

## Credit Card Smarts

**The Basic Facts of Credit.** Sure, a credit card means money and freedom. But using a card too often can lead you right into financial disaster. Before you know it, you're charged to the max of your credit line, you can't make the payments, the bank is really on your case, and you're stuck in the credit trap. Say goodbye to that good credit rating you worked so hard for.

If you have a credit card or are thinking about getting one, here are a few basic facts to keep in mind:

- Credit cards make sense when you save them for a real emergency and pay off the entire amount you owe when you get the bill.
- VISA, MasterCard, and department store credit cards are really high interest loans in disguise. You'll pay as much as 23 percent interest (called a finance charge) on the portion of your bill that you don't pay off at the end of the month. You may also have to pay an annual fee just for having the card. Then there's the fee for using your card to get a cash advance (a very bad idea), and yet another hefty fee each time your payment is late.
- Credit cards cost you a bundle — just check out the numbers: If your average unpaid credit card bill over the year is \$500, and the finance charge is 20 percent, you're paying \$100.00 ( $\$500 \times 20$  percent) just in finance charges each year. Now figure in the \$20 annual card fee, and another \$25 because your payment was late one month. That credit card is costing you a whopping \$145 a year ( $\$500 \times 20$  percent = \$100 finance charge + \$20 annual fee + \$25 late payment fee = \$145.00). And that's in addition to the purchases you've charged on your credit card! It's a vicious cycle — before you know it, you can only afford to pay off the monthly finance charge and you never get rid of the debt. Use cash instead of plastic and you'll save yourself a ton of money.

**Be Credit Smart.** When you sign up for a credit card, you're signing on for a big responsibility because it's you who will be responsible for paying those bills. Follow these Golden Rules of credit management and you'll lead a financially healthy life:

- Use credit only if you are certain that you will be able to repay your debt.
- Think through your purchase carefully before you say, "Charge it." Never, ever, use a credit card on impulse. And never use it to lift your spirits because you'll be even more depressed when it's time to pay the bill.
- Save your credit card for a real money emergency. Using a card to pay for Spring Break vacation is neither an emergency nor a good idea.

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**The Early Warning Signs of Trouble.** Here's another important fact you should know about credit: If you don't pay your bills on time, collection agents and your creditors (the people you owe) will start sending threatening letters and calling you. They may even sue you! Are you heading for financial disaster?

Check out these tip-offs:

- You're borrowed to the max of your credit limit.
- The amount you owe increases each month.
- You're just barely able to make the minimum monthly payment.
- You're using a credit card for essential living expenses such as groceries and clothing.
- You're taking cash advances on your credit cards to make other credit card payments.
- You're spending 15 percent or more of your monthly income on credit card payments.

**Need Help?** If you sense that you're sliding into financial trouble, or if you're receiving letters from your creditors, it's time to get some control over your financial future:

- **Contact your family immediately.** They may be willing to bail you out, this time. Discuss the situation with your financial aid administrator — he or she will be able to provide guidance. Then, prepare to face your creditors. The very worst thing you can do is avoid your creditors' calls and letters.
- **Cut expenses.** Start with the things that will disrupt your life the least, like eating out and movies and other recreational expenses. Keep in mind, the more you are in debt, the more you'll have to slash expenses.
- **Work out a new payment schedule.** In banking terms, this is called restructuring. It's possible that your creditors would rather accept a lower payment from you than be forced to repossess your computer, for example, or take other legal action. When you contact your creditors, be honest — tell them why you can't make your payments and the amount you can afford to pay each month. Once the new terms are agreed to, you must stick to them religiously or you may never get credit again.
- **Rebuild your credit rating.** A restructured credit agreement may show up as a bad mark on your credit rating. To ensure that your future creditors do not misinterpret your credit report, be sure to include a statement in your credit history that explains the circumstances of your restructured debt.