

Money for Life

February 2008

Dear Readers,

Loans and credit cards provide great consumer benefits, but as with any form of borrowed money, you've got to be careful about how you manage credit. Here are tips from the FDIC for saving money when using credit.



Pay your bills on time to maintain a good credit record and qualify for low rates.

Don't wait until the last minute to pay your monthly bills. Not only will you incur late-payment fees but perhaps more importantly you risk triggering higher interest costs. That's because your payment history on your debts and bills is one of the biggest factors in your credit report and credit score.

While one or two late payments over a long period of time may not significantly damage your credit history, if at all, making a habit of missing payments can result in a higher interest rate, higher fees or both when you apply for any type of loan or credit card. Lenders put more emphasis on your *recent* payment history, so be particularly careful with payments in the months before you apply for a loan.

Consumers who pay their credit card bill late may face a major hike in their interest rate — often to between 29 and 35 percent. Late payments on that card also can trigger rate increases on *other* cards or loans, especially if your credit record shows other signs of risk.

Avoid late-payment fees. These are penalties, typically \$30 or more, which are also charged by your lender when you don't make a loan or credit card payment on time. One way to prevent late fees

is to arrange, at no charge, for an automatic withdrawal from your checking account to cover these and certain other recurring expenses (such as a utility or insurance bill). The automatic debiting of your account also takes the hassle out of making scheduled payments and saves on postage. However, be sure to record these automatic payments in your checkbook

It is also possible to pay your loan or credit card bill online, but it's recommended that you pay about two days before the due date to be sure it is processed on time. Also know your financial institution's cut-off time for recording payments each day. If you're bumping up against the deadline and you can't pay online, consider calling your card company and asking for other options, such as providing bank account information to authorize an electronic fund transfer from your checking account.

Should you pay the old-fashioned way — by regular mail — allow enough time for delivery and processing by sending your payment about a week before the deadline.

Don't have "too many credit cards." There are good reasons to have at least two credit cards, but some people collect a stack of cards, including those from stores and oil companies, several of which they rarely use. One problem with having a lot of credit cards is that lenders look at the ones with no existing balance or a very low balance and conclude that you have the *potential* to use them and get into debt. Even if you've proven in the past to be a responsible user of credit, these "extra" cards



could come back to haunt you the next time you apply for a mortgage or other loan.

One solution is to cancel the credit cards you rarely or never use, preferably well before you apply for another loan. Start by closing your newer credit card accounts — that's because your credit score can be lowered if your credit history appears shorter than it really is. Another option is to ask your card issuers to reduce your credit limit.

Avoid or limit interest charges. While it may sound like a bargain to pay the minimum due on your credit card so you have more money to spend on other things, the long-term costs of this strategy can be staggering. That's because credit card interest rates can be quite high — with the best of rates often being in the low double-digits. Instead, try to pay all or as much as possible of your outstanding credit card balance to avoid interest charges



Closely review your account statements and other mailings from your lenders. Check your statements as soon as they arrive to look for errors, unauthorized

withdrawals and other matters you might want to question or challenge. The sooner a problem is detected, the easier it is to correct. And if you don't report an error within prescribed time limits, you may not be covered by some federal consumer protection rules.

Also, don't assume that literature inside a loan statement or credit card bill is junk mail. It could be your only notice of new fees, an increase in the interest rate, or other significant changes. If you don't monitor these mailings, you could pay more for banking services and not even realize it.

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Don't be afraid to ask for a break. Do you think the fees for your mortgage application are a bit steep? What about the fee you were charged for being late with your loan or credit card payment? Depending on the circumstances, your lender might be willing to reduce an interest rate or waive a fee or penalty, especially if you've been a good customer. Even the interest rate on your credit card may be subject to negotiation.

Also talk to your lender if you're having problems repaying a loan. Explain the situation and any unusual circumstances. Many lenders will agree to temporary or permanent reductions in your loan interest rate, monthly payment or other charges. Open communication is key. Again, it helps if you've had a clean record in the past.

If you have a serious debt problem, a reputable counseling service might help you avoid losses.

A variety of organizations specialize in helping borrowers deal with debt overload, minimize the damage to credit histories and, in the worst cases, avoid foreclosures that could result in the loss of a home or other property. Their services range from helping people establish a budget to talking with lenders to discuss modifying the terms of a loan. Be careful before signing an agreement with a credit counselor. Ask about services provided, fees, the qualifications of the counselors, and how much you will be involved in agreements made with creditors. For assistance with a mortgage loan, contact the U.S. Department of Housing and Urban Development (1-800-569-4287) or the Homeownership Preservation Foundation (1-888-995-4673).

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