

LIVING WITH CREDIT

by Frank D. Granato
Attorney at Law

After counseling numerous individuals to see if they qualify for a loan modification or a bankruptcy, it has come to my attention that very few of these individuals understand what “Credit” is and how to live with it—or without it. Credit should be used carefully; within the limits of your resources and overall financial plan.

Credit is the amount of financial trust extended to you by a lender. It is based on your ability to repay. Generally, credit is easy to obtain. However, people often find repayment with the continuing monthly interest and principal payments difficult to make.

Before you decide to use credit, ask yourself the following questions:

- Can I qualify for credit?
- What is the interest rate (APR)?
- Are there additional fees?
- What is the monthly payment going to be, and when is it due?
- What will happen if I’m late making a payment?
- Do I really need this item right now or can I wait?
- Is using credit worth all the trouble?

Many people do not understand the cost incurred when using credit. Here are some of the costs you might have when you use credit:

- **Interest.** The payment for the use of another’s money. Creditor repayment plans generally differ.
- **Finance Charge.** The cost for using credit.
- **Annual Fee.** A once-a-year fee charged by many credit card issuers in addition to the interest charged on the item purchased.
- **Annual Percentage Rate (APR).** The total amount it costs you yearly to use credit.
- **Grace Period.** The time allowed in which you can pay off new purchases, if there is no previous balance, without being charged interest.

Consumers need to realize they can shop for credit just like they would shop for clothes. Are you a person who pays off your bills each month? If so, the credit card that has no annual fee and offers a grace period is probably the best for you. If you don’t pay off the balance of your bill each month, you should look at the periodic rate the card issuer uses to calculate your finance charge. Get into the habit of reading the entire agreement on a credit card application before

accepting or using it. The *Truth in Lending Law* requires the credit card issuing company to disclose to the consumer:

- The annual percentage rate (APR) that you will be charged for goods or services on credit.
- How APR will be determined if it is a variable rate.
- The method for computing the balance at the end of each month.
- The annual fee that will be charged.
- The amount of any minimum finance charge.
- Any transaction fee for purchases.

Every consumer owes it to him or herself to understand what credit is and how to use it.

Copyright © 2009 [Frank D. Granato](#). All rights reserved. No portion of this article may be reproduced without the express written permission of the copyright holder unless credit is attributed to the author.