What You Need to Know About Credit

These days, most people use some sort of credit to make purchases, improve their homes, and more. But not everyone understands some of the basic principles behind credit. If you're new to using credit, or you aren't sure how to manage it, here are a few things we at Fifth Third Bank think you should know...

1) When you use credit, you're borrowing money from someone. And that money needs to be repaid.

2) When you pay back borrowed money, you usually have to pay the actual amount you borrowed, plus interest and/or some other fee. Some lenders will offer deals allowing you to make payments over an extended time, before they start charging interest.

> **Remember:**
> **$ Borrowed + Interest =**
> **Total $ Paid Back on Your Loan**

3) Credit is offered in various forms, including:

- **Credit cards** for making just about any purchase, depending on your card limit
- **Lines of credit,** which may allow you to take on bigger projects, like home improvements
- **An installment loan,** like a mortgage or car loan
- **Paycheck advance services,** where a business gives you money based on the paycheck you'll be receiving soon, anticipating that you'll pay it back as soon as your pay day rolls around

4) Lenders look at your credit score to determine their willingness to lend you money.

- Your credit score is based on your history of repaying previous loans, and other factors
- A higher credit score indicates to a lender you are a responsible borrower.
- Potential landlords, employers, and even utility companies may even check your credit score before agreeing to a lease, job, or contract.

How Credit Can Help You

When used wisely, credit can be a good way to manage cash flow. For instance, you can use a credit card to pay for common monthly expenses—like utilities, groceries, and insurance—and then pay the card off in full each month. This way you have just one payment to make, instead of sending multiple checks to different product and service providers.

> **Remember:**
> Pay off your borrowed amount quickly. If you pay your full credit card balance each month, for instance, you won't be paying interest fees on top.

You can also use credit offers to build a history of good bill payment. When you make credit payments on time, every time, you're establishing a good credit rating—and that can help you qualify for future home mortgages, car loans, and more.

Tips for Making Sound Credit Decisions

While there are some great benefits to using credit, there are some downfalls, too. If you don't manage your credit usage carefully, you may run into financial problems. Here are some tips for using credit wisely:

Make payments on time, every time. Late payments can result in costly fees, and increases in your interest rate.

Take note of special offer periods. Many credit offers provide a low or 0% interest rate to start—but after a certain period (commonly a year or 18 months), that interest rate goes up. So mark your calendar and set a reminder for when that time period ends. Then do your best to pay your balance before the higher interest rate kicks in.

> **Example:**
> $1000 credit card balance
> 14% interest rate
> $40 minimum monthly payment
>
> **Total payoff time: 5 years, 3 months**
> **Total amount paid: $1,328**

Pay more than the minimum. If you make minimum required payments only, it can take a long time to pay back borrowed money—and it will cost you more over time.

Prioritize your purchases. Before using credit to buy something, think hard about that purchase. Do you really need it? If you consider the example above, how will you feel about that purchase by the time you pay it off—especially if you can only really afford the minimum monthly payment?

Be cautious about using cash advances. Credit offerings like paycheck advances can seem like a good idea. They give you cash when you need it, before you receive your paycheck. But this approach is expensive. Fees are high—and worse, it's easy to fall into a cycle of using your paycheck up before you get it. It can be very difficult to catch up. So reserve these products and services for a real emergency.

It's best to set a budget. To do so, add up your total, standard monthly income—then subtract your essential bills to determine how much money you can keep for savings or non-essential spending. Fifth Third Bank's budget creation tools can be a constant resource in helping you track and manage your spending.

QUESTIONS?
Contact us at 1-855-347-4864 to speak with a Money Management Advisor today.