

# Shopping as a Credit Savvy Consumer

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Having and using credit is something that everyone needs to know how to do. It doesn't matter if you've never had it before, if you're rebuilding your financial life from disastrous credit or if you're in the stages of trying to raise your credit score. Knowing how and when to effectively use credit can make you financially savvy.

## **When to Use Credit Versus Cash**

Credit cards can be a convenient and safe way to shop or pay for a bill as long as you plan to use them correctly. This means that you don't go over your card limit and you are able to pay your bill on time every billing cycle.

If you're in the process of trying to rebuild your financial life, then you actually do want to use your credit card instead of your cash. Paying with credit cards when you need to repair your credit score can help you.

Each time that you use your card and pay it on time, it has the power to raise your credit score. It helps to establish a history of on time payments as well as payments in full every month if you pay off the entire balance.

Some people are reluctant to use credit cards to help their credit because they believe that the interest rate on credit cards is simply too high. Not all credit cards have high interest rates.

You can also find some with low introductory rates. If you have a credit card that you've had for a while, you can call the company and ask them to lower your rate. Many times, they will if you've been a long-term customer with a good payment history.

The key to managing a credit card's interest rate is to pay it in full every time the bill arrives and to make sure it's paid on or before that due date. Then you don't incur any interest.

It's the same as using cash except you're gaining the benefit of it helping to raise your credit score. Any time that you buy a big-ticket item, you want to use your credit card.

If there's a problem or dispute with the item, it's easier to deal with and you're more likely to get your money back when it's on a credit card rather than if you paid cash.

Put any home repair or car repairs that you pay a professional to do on your credit card so that not only do you have a record of the transaction, but if something goes wrong, you also have that documentation to back you up.

Using a credit card is more secure when shopping rather than using cash. Plus, you can find many credit cards that will let you belong to their reward program. In this type of program, you earn money back.

You can earn a percentage as cash back - meaning that you can opt to get a check from them with that cash back or you can apply that cash back to the credit card.

Some of the reward programs will give you frequent flyer miles. So if you travel or you want to travel, then this would be a good idea. Now, if you're just now starting to try to rebuild your credit, you might have to get a secured card.

Just remember that the rebuilding stage doesn't last forever and you will eventually be able to upgrade your credit cards to ones that are unsecured. The decision on whether or not to use your credit card should always be done with the viewpoint of whether or not it's going to help you financially.

If it's more secure to use credit, or if using your card is helping your credit score in some way, then the answer is yes. It's not always the best to use credit, however.

If you know for a fact that you have budget problems and that you're not going to be able to pay the bill off in full when it comes due, you might want to think twice - especially if you're going to put a lot on the card.

If you're already struggling financially, then adding another bill into the mix could spell trouble either now or in the future. So make sure that you can afford to pay it back and avoid having the mindset of plastic wealth.

You also want to use cash when shopping if you'll be charged a credit card fee to use your card. While it might not seem like a big deal, sometimes those charges can add up a lot faster than you might think.

Don't use your card when shopping if you're worried about the payment system. Anyone now can buy a device that attaches to a smart phone that has the ability to swipe your card.

If this is a vendor at a craft fair or some other type of here today, gone tomorrow business, then you may want to think twice about letting them have your credit card information.

If you're out shopping and you're feeling the urge to overspend or you're using retail therapy to deal with something, then use only your cash. Using a credit card, if done wisely, can offer you a lot of benefits.

Not only is it safe and convenient, and you can get rewards back, but it can help you track your spending habits. It's an easy way to be able to tell what adjustments you may need to make to your budget.

If you're worried about using a credit card and it making your budget too tight, but you also need to boost your credit score, then consider using your credit card to buy your groceries. When the bill comes in, take the cash that you had for your groceries and pay the bill off in full.

### **Picking the Right Credit Card**

If you're someone who has experienced bad credit, then you're not alone. One of the best ways that you can start to change your credit for the better is to get started using credit again.

That's why you should apply for a credit card. When you do have bad credit, some of your options may be more limited when it comes to picking a card, but that still doesn't mean that you should settle for one that has unfair terms.

Some people mistakenly think that they have to take cards that have high fees and that's not true. Not all cards for people who've experienced bumps in their credit have fees that are astronomically high.

Avoid those that say processing fee because this is a way of taking advantage of consumers who've had credit problems. Or they might call it an activation fee and you want to avoid that one as well.

If a credit card company charges you a monthly fee to use their credit card, then don't take it. There are better offers than that. Some cards want to charge you an annual fee of \$75 or \$100 just to get their card.

Keep in mind that you can find some annual fee credit cards that will only charge \$25 and some won't even charge that. So do some comparison card shopping before you pick.

