

Stretching Your Dollars: Getting Credit and Keeping it¹

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Consumer credit is an important part of our economic system. It is important to establish a good credit record before you need it; otherwise, credit may not be available when you need it. Most consumers will find it necessary to rely on credit for major purchases. It can also be of tremendous value in case of an unexpected emergency. Treat credit as you treat your doctor. You have one, but hope you do not have to use his/her services. The doctor is there when you have a special need. However, he/she won't be there for you if you do not pay your bill or abuse the service.

Generally, the most logical form of credit for the average consumer is a multi-purpose credit card. One card with low credit limit qualifies you for credit without the temptation to overspend. The card is available if you need to make a hotel reservation, rent a car, replace a damaged tire, see a doctor or handle other emergencies. Your credit record (how well you pay your bills) will affect your ability to get a bank

account and rent an apartment. Credit record affects your ability to get a job and car insurance payments.

Getting Credit

Credit is easier to get now than in the past. However, it may not be readily available if your credit record shows unpaid bills, excessive debts, foreclosures, repossessions or bankruptcy. Divorce has created credit problems for many. In these situations, you may find it necessary to get a co-signer. The co-signer will have to pay the bill if you do not.

Credit may also be difficult to get if you have no credit history. However, graduating high school seniors and college students are often offered a credit card by financial institutions hoping to develop customer loyalty. This can be an opportunity to establish credit **if** the student pays his/her bills on time and does not over-extend his/her credit use. Unfortunately many young people have accepted credit cards before they have the income or maturity to handle credit in a responsible manner, thus creating problems for themselves that will last for many years.

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Approved for Credit

If over 18 years of age, an applicant cannot be denied credit because of age or source of income (if income is legal). There are many reasons why credit can be denied, for example poor or no credit history, not enough income, too many debts, etc.

If an applicant is denied credit, he/she must be told why and given an opportunity to make sure that the information in his/her credit file is accurate. If there is an error, and the customer requests it, the situation must be reinvestigated and corrected without charge if it is not accurate.

If you have ever used credit, your record is on file in a credit reporting agency. Adverse information remains there for seven years and bankruptcy for 10 years.

Extending Credit

Each credit grantor has its own requirements for extending credit. The same standard must be applied to all people. Credit cannot be denied because of race or sex. If you are denied credit by one credit grantor, apply at another place. Different places have different requirements.

If you do not qualify for credit on your own (for example, not enough income), you may get credit with a co-signer. However, the co-signer should realize that if you do not pay the debt he/she would be required to pay it. Also, your non-payment will damage the co-signer's credit record.

Another way you may obtain a credit card is to get a secured credit card. You may get this card from your bank or from a credit card company. A secured card requires money be deposited in a savings account to cover the bill in case you can't pay. After handling the card responsibly and paying promptly, you will become eligible for a "regular" card.

Choosing a Credit Card

Credit is a highly competitive business. Terms and requirements vary among institutions, even for the same type of card. To attract new customers, credit card companies are offering low "introductory" rates. Read the ads in detail before accepting the

offer. These rates are for a short time. Then the APR increases. Most "introductory rates" are only for "balance transfers," your debt from another card, not for new purchases. There may be extra fees for transferring the debt.

Always compare the APR (Annual Percentage Rate) to locate the credit source that charges the least interest and finance charge.

Check to make sure the card provides a grace period. The longer the grace period the easier it is to get payments in before a finance charge is added. Look for a card with a 20-25 day grace period. Realize the payment must be received by the financial institution before the due date or you will be charged a finance charge, a late fee and the APR may increase.

Look at other fees and charges carefully. Fees vary and are listed on the credit card application form. They include:

- over the credit limit. Most card issuers charge a fee of \$20 to \$30 if you go over your approved credit limit.
- late fee. If payment is received after the "pay by" or due date a late fee is charged.
- cash advance fee. The amount you must pay will vary among card issuers. There is no grace period for cash advances. Using a cash advance is costly. Never use a cash advance from one credit card to pay another.

Keeping Credit

Once you have established credit, it will continue to be available if you pay your bills promptly. Remember, the credit record you are building will determine credit availability and cost.

Handle your credit carefully. Buy no more than you can pay for.