East Caribbean Financial Holding Company Limited
MONEY TALK$

Managing Credit

With the celebration this month of Financial Literacy, we felt it important to include an article on credit. We all at some point require the use of credit, whether it is to buy a home, a car, further our education or for medical emergencies. However, how we use the credit is very important.

The wise use of credit combined with regular saving and investing can be an effective way to meet your financial goals. But credit is a double edged sword, abuse the privilege and you may not be able to take advantage of credit when you need it; for a car or business loan, home renovations or even a mortgage. If you have ever been turned down for a loan or charged a higher interest rate it could be because of your credit history.

All banks conduct credit checks on customers' credit histories before extending any lending facilities to them. This credit check determines whether you qualify for the loan and the interest rate. It is therefore important to carefully manage the amount of credit you incur.

In countries like the USA and Canada everyone has a credit score. This score is based on how people manage their debt. Central bureaus are set up as repositories where peoples' credit scores and histories are held. Financial institutions can then access these databases to find out what each person's score is to determine the level of credit they can receive.

We have not attained that level of sophistication yet, however we are not too far off. This does not mean that we shouldn't exercise vigilance and discipline with our spending.

A smart borrower for example my use debt for the following:

- A student loan which would help you get an education
- Loans to purchase assets that appreciate in value e.g. purchasing property
- Loans that are used to earn investment and business income which in turn is tax deductible e.g. purchase of shares

It is not advisable to do the following:

- Take cash advances from your credit card
- Borrowing money to purchase a luxury item that has no financial value to you or your family
- Use debt to fund family vacations

There is basically one way of effectively managing your debt and that is budgeting. Planning your monthly expenditure will ensure that you do not over extend yourself.

Budgeting is key to financial independence and with savings component included in that plan the use of debt will be greatly reduced.

If you are already in debt there are ways to better your situation and put you on the road to recovery. One way of doing this is to try to pay off the larger debts first, that is making a little more than the required payments. This will help in that the more expensive items may carry a higher interest rate and a longer term resulting in more interest being paid.

Another way of effectively managing debt is called Debt consolidation. Debt consolidation simply means making all your individual debts one and making one central payment. Refinancing and consolidating your debts can result in lower interest rates, more affordable payments and make it easier to keep track of expenses.

Be a smart borrower and let debt work for you, if you have questions on debt consolidation or refinancing call the loans department at Bank of Saint Lucia at 456-6000.