

Proper Use of Credit

Little or None?

Suggesting that you have absolutely no credit is somewhat misleading. It is always a good idea to build a strong credit rating so you will have access to credit when you really do need it. Using credit for big ticket items such as a car, a mortgage, or a student loan can be a good thing when planned for properly. (Carrying a large mortgage and being 'house poor' would be an example of poor planning.)

Credit Cards:

Surprisingly, one way to build a good credit rating is by using a credit card. It can be an excellent way to build a strong credit rating **when used properly**.

Proper Use of Credit Cards:

- try to have only one major credit card (Visa or MasterCard) and pay it off every month in full (if you can't afford to do this, pay as much as possible)
- having multiple credit cards, even with zero balances, can effect your ability to borrow in the future (creditors view your current cards as being maxed out when evaluating your credit worthiness)
- never use a credit card to obtain cash advances (you will be charged interest immediately)
- keep track of credit card purchases just like a checking account – record each one and keep a running balance
- stop using your credit card when you have charged more than you can afford to pay off at the end of the month
- credit cards should only be used for emergencies/convenience when there is enough money in savings to pay it off in full at the end of the month

Rules of Thumb When Borrowing:

- **borrow only as much as you need** (sales people often try to 'upsell'; don't be talked into more money just because they say you can have it)
- **repay as soon as possible** (a shorter term usually means reduced interest charges)
- **apply as large a down payment as possible** (by borrowing less you will pay less interest over time and commit less of your future income)
- **shop around for the best interest rate** (you can often negotiate a lower rate because it is a very competitive market)
- **understand the contract** (take your time; read the fine print to determine the total cost of the loan after all interest and service charges)
- **always have a contingency plan** (e.g. in case I can no longer afford the payment, I can still sell the car and pay out the loan)