



Using Credit to Your Advantage

Having understood credit from our discussion in last week's article, today we will discuss how you can use credit to your own advantage. The use of credit has its consequences if misused. Interest rates and fees can dramatically increase the cost of a purchase made on credit. However, when used correctly, credit can be an excellent tool, and it's the only way to build a positive credit history – which will help you get what you want in the future at the lowest cost.

Good reasons of credit

In the use of credit there are good and bad reasons for its use. Some of the good reasons include;

- **Borrowing money to buy a home-** is considered a good decision provided you are able to pay the mortgage instalments comfortably.
- **Borrowing to finance education-** when you borrow money to pay for education, whether for a child or for yourself, you are investing on your future earning ability.
- **Borrowing money when you are faced with an emergency-** borrowing money to meet an emergency may be a good decision depending on the nature and magnitude of the emergency.

Bad reasons of credit

The fact of the matter still remains that people borrow money because they don't have the cash to purchase whatever they want to purchase; as a result they resort to borrowing. Without understanding and discipline, borrowing can be a habit most people fail to get rid of. Whilst you may have an immediate need to address using a loan, the loan itself could be a long term commitment. Impulse borrowing may be a recipe for your long-term financial woes.

- **Borrowing money just because a sales person came to offer you a loan facility-** This is a temptation most people fail to withstand. The fact that a loan is being proposed to you does not mean you have to fall for it. There should be a compelling reason why you need the loan in the first instance.
- **Borrowing money to finance a gambling venture-** Whilst some people may have varied reasons for borrowing money for this purpose, gambling is one of the riskiest financial addictions or ventures in the planet.
- **Borrowing when you can't afford payment-** if you are struggling to pay back the debt you already have, borrowing isn't going to solve the problem. It may compound your situation.

Managing your debt

If you currently owe money on credit cards and / personal loans, it is a good idea to develop a plan quickly as possible. Finance charges makes holding onto balances extremely expensive. There are several

methods you may be able to use to delete your debt efficiently.

1. Pay Extra

Are you just making minimum required payments now? Minimum payments are often set very low, and you may be able to shave years of your debt repayment time just by paying extra. If you have multiple accounts, it is better to be systematic and focus your extra payments on one creditor at a time instead of sending a little extra to all your creditors. However, you should continue to make minimum payments to all your creditors. Once the first debt is paid off or settled, put that money toward the debt with the next lowest balance or highest interest rate and so on until all of the debts are paid off.

If you feel that you currently do not have any spare cash lying around, take a close look at your budget. Are there any expenses that you can cut off or reduced like eating out? Do you receive periodic sources of income, such as a bonus that you can direct toward your debt, even if you cannot afford to pay extra on a regular basis?

2. Balance Transfer

A balance transfer is the transfer of the balance from one credit card (or another type of debt) to another. The lower your interest rate, the more of your payment that goes toward principal and the sooner you will be debt free. However, before you do a balance

transfer, be aware that most creditors charge a balance transfer fee. If the interest rate on the new card is only slightly lower, the savings may be negligible.

3. Debt Consolidation Loan

Another possibility you may have is consolidating some or all of your debts into a new loan. Financial institutions offer unsecured loans specifically for debt consolidation. The advantage is that you have one convenient payment, and if your credit standing is good, you may be able to get an interest rate that is less than what you currently have.

4. Debt Management

Debt management plans are administered by debt counsellors. You can make one payment to them, and they distribute the money to your creditors. For people with multiple accounts, being able to make one payment can be a relief. Furthermore, many creditors may reduce or even eliminate interest rates and fees for borrowers on a debt management plan, so less money goes toward finance charges and more goes toward the principal. You may be required to suspend further use of your credit lines when on the plan; hence there is no risk of getting further into debt like there is when taking out a loan.

For more information, contact the FSRA at 2406 8000 or alternatively visit our offices at the 2nd Floor Ingcamu (PSPF) Building in Mbabane.