



How Much Credit Can You Afford?

Is credit a tool or a trap? Is it a friend or foe? Depending on your financial situation you may see that it is both or neither one. However, when used wisely, credit is truly a tool to aid the 'average' American to acquire the items in life that we need for security, stability and comfort. However, let's not forget that credit **costs** money. Finance charges, including interest payments, annual fees, late payment fees and over-the-limit fees, can add up quickly. Failure to realize the TOTAL cost of credit can lead to debt overload.

Remember, when you use credit, you are spending future income, how will you replace that income already spent? Since bills don't arrive for a month, it's tempting to overspend. Families should discuss the use of credit and how to use it to their advantage. The chart below can help you talk about how credit should be managed.

	Your Answers	Other Family Members
Clothing	\$	\$
Buying a Car	\$	\$
Christmas Gifts	\$	\$
Groceries	\$	\$
Vacations	\$	\$
Ordering Online	\$	\$
Emergencies	\$	\$
Gambling/ Wagering	\$	\$
Impulse Buying	\$	\$
Gasoline	\$	\$

Consider this hypothetical example: You buy a \$2,000 flat screen TV on a credit card with 15% interest rate; making only the minimum monthly payment, it would take more than 17 years to pay off the original debt. The credit card company pay off amount would be more than \$2500 in interest – doubling the cost of the TV. Wow!

How Much Credit Can You Afford?

Since no two families are alike, there are no hard and fast rules to determine how much credit you can handle, but there is a guide. No more than 20 percent of monthly take-home pay should be used for consumer credit, to stay away from feeling pressure, aim for 15%. Use the form to determine if your debt load falls below 20 percent.

Vehicle Loan(s)	\$
Furniture/Appliance Loan(s)	\$
Credit Card 1	\$
Credit Card 2	\$
Credit Card 3	\$
Student Loans	\$
Other	\$

TOTAL CREDIT
DEBT
=
% DEBT LOAD of
MONTHLY TAKE-
HOME PAY

Starting _____ a new job?
Need to spruce up your wardrobe? Shopping around can save you money.

Let’s say you spent \$1,000 on clothing using a credit card charging 18% annual percentage rate (APR) interest and made the minimum payments to pay off the balance. It will take you more than five years to erase the debt, and your \$1,000 wardrobe would actually double in price by the time you pay an additional \$1,000 in interest. Using a credit card charging 12% APR interest, the wardrobe would cost you \$1,500 – a savings of more than \$500 in interest charges.

Moving to a new home? Need safer transportation? Need new furniture?

If you buy \$2,000 worth of furnishings with a credit card charging 18.5% APR interest and pay off the balance by making the minimum payments, it will take you more than 11 years to repay the debt. By the time the loan is paid off, you will have spent nearly \$1,934 extra on interest alone and would you have the same furnishings? The best option - pay it off within a special program if you are receiving 0% interest for a particular time. If not, you still owe the interest accrued for the life of the loan. Just like you are shopping around for a new car, home, furnishings or clothes, don’t forget to **compare credit costs**, including the following:

- \$ total finance charges (dollar amounts)
- \$ annual percentage rates (APR)
- \$ late fees
- \$ early pay-off penalty
- \$ annual fees (\$0-\$75+ each year)
- \$ security deposits (savings/collateral)
- \$ cash advance fees, and
- \$ add-on insurance, protection or other services

Credit Report and Credit Score History

Credit History

Once you begin to use credit, you establish a credit history. A credit history is a record of whether or not you have repaid debts on time and according to signed agreements. This record also includes a list of every-one who has accessed your report for up to two years. These are called “inquiries.” The agency that maintains credit records is called a credit bureau. When you apply for credit, a credit grantor looks at your credit history to determine if you are a good credit risk. You can see why it is important to have a credit history that shows you have paid your debts on time.

If you’ve never had credit, you probably have no credit history. Not having any credit history is not a good thing. With no credit history you can have higher interest rates, until you have proven yourself creditworthy. Take these steps to establish credit for the first time:

1. Maintain steady employment.
2. Open a checking and savings account, and use them responsibly.
3. Apply for a credit card from your bank or credit union, department store credit card, and make prompt payments, in full preferably.

Ask a relative or friend who already has a good credit history to co-sign a small loan. Pay the loan back promptly.



A note on co-signing...remember, if the person you are co-signing for chooses not to make the payments, it will fall back on you and if they are behind, the expectation of the creditor is that the co-signer will assume all liability of the debt.

Be choosy who you co-sign for, if anybody. Also, if that person files bankruptcy, you are also attached to that account and it CAN affect you!!



Credit

If you’ve been turned down for

the last 60 days, you are entitled to receive a free copy of your credit report from the credit reporting agency that supplied information about you. These are the three major credit reporting agencies: Experian, Equifax & Transunion. Even if you have not been denied credit, it is a good idea to check your credit report at least once a year to make sure everything is correct and you are not a victim of identity theft. Identity theft, where someone else uses your name or credit unlawfully, is becoming more and more common. Although credit reports generally cost around \$10, a new law went into effect in 2005 giving you the right to get one free copy of your credit report from each of the three credit bureaus each year by following these instructions:

Report

been turned credit within

To order your **FREE CREDIT REPORT**, visit **www.annualcreditreport.com** to apply online or print a form to order your free credit report by mail. You may also order by calling 877-322-8228.

