



# Chapter 8-Section 3

Credit Management

# Managing Credit

- When using credit:
  - Go slowly
  - Do not use too much at once
  - Establish credit when you don't need it, so you have it when you do need it
  - Build a solid credit history by paying all credit bills on time
  - This will help you get a good credit rating-resulting in a low interest rate on money you borrow.

# Managing Credit (continued)

- Buying items on credit ties up future income
- Things to consider:
  - Billing cycle-the time period during which you must make your monthly payment
  - Unused credit-the difference between your credit limit and your current balance

# Credit Offers

- Disclosure terms:
  - Interest rate: financial charge paid on unpaid balances
  - Grace period: the amount of time you have to pay your credit card bill without having to pay interest on your new purchases.
  - Minimum finance charge: smallest amount charged on unpaid balances in each billing cycle
  - Transaction fees: When you transfer balances from other credit accounts, usually charged as a percentage
  - Cash advance fees: fee charged to cash advance on credit card
  - Late fees: fee charged for paying bill late
  - Over-the-limit-fees: flat amount when you go over your credit limit
  - Annual Fee: Fee paid for having a credit card in your possession, even if you never use the card

# Manage Debt Load

- Debt load-the amount of outstanding debt at a particular time
  - Depends on your ability to make regular payments
  - Ability to pay off the debt quickly
  - Your level of comfort with the amount you owe
- Installment loan debt should not exceed 20 percent of yearly take-home pay
- Debt represents future earnings already spent

# Avoiding Unnecessary Credit Costs

- Pay cash for small purchases
- Pay the full account balance each billing cycle
- Keep the number of credit cards and credit accounts to a minimum
- Comparison shop when getting a loan or credit card or making major purchases
- Consider special deals and financing arranged by the seller for large purchases before arranging with a bank for financing
- Time your credit purchases
- Take advantage of cash rebates and rewards
- Always pay your bills on time or early