



# Use Credit with Care

Consumer Education Series

CE104

Credit lets you buy now and pay later. Credit is easy to use. It helps you buy things you want and need. But using too much credit can cause problems. You must be careful when you use it.

## Good points about credit

Credit lets you buy things now and use them while you pay. A house, a car or furniture is a big expense. It would take a long time to save the money and pay cash. Credit lets you use and enjoy things while you pay for them.

Credit can help you when you have a large, unplanned expense and don't have the cash to pay for it.

## Problems with credit

Credit increases the cost of things you buy because creditors add **interest** to the amount you owe. Interest is the money you pay to use someone else's money.

Because it's so easy to buy now and pay later, you might buy things you didn't plan to buy. You might spend more than you can afford.

Credit can make it hard to save money. When you use credit, you have to make payments that include interest. Then you have less money to save.

## Credit is a legal agreement

Because credit is easy to use, many people use it often. Sometimes people forget that when you use credit, there are **legal rules and regulations** about:

- how much you pay
- how often you pay
- when you pay
- what happens if you pay late or miss a payment.



You agree to the rules and regulations when you sign a credit application or credit contract. If you don't do what you agreed to do, you could pay a lot of extra money in credit charges. In some cases, the creditor might take back the things you are buying. And you might not get back the money you have already paid.

***Do not sign a credit application or contract until you read it and understand it.***

## How much credit can you afford?

If you get too much credit, it will be hard to pay back what you owe. You have to decide how much credit you can afford. That amount depends on your income, your expenses and whether you have a steady job. See the guidelines on the next page.

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If you are just starting to use credit, then consider these **guidelines**. They will help you decide how much credit you can afford.

- ***the monthly payment you can afford***

*The amount of money you pay each month on credit bills should be less than 10% of your take-home pay each month. If your take-home pay is \$1500, your monthly payment should be less than \$150.*

$$(10\% \times \$1500 = \$150)$$

- ***the total amount of credit you can afford***

*The total amount of credit you have, should be less than 20% of your total take-home pay for the year. If your yearly take-home pay is \$18,000 your total amount of credit you use should be less than \$3,600.*

$$(20\% \times \$18,000 = \$3,600)$$

### **Tips for using credit**

If you use credit, be careful not to spend more than you can pay back. Here are some ways to stay away from credit problems:

- Make a plan for your spending and stick to it. Do not buy on impulse.
- Think about other ways to get what you need. Could you buy it second-hand?
- Use only one or two credit cards. It's too easy to spend to the limit on all the cards you use.
- Leave your credit cards at home unless you plan to buy something.
- Keep your credit receipts so you know how much you have spent.
- Check your receipts against your monthly credit statement to make sure there are no mistakes.
- Don't use credit for things that will be used up before you finish paying for them. For example, buying dinner out.

### **Be careful with credit**

Credit can be helpful if you use it carefully. Don't use more credit than you can afford. Make your payments as large as you can and pay on time. If you are having problems with credit, or want more information, call a credit counselling agency in your community.

Check the website [creditcounsellingcanada.ca](http://creditcounsellingcanada.ca) for more information.

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**Internet:** [www.basicskillsforliving.ca](http://www.basicskillsforliving.ca)

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