



Successfully Managing your Credit and Debt. DLC

It seems that no matter where you turn in Canada today, the banks are all offering more and more credit options for consumers. While it can be a wonderful advantage if you are looking to borrow money, it can seem seriously overwhelming at times to choose which option is best for you when you need it.

You might be surprised to learn that the average Canadian gets more financial mail than all of the mail from their family and friends combined. Lenders are lending money at a feverish pace without a lot of regard to the ramifications to our society. In times past, you would never have been able to use a credit card at the local grocery store, now it is commonplace all over our country and much of the rest of the world.

Because credit is so readily available, to just about anyone who wants it, it is very easy to get in over your head and find yourself in serious debt. Your debt can even lead you on a path to stress and ill health when it gets out of control.

The good news is that you can successfully manage your credit and debt load. By sticking to some common sense guidelines in your financial life, you can avoid getting yourself into consumer debt. And, if you find that you are already in debt, you can work your way back to a much healthier financial state of being.

Create a Budget

One of the simplest things you can do for your financial health is to create a budget. Think of your budget as a roadmap of how you will save and spend your money. If you were going on a driving trip, would you get in the car having no idea where you were headed or how you would get there? Of course not. The same should be true for your income and expenses. You should have a budget showing how much money is coming in and what you need, and want, to spend it on. A budget is not meant to be restrictive and tell you what you cannot have. It is meant to be your roadmap of where you are going to be financially down the road.

Pay Yourself First

The first line on your budget needs to be for savings. Whether it's \$10 or \$1000, you need to put some of your income away before you ever pay any bills or spend any money. Over time this savings will grow to be a substantial amount of cash and will give you

something to show for all of your years of hard work. You simply cannot afford to not pay yourself first each month.

Track Your Spending Habits

One way to build a realistic budget, and get a good idea where your money is currently going, is to track all of your spending for a month's time. Carry around a small pad of paper with you at all times. Each time you spend any money write down what you spent it on and how much it was. By doing this for a month you can easily see where your money is leaking from your wallet. You may find that your "cheap" \$5 per day lunch really does add up to \$100 or more each month.

List Your Obligations, Consumer Debt, and Optional Expenses

When you create a budget you are laying out your obligations, as well as your priorities, on paper. First you should list all of your fixed expenses like your mortgage or rent, electric, gas, car payment, etc... Then you should list things which are optional in life. These things include phones, internet access, cable or satellite service, etc... And you should also have a section for existing consumer debt. This will be all of your current credit card obligations. These three simple sections make up your budget.

Set Your Goals and Priorities

Everyone should have short-term and long-term goals. These should ultimately be in line with your priorities in life. If you want to retire at 50, then you need to have the retirement savings to allow you to do so. If you want to vacation for a month in Europe next summer, then you should be saving up your money now for the trip. By looking at what you want to do in your life, you can begin to form a roadmap, your budget, to get you there.

Suppose for a moment that you need an extra \$100 each month to save for your summer trip to Europe. You can easily cut your cell phone or satellite service to make up much, if not all, of that shortfall. Or, you can shop and eat differently and make up the extra money that way. The idea is to have your goals and priorities defined and to make sure your spending matches them. This allows you to get what you most desire in life with the income that you have.

Save-Up Rather Than Whip-Out the Credit Card

One of the most important things you can do is to save money for things you need to purchase. Rather than finding the best price and then paying interest for a year or two on whatever you bought, save the money, find the best price, pay cash for it, and enjoy your item knowing that you own it and have paid for it in full. This goes for furniture, cars and other large purchases, as well as the smaller things like back-to-school clothing for the kids.

Your Good Credit Rating Saves You Money

When you go looking for a new mortgage or any other form of credit, your credit rating directly affects your cost. If you have a bad credit rating you will always pay more fees and a higher interest than the person with good credit. This is just the way credit works; you pay more for the higher risk of loaning money to you if you have less than stellar credit.

Think back to the days of your parents or your grandparents. Back then they couldn't purchase whatever they wanted on credit, so they were in the habit of saving their money until they had enough. In today's society we have traded that peace of mind for the ability to have things right now, whether we can afford them or not. Ultimately, I tend to believe the old way had its merits.