

YOU and YOUR CREDIT: Managing Your Credit¹

Joan P. Elmore, Michael S. Gutter, and Travis P. Mountain²

Below are links to each of the YOU and YOUR CREDIT series.

Credit Dos and Don'ts: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106400.pdf>

Credit Card Basics: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106500.pdf>

Managing Your Credit: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106700.pdf>

Credit Scores: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106800.pdf>

Home Ownership and Credit: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106900.pdf>

Further Resources: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY107000.pdf>

Series of Five Parts, Bound as Single Document: PDF version -
<http://edis.ifas.ufl.edu/pdffiles/FY/FY107100.pdf>

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HOW MUCH DEBT CAN YOU REALISTICALLY CARRY?

The debt service-to-income ratio compares your total annual debt repayments (including rent or mortgage) to your gross annual income (income before taxes and any deductions). A desirable ratio is .36 or less. For example, a household earning \$40,000 annually should not have debt payments totaling over \$14,400 per year.

How much credit can you afford?

Your gross income \$ _____

36% of your gross income \$ _____

Source: USDA Rural Development

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CREDIT CARD WORKSHEET

This worksheet can help you analyze your credit cards, costs, terms, conditions and your needs to select the best credit card(s) for you.

| INTEREST APR's | Card A | Card B | Card C |
|-----------------------|---------------|---------------|---------------|
| Purchases | | | |
| Cash Advances | | | |
| Balance Transfers | | | |

| INTEREST RATE | | | |
|----------------------|--|--|--|
| Fixed | | | |
| Variable | | | |
| Introductory | | | |
| Tiered | | | |

| GRACE PERIOD IF YOU: | | | |
|-----------------------------|--|--|--|
| Carry a balance | | | |
| Pay off balance each month | | | |
| Cash advances | | | |

| FINANCE CHARGE - HOW COMPUTED: | | | |
|---------------------------------------|--|--|--|
| Average Daily Balance | | | |
| Two cycle Billing | | | |
| Minimum finance charge | | | |
| Other | | | |

| ADDITIONAL FEES | | | |
|------------------------|--|--|--|
| Late Fees | | | |
| Over the Limit | | | |
| Annual | | | |
| Other- | | | |
| Other- | | | |
| Other- | | | |

| OTHER FEATURES | | | |
|-----------------------|--|--|--|
| Rebates | | | |
| Frequent flyer miles | | | |
| Insurance | | | |
| Other | | | |

Source: Federal Reserve Bank

INVENTORY of Credit Cards and Loans

It is important to keep this information in a secure place with your other valuable papers in case of an emergency like fire, hurricanes, etc.

| Creditor Name/address | Account # | Phone # | Interest Rate | Current Balance | Due Date | Monthly Payment |
|-----------------------|-----------|---------|---------------|-----------------|----------|-----------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Total Monthly Amount: _____

Date of Inventory: _____

Additional Comments

A CLOSER LOOK AT THE COST OF CREDIT – The Minimum Payment Trap

Making Minimum Payment (4% of amount borrowed)

| <u>ITEM</u> | <u>RETAIL PRICE</u> | <u>APR</u> | <u>INTEREST PAID</u> | <u>REALLY PAID FOR ITEM</u> | <u>YEARS TO PAY OFF</u> |
|-------------|---------------------|------------|----------------------|-----------------------------|-------------------------|
| TV | \$500 | 18% | \$216 | \$716 | 4 years, 11 months |
| Computer | \$1,000 | 18% | \$516 | \$1,516 | 7 years, 3 months |
| Furniture | \$2,500 | 18% | \$1,416 | \$3,916 | 10 years, 3 months |

This chart assumes you are not making additional purchases and you are making payments on time. You can call your credit card company and ask them for the number of years it will take to pay off the current balance if you only make the minimum payments.

