

## Using Credit Cards Wisely

Credit can make life so much easier. Credit allows us to enjoy things now while we pay for them later. Many of us would never become a homeowner or have a nice car if we had to save up the money to pay for them in cash. Every little emergency would be a major issue if it weren't for the convenience of a credit card. Credit can help us get through tough times and allow us to keep up the lifestyle that we've become so used to. Using credit can also cause financial ruin if it's not used wisely. Many people have gotten in over their heads and let their spending get out of control. It's actually pretty easy to spend more than you should when you have the means to do so; carrying a credit card is like having a pre-approved loan in your wallet. This convenience can cause you big problems if you aren't smart about your spending. Make an informed decision before you use credit for any purchase. Using credit for everyday purchases like gas and groceries can be a convenient way to keep record of your spending, as long as you don't spend more than you normally would if you had to pay in cash. All the charges will show up on one statement and you can easily see what you're spending every month. This should be paid off in full by the grace period so you aren't paying interest on these disposable necessities. This can help you stick to a budget as long as you pay your entire balance every month. Know what APR you are paying for the use of your credit card. If the balance isn't paid in full every month, finance charges will be added to the amount owed, and over time this can add up to a lot more than originally charged. We all love it when our favorite store is having a sale, but we wouldn't even consider shopping there if their sale banner read, "Everything in the store costs 20% more than the sticker price!" So why is it so easy to accept that you are paying 20% more than the sticker price by letting finance charges accrue? Know what using credit costs you before you "charge it." If you can't pay the balance in full each month, you can pay it off within a couple of months. Get that balance down to zero as soon as you can afford to so you can reduce your interest costs. You should always pay more than the minimum payment unless times are really tough. If you've had an emergency, work is slow, or an otherwise bad month, paying just the minimum may get you through until things get better. Just don't forget that credit card companies are in the business to make money. Letting you pay a small amount on a big debt will increase your interest costs and their profit. If you are carrying a balance, take look at your current credit card statement, and compare the amount of interest charged this billing cycle with the minimum payment due. How will a \$20 minimum payment make a dent in the balance when there is a \$15 finance charge? It can take as long to pay off a credit card as it would for a home mortgage if you only pay the minimum payment every month, and that's if you never charge another thing again! You are committing yourself to a mountain of debt if you treat your credit card as if it were just another bill like your electricity or cable, and pay only the smallest amount they'll accept. You're credit card statement is not just a bill; it is a debt. You owe that amount for things you've already purchased and used; you don't want to pay interest on a dinner you had months ago, or on clothes that are out of style or no longer fit you. So pay it off before you are hit with any more interest charges! Be cautious of balance transfer juggling acts. Credit card offers may entice you with a low introductory rate that later skyrockets. They hope you will shop more than you should or transfer balances from other credit cards because of their low intro rate. After you've had a chance to run your balance up, the interest rate will go up to their normal rate and they've got you. You might then be tempted to open yet another credit card account for another low intro rate. Transferring your balance might give you a chance to pay off your debt at a lower interest rate, but you have to be careful if you can't control your spending. If having more credit cards at your disposal will tempt you to shop more, close out the extra accounts once they're paid off. You should keep the one or two cards that give you the best terms and conditions, disregarding the introductory terms. Study your credit card statement and see what you're really using credit for. It's easy to forget about the little things you charge for everyday. A few relatively small, unnecessary purchases here and there can easily add up to many hundreds of dollars over the course of one month. Don't spend more on credit than you normally would if you were pulling cash out of your pocket. You might buy something because you think you're getting a good deal, but it's not a good deal if you are spending more than you can afford. If all your spending is truly on things you need, you should figure that balance amount into your budget and plan on paying it off each month. If you can't pay all your bills plus your credit card in full every month, it is a sure sign you are living beyond your means. It's time to cut back on the extras, reduce the expensive nights out, forego the designer clothes, and only buy what you really need. Be very careful about taking out cash advances from credit cards. There may be a fee for doing it, plus you probably won't be given an interest-free grace period. Many credit card issuers will even charge a higher APR for cash advances than they do for purchases. Your credit card should be an absolute last resort if you need money. You could talk to your local bank about a personal line of credit if you often come across a need for cash withdrawals. Pay your bill on time and stay within your credit limit. Overcharging or paying late can cost you hefty fees, and that's on top of the interest charges. People know that not paying their credit card bill for months will cause the account to be in default, but many don't realize that making just two payments one day late in a year can cause the default APR to go into effect with many card issuers. You have to be on top of this to avoid those extra charges; it's a double-whammy when you pay a penalty fee plus higher interest rates. Know and comply with all the terms and conditions of your credit card. The basic information such as interest rate, grace period, annual fee, balance calculation method, and other fees will be included with any credit card solicitation. You won't get all the details of the terms and conditions until you apply for and receive the credit card. You will receive a small pamphlet with your card called the "Cardholder Agreement", or something similarly titled. This is a legal contract, and by opening the account you are agreeing to the details in that contract. It will contain specific information on how your account is handled; it is important to know the terms and conditions of the credit card before you start using it. If the card issuer changes the terms and conditions in the future, they are required to send you a new Cardholder Agreement describing the changes. The credit card companies are glad that not everybody knows this, but even those terms and conditions in the Cardholder Agreement are not written in stone. You can negotiate with them to get better terms. It might not work if you don't have great credit, or you've had a less than perfect payment history with that particular creditor, but it's still worth a shot if it can save you money. Especially if you've been a good customer for a few years, you can oftentimes convince them to do away with an annual fee or lower your interest rate. I've done it a few times;

it seems to work well when they know you might have options better than them. It also seems to work better when you have a low or zero balance, because it's easier to convince them that you really don't need them, you're very capable of paying off and closing your account, and that you might shop more if the terms on the card are better. Be honest with them, but you might try something like, "I've decided I have too many credit cards, and I want to close the accounts that charge higher interest. You are one of my higher interest accounts. Is the APR you are charging me the best you can do? I might consider keeping this account open and using it more if the terms were better." Or, you can try, "I've been very happy with your service, but I have another credit card that doesn't charge an annual fee. I don't want to pay for the use of your card every year when I already have enough credit available to me. I would like to keep this account open if you can do away with the annual fee." Try it and you might be pleasantly surprised. The credit card issuers would rather give you better terms and keep your business than to lose you completely. credit cards can be a wonderfully convenient way to pay for those everyday expenses, as long as we are responsible with our spending. Many consumers will someday face bankruptcy because of poor financial habits. Educate yourself and know what it is you are getting into before it gets out of hand. Credit can really make life simple if you use it the right way for the right reasons. If you use credit wisely, you can have free use of somebody else's money every month. Just never forget that every time you swipe your card, you are taking out a loan; that loan will have to be paid back, the sooner you pay it, the better.

## About the Author

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