for keeping savings intact.

Disadvantages of Credit

Commits future earnings.

Provides a false sense of financial security.

Decreases your cash savings.

May include paying finance charges and/or interest in addition to the cost of the product or service.

Promotes temptation to overspend.

Presents opportunity for credit cards to be lost or stolen, promoting fraud of liability.

USE CREDIT WISELY

Using credit is not simply finding what you want or need and "charging it." As a privilege, not a right, credit comes with an obligation to use wisely. Consider these guidelines:

Prepare a budget. List all of your expenses, fixed, flexible and periodic. Fixed expenses are those items that are the same each month: rent, utilities on a budget plan, car payments, and savings. Flexible expenses are those items that vary from month to month: food, gasoline, entertainment, and utilities. Periodic expenses are those in which you pay

several times a year rather than once a month: car insurance, property taxes, water bills and home/renters insurance. Once you have determined your expenses, compare this total to your net income.

Make sure that you have enough flexibility in your budget to handle emergencies or expenses you may have forgotten. Your budget should also include financial goals, both long and short term.

As a general rule, no more than 20% of your take-home pay should be committed to installment payments, not including your mortgage.

Be aware of the charges and limits of using your card at an ATM for extra cash-cash advance terms often vary from other credit card transaction terms.

Then ask yourself these questions before you buy on credit:

Do you want to commit further income for monthly credit payments?

Is the item you are considering to purchase with credit a luxury?

Is this purchase part of your financial goal?

Be On Guard With Your Card!

Credit cards should be guarded as if they were cash, maybe even more so. In the event of loss or theft, the credit card companies need to be notified immediately. However, even if you report the disappearance right away, you still may be held accountable for the first \$50 worth of fraudulent purchases on each card.

Protect your record and your name through careful management of your financial account as account fraud is on the increase.

Keep a list of all credit card account numbers and company notification centers in a safe place.

After a purchase, destroy all carbons and draw a line through any blank spaces on a charge slip before signing it.

When handing your card to a sales clerk, keep it in view to prevent an "extra" carbon from being printed.

Never give your card number over the phone unless you are ordering goods or services and are certain the company is reputable.

If you use your credit card as identification ask the merchant not to write down the number!

If there's an error on your credit card billing statement, write to your card issuer as soon as it appears on your statement. Most credit card companies allow consumers 60 days from receiving their statement to report the error. Failure to do so may result in a blemish on your credit bureau report.