Free credit reports are available only from the www.annualcreditreport.com web site. If you order directly from a credit bureau, you may be charged. There is no provision to receive a free credit score. Credit scores are available, but there is a fee. Next week, credit scoring will be reviewed.

\$ense Talk



Credit is a very complex financial concept. Do we need credit? How much credit is too much? Take the quiz below and find out how much you know about credit. Circle your answers and then see how you score.

The percent of your take-home pay used for credit payments should not exceed

- A. 5% B. 10% C. 20% D. 25%

A bank may refuse to offer you credit based on:

- A. age B. income and credit history C. number of dependent children D. marital status

The best indicator of the cost of a loan is the:

- A. number of monthly payments B. monthly payment amount C. interest rate D. loan amount

When shopping for credit cards, evaluate:

- A. fees B. the way interest is compounded C. interest rates D. all of the above

A grace period is important because it:

- A. allows you to skip one of your monthly payments
B. gives you a period of time during which to pay off your bill without incurring interest charges
C. allows you to charge over your approved line of credit for a month
D. requires you to pay off your balance over a set period of time

The Equal Credit Opportunity Act states that:

- A. consumers are protected from illegal discrimination based on race, color, religion, national origin, sex, marital status or age
B. a creditor cannot ask you to reapply, close your account or change terms of a loan if you become widowed or divorced
C. a creditor cannot turn you down for credit if your income comes from pensions, annuities or part-time income
D. all of the above

To keep credit card interest payments as low as possible:

- A. try to pay off your bills in full every month
B. take out a bank loan at a lower interest rate and use the money to pay off your credit card bills
C. switch to a different credit card that has a lower interest rate
D. all of the above

If you carry a balance of \$2,000 with a card that charges 18% interest, by making the minimum monthly payment of 3%, you will pay off the loan in:

- A. three years B. six years C. nine years D. twelve years

Which purchase would be a wise use of credit if money were tight?

- A. eating out B. going on a vacation C. buying clothes on sale D. buying a basic washer and dryer set

A person with credit problems should:

- A. commit themselves not to increase the debt they already have
B. analyze their spending habits and adjust them
C. contact a local consumer credit counseling service
D. all of the above

Scoring:

9-10 correct: Congratulations! You are credit-wise.

5-8 correct: Careful! You might be spending more money than is necessary. Learn your credit card's interest rate and fee schedule. Examine your cardholder agreement to find out the terms and conditions of your card. With a little knowledge, you can shop around and use a card that's right for you.

0-4 correct: Caution! You might want to call a local consumer group, credit counseling service or government office of consumer affairs for more information about the use of credit cards.



Are You Already Over-Extended

As we begin the conversation of credit and debt, sometimes it can become overwhelming to think of how much a person(s) can owe. To help you see if you are having difficulties with your debt to income ratio, take a few moments to answer these questions with either Yes or No. If any of the statements below apply to your financial situation, you may already have a credit problem.

\$ Paying only the minimum amount due each month on a credit card or loan

\$ Borrowing money from family, friends or financial institutions to pay fixed expenses such as rent or car payments

\$ Opening additional accounts to increase the amount you can borrow

\$ Using credit card advances to pay for everyday living expenses or other bills

\$ Charging on credit cards more each month than you are paying

\$ Using savings each month to pay credit debt

\$ Have little to no savings

If you recognize any credit problems, begin working on them NOW! Do not ignore or treat as “no big deal.” What to do now: Make no new charges; Contact creditors if you are going to be late or miss a payment; Contact creditors before they contact you; Be honest; Apply any extra money to pay off your debt or add to a savings account.

Week 4 Financial Wellness Steps

Select at least 2 and complete within the next week:

\$ Order at least one of your credit reports from <http://annualcreditreport.com>. Mark your calendar to view the other 2 at 4 month intervals. Sign up for Credit Check Up at <http://dollarsandsense.tamu.edu/creditcheck>

\$ List all of your debts – credit cards, loans, etc. with amounts owed to see if you are overextended.

\$ If you are married, sit down with spouse, and review credit/debt load – make a plan to pay off debt.

\$ Single – be honest with yourself as you review credit/debt load – make a plan to pay off.

\$ Make a list of your credit cards in your wallet with contact information if your wallet is lost or stolen.

\$ Figure your debt to income ratio.



The Texas A&M AgriLife Extension Service is a unique education agency with a statewide network of professional educators, trained volunteers, and county offices. It reaches into every Texas county to address local priority needs. Texas A&M AgriLife Extension offers practical information for families: raising children, housing and environment, eating well, managing money, and staying healthy.

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EXTENSION



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Checklist for Getting Credit

Although credit granting policies vary, here are some basic criteria creditors consider when you apply for a credit card or other type of loan.

Your chances of qualifying for a credit card or loan increase if you have any of these:

\$ No major blemishes on your credit report, such as a bankruptcy, settlement or charge off nonpayment turned over to a collection agency, a repossession, or a 90-day delinquency.

\$ Active accounts that show the information you have provided is valid. Creditors prefer that you have at least two active open accounts – one that has been active for at least two years with no late payments.

\$ No recent late payment (late payments sometimes, but not always can disqualify an applicant).

\$ A current (legal) address. Some issuers do not give cards to an applicant using a post office box or general delivery address.