Make sure that the card that you choose does specifically report your payments to the credit bureaus. If that card doesn't, then there's no point in getting it because it's not going to help your credit score.

If you want to transfer one credit balance onto another, then pay attention to the credit card's percentage fee to transfer that balance. Never pay over 5%. Even with rebuilding your credit, you don't want to get hooked up with a credit card that wants to take advantage of you.

Look for cards that offer you perks. Some people think that if they're just now getting credit or trying to restore credit that they can't get cards with any additional perks and that's not true.

Many credit card companies now offer benefits such as credit score watches so that when you log into the account, you can check your

credit score. This can help you to be able to monitor, all for free, what's going on with that.

Some credit card companies also offer financial improvement tips, repayment tips and even teach how you can best use credit. Always look for the cards that are willing to give you more regardless of your credit history.

If you have no choice but to take a secured credit card, make sure that you pick one that will allow it to lead to an unsecured card once you've proven a steady payment history. This usually takes nine to twelve months.

For people just starting out with credit, you want to pick cards that have the lowest possible annual percentage rate (APR). Also check to see if interest is compounded daily or monthly.

You want to make sure there's no annual fee, no monthly fee and no hidden fees. Look at their penalty rules, their grace period rules and then weigh the perks between all the cards that you're looking at. Lastly, check the credit limit they're offering.

### **What to Know About Cash Advances**

When it turns out that there's not enough paycheck to cover the days left in the month, it can be easy to turn your credit card for a cash advance. Or when you're out shopping and you see something that you just know you absolutely have to have, you think that you can just cover it with a cash advance.

It can seem like such an easy solution because most people don't understand how dangerous cash advances can be to your finances. Hardly anyone reads the fine print when it comes to this so-called perk offered by credit card companies.

The cash advances are indeed a perk - but not for you. It's a perk for them. It's a way for them to make a lot of money at your expense. The first thing that happens when you utilize a cash advance is that you get hit with a ton of fees.

You might think big deal. Credit cards charge fees. They do, but cash advance fees are a lot worse than normal fees. To start with, the second that you pull a cash advance from your credit card, you get hit with an upfront fee.

These are usually labeled as a convenience fee. The amount of this fee can vary, but it's usually a 5% fee charged on whatever amount that you pull out. So if you need a \$1,000 cash advance, then you're going to pay back \$50 just to take the money to begin with.

That's apart from the rest of the fees that you're going to pay. You'll get hit immediately with an interest fee. Some people mistakenly think that if they take a cash advance, then pay their card in full when the bill comes in, they don't pay interest, just like how their purchase interest works.

That's not true. A cash advance is set up differently. The minute that you pull that money, you're going to pay interest and there's no way out of it. If you're thinking that paying 12.99% interest is what you'll get hit with, you're wrong.

The interest that you pay on your purchased items is one amount. What you pay on cash advances is another. And it's usually double what you pay for purchase interest.

You can very easily hit a 25% interest rate. Then when you can't pay it off but you have to make payments, which interest rate do you think the card applies that payment to first?

The lower one such as the one that applies to stuff you buy, not your cash advance interest. This way, the higher interest continues every month. It's always best never to take out a cash advance unless it's an absolute emergency and even then, think twice.

### **When to Apply for Loans**

If you're someone who is new to the world of credit and you want to buy something such as a car, you can run into some difficulties. Because you

have no established history of paying on time, the lender isn't sure whether or not to loan money to you.

Or you might be required to find a co-signer. The best time to apply for a loan when you don't have any credit established is before you need it. If you think it's a catch 22 and no one is going to loan you money without a credit history, there is a way to do it.

And you don't have to go to one of those high interest places, either. Instead, go to your bank and set up a loan using your savings account. What this is doing is allowing your savings account to be used as collateral for the loan.

All you have to do is have the money that you want to borrow in the account. You borrow against it, make payments on time and then you've effectively established a credit history.

Get a small balance credit card, pay it off in full on time for several months and this will also establish credit. If your credit has had some dings in it, you can set up the same type of loan with your bank or credit union.

If you have a vehicle that's in good shape and it's been paid off, you can often borrow money through your bank against the vehicle. Because this is effectively a vehicle loan, the interest rates are often extremely low.

Paying that loan on time can help to boost your credit score. If you know that you want to buy a home in the future, you want to put things in motion now to make sure that your credit is the best that it can be.

That means not only fixing dings on your credit report, but it surprisingly might mean applying for a loan. If you've repaired your credit to the best of your ability but you're still stuck with some high interest credit card debt, you want to get that taken care of.

Consolidating debt that you're still paying helps your credit immediately as well as in the long term. You want to do it so that your income to debt ratio goes down. When that goes down, your credit score goes up.



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