

Credit and Debt



Establishing credit and taking on debt are almost a given in today's society, but using credit is not a necessity. Taking on any debt (large or small) should be well thought out considering the length of time and the cost you will incur.

Be strategic where you apply. You don't need a credit card for every store you shop at nor do you need to keep checking your credit to see if you qualify. Shop around for the type of credit that suits your needs at the lowest cost.

Don't use credit on impulse. Take the time to consider the purchase. Will the item be forgotten in the back of the closet? If you haven't worked the item into your budget, give yourself 24 hours to consider the purchase and see if it is still something you want to buy.

Your brain on credit. Paying for a purchase with a credit card is much less painful – our brains can't process the loss the same way as when we pay with cash. This makes it very easy to give into impulse purchases and spend beyond your means. Have a budget and stick to it – and, if you are going to put something on your credit card, have a plan for how you will pay the debt.

Look at the true cost. Depending on the type of credit there could be additional costs such as annual fees, higher interest on credit card cheques and cash advances, deferral fees, usage charges or others. Read the contract to understand all the fees involved, and when looking for a credit card, shop around for one with low interest and low fees.

Borrow based on what you can afford to pay out of your budget. Just because you qualify to borrow up to a certain amount doesn't mean you need to or should. For example, just because you qualify for a \$10,000 credit card doesn't mean you should carry one with that limit when a \$3,000 limit would be sufficient.

Have a plan to pay the debt back before you use credit. Know the length of time it will take you to pay back the money you have borrowed and where that money is coming from in your budget.

Pay back debt as soon as you can. This will help to reduce interest costs and free up money for savings in your budget.

Not all credit is equal. Borrowing from high-risk lenders (such as pay day loan companies) costs more as well as possibly impact your credit rating..

Using credit should never be your emergency plan. You will need to pay that money back, and it can cost you more in interest. Instead, start building some emergency savings. See our Spending and Savings tip sheet for information on savings.

Protect your credit. Keep your credit healthy by limiting how much debt you carry, how often you pay with credit and not applying for credit every time you are offered it. Obtain a copy of your credit report (free) every year through www.equifax.ca or www.transunion.ca.

Check out other great financial literacy tips at our members' websites.
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