Making More than the Minimum Payment—It Pays Off

| <u>ORIGINAL BALANCE</u> | <u>APR</u> | <u>MONTHLY PAYMENTS</u> | <u>TOTAL # OF MONTHLY PAYMENTS</u> | <u>TOTAL YEARS TO PAY OFF</u> | <u>TOTAL OF PAYMENTS</u> |
|-------------------------|------------|-------------------------|------------------------------------|-------------------------------|--------------------------|
| \$2,500 | 18% | Minimum | 123 | 10 years | \$3,916 |
| \$2,500 | 18% | Minimum + \$25 | 50 | 4 | \$3,258 |
| \$2,500 | 18% | Minimum + \$50 | 33 | 3 | \$2,839 |

This chart assumes you are not making additional purchases and you are making payments on time.

REQUEST A LOWER INTEREST RATE

If you have been with a credit card company for several years and are in good standing, you can request a lower interest rate. The steps include:

1. **Dial the 800 number** on the back of your card.
2. **Use this sample script:** Hi, my name is (your name). I have been a credit card holder with your company for the last (number) years. My account is in good standing and I would like to continue using it. However, I would like you to consider giving me a lower interest rate on this account, or I may switch to a card with a better rate.
3. **Record the name of the person** with whom you spoke, the date, your interest rate, and then a date six months later when you can make your request again. If they refuse to give you a lower rate, try again the next day to reach someone more helpful. After successfully lowering your interest rate, wait six months and ask again.

RECORD OF LOWER INTEREST RATE INQUIRIES

| Credit card | Phone number | Person you spoke to | Interest Rate | Date | Date to call again |
|-------------|--------------|---------------------|---------------|------|--------------------|
| | | | | | |
| | | | | | |
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| | | | | | |
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| | | | | | |
| | | | | | |

Source: Bankrate.com

BALANCE TRANSFERS – Know What You Are Getting

Transferring a high-interest card to a card with a low rate can save a bundle of cash and speed up your path to lower your debt. But, be careful. The rules are different for each card.

1. **Check the time limit.** Most interest rates last only 6–9 months, then revert to a more traditional rate.
2. **Know what the interest rate really covers.** Does it cover just the balances transferred? Many exclude any new purchases made. The credit card company will apply all of your payment to the zero or low-rate balances first, until they are paid off. That means your new purchases will continue to revolve on the card and rack up the higher interest cost.
3. **Beware of the hefty fees.** Most cards have a balance transfer fee. The cost varies, so check it out. You want to consider only those cards that have a cap on their transfer fees.
4. **Watch out** for the bait and switch. Just because you applied for the zero percent rate doesn't mean you'll get it. Card companies will sometimes issue you the card but assign a higher rate if your credit score is low. Be sure to READ the agreement terms that come with the card before you transfer a balance or make a purchase.
5. **Always pay on time.** The zero rate or low rate will disappear the minute you are late. The interest rate can be bumped up to high as 30 percent plus the late fee.

WORKSHEET FOR BALANCE TRANSFER

OLD CARD

| | |
|----------------------------------|------------|
| Toll-free # for customer service | _____ |
| Account # | _____ |
| Balance | \$ _____ |
| APR | _____ % |
| Grace period | _____ days |
| Due date | _____ |

NEW CARD

| | |
|-------------------------------------|------------|
| Toll free # for customer service | _____ |
| Account # | _____ |
| Balance | \$ _____ |
| Introductory APR | _____ % |
| Date introductory rate expires | _____ |
| Date balance transfer APR expires | _____ |
| APR after introductory rate expires | _____ % |
| APR after late payments | _____ % |
| Balance transfer fee | \$ _____ |
| Annual fee | \$ _____ |
| Grace period | _____ days |
| Due Date | _____ |

Remember, while a balance transfer is pending, continue to make minimum payments by the due date to the old card. When you receive a billing statement from the old card, make sure it has a zero balance.

A helpful online tool is PowerPay. This tool helps consumers organize their debts and make decisions about debt management, payoff schedules, consolidation, and how to most efficiently use additional funds to reduce debt. The program is available at www.powerpay.org. Your local Extension agent can help you get your information organized and interpret the program results.