

Financial Wellness

A Quarterly Newsletter brought to you by
The Financial Freedom Club

Managing your Credit Cards

Credit cards. It is nearly impossible to function in today's society without one. From making airline, car or hotel reservations to making purchases on the Internet, it has become essential for everyday living. And credit card companies are trying to make it easier to get one.

Competition for credit card customers has become extremely intense. Companies are looking for whatever customers they can get, wherever they can get them. Frequently this brings credit card marketers to campuses, local merchants, and grand opening events, where each time there is a guaranteed new crop of potential customers. By signing up more customers, the card companies hope to establish a type of brand loyalty that will carry far into the future. For example, students will be offered free T-shirts, water bottles, long distance, pizza discounts, Frisbees, backpacks, hats, pens—you name it—all in the name of marketing credit cards.

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GETTING YOUR FREE CREDIT REPORT!

Have you received your free credit report this year? Federal legislation provides for 1 free credit report each year.

Visit www.annualcreditreport.com to request your report.

There is no charge for your report and you do not have to enroll in a credit monitoring service to receive it.

This issue's challenge: Leave your debit/credit card at home this week and try paying cash for everything. See if you can make your cash last the entire week!

ZERO PERCENT FINANCING - WHAT IT REALLY MEANS

We've all seen the ads – 0% interest and zero payments for an entire year!

It all sounds so good. You get to buy and have something right now and not have to make a single payment for many, many months. If you have been considering such an offer, hopefully, you have also read the fine print that explains all of the details.

Zero Percent Financing - The Promotional

Period: Many offers such as this are a good deal if you know you will be able to pay all of the debt off before the year or promotional period is over.

Such offers can be found even on automobiles, where if you put a large enough down payment on the car, you can finance it free of charge for three or even five years in some cases.

Missing Payments - Beware! Just what happens, though if you don't get that last payment in before the end of the promotional period? The deal is that you then often must pay interest on the entire loan amount. This is true even if you have paid down a significant portion of the loan. For example, let's say you purchase new carpeting for your home with a zero percent interest and zero payments for a year offer. The total of the carpet was \$5000. If you were to spread out the payments evenly you then would be paying about \$417 a month for the next 12 months. Is that something you can afford? If not, you could be strapped with accrued interest for the entire year on the full balance, even if you had paid back \$4,999 of it!

High Interest Rates: The interest rates on these kinds of offers are also usually the highest rates around – sometimes as much as 24-29%. You would have been better off using a credit card and paying 10-12% for the year. Ideally, when you take advantage of these offers it is best to have the money already sitting there in your own bank account earning interest for you. Then on the 11th month, you pay the full balance and avoid any finance charges at all.

Make Monthly Payments in Full: If don't already have the money saved for such a purpose it is best to make the monthly payments that will total the full sale price. Most statements from the lender will have a column labeled "accrued interest." You will see the amount go up each month that you haven't paid the full balance. This is the amount you will have to pay the lender in addition to the initial loan at the end of the promotional period.

Remember: Always read the sales contract before signing! Make sure you know how much you will need to pay and when the promotional period ends. You'll be glad you did!





Managing your Credit Cards, con't

Here are some basic tips to help you manage your money and credit:

1. Use cash to pay for as many things as possible. Carry a set amount with you and do not exceed that. Remember this issue's challenge? By using cash, you are more aware of what you are spending and where. By tracking it with cash, you can see where cuts can be made (if needed).

2. Only have one major credit card and maintain a healthy margin between your credit limit and the balance you carry.

3. Reserve your credit card use for emergencies. Car repairs are an emergency. New clothes are not!

4. Review your statement each month and match it up with your receipts.

5. If you must travel abroad, get a card that you can use in case of emergency. The fee is worth it, especially if you need medical care or other assistance. Many companies have special services for members who travel abroad.

6. Remember: Credit cards are not for the weak of will or the low of funds. If you don't have the money, don't spend the money!

How to Calculate Your Debt to Income Ratio

Calculating your debt to income ratio is as simple as adding up all of your debt and subtracting it from your income. Some calculations may exclude things like mortgage payments and property taxes, but to really get a complete picture it's best to include everything.

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