



# Action Plan:

## CONTROL YOUR CREDIT

DIFFICULTY: **EASY**

It's hard to imagine functioning in modern life without a credit card. Renting a car, reserving a hotel room or shopping online would all be much more difficult without plastic. But credit cards can also get you into trouble. It is very easy to overspend and find yourself in an extraordinary amount of debt.

Learn to control your spending and pay down your credit cards. It's not hard – the key is to make your credit cards less convenient to use. Then devise your own personal rules on when to use cash and when to use credit.

### WHAT YOU'LL NEED:

- Your credit cards
- Most recent account statements

### THIS ACTION PLAN REQUIRES NINE STEPS:

- 1 Decide how you are going to use credit.** You need to be clear how you want to use your credit: convenience, emergencies, big purchases you can afford to pay overtime. This will allow you to control the level of debt you build up. If you are married, you and your spouse must agree to keep control together.
- 2 Have only one major credit card.** Multiple cards mean numerous chances to build debt. It's also easier – and less expensive in the long run – to make larger payments on one card than to make minimum payments on many.
- 3 Retire credit cards you don't need.** Don't cancel the cards, just pay them off and stop using them. Better yet, destroy them. Keeping the accounts open actually works in your favor when it comes to your credit score because it gives you a higher available credit ratio and – depending on when you opened the accounts – a longer credit history. Be sure to check all your account statements regularly to ensure you're not victimized by identity theft or hit with non-activity or other fees.
- 4 Stop using store credit cards.** They typically charge the highest interest rates (up to 22 percent or more). Also decline discount offers that require signing up for a store's card. If you need to use credit, charge it to the one card you are using for all your purchases.
- 5 Leave your credit cards at home.** Get them out of your wallet. Take them with you only if you have a specific purchase in mind, a limit on how much you will spend and a plan to pay the balance within 30 days. Make sure the only people in the household who can use the credit cards are fully aware of your household's financial situation and are responsible for payment.
- 6 Make your cards difficult to get to.** If your credit cards are in

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a place where they won't be easily accessible, you have more time to consider if the purchase is really worth the increased debt. The only way to control impulse spending is to slow down the process. Some experts even suggest freezing your credit cards in a block of ice. Watching them thaw out gives you plenty of time to think about the money you're about to spend.

**7 Avoid the urge to splurge.** Maybe it is electronics, jewelry, music downloads or video games. It doesn't matter, we all have our weaknesses. The best way to avoid spending money you do not have is to stay away from places where you tend to make credit card purchases.

**8 Use a debit card.** If you must use plastic, or don't like carrying cash, use a debit card that withdraws money directly from your checking account. You will get the convenience of a credit card without going into debt. But be careful and do not charge beyond your checking account balance. You will have to pay overdraft fees and interest. You can also ask your bank to deny debit card transactions that exceed your balance. Some banks now charge an annual fee for debit card usage. Be sure to check what fees you may incur from your bank for using a debit card.

**9 Dig yourself out of debt.** Once you have your credit card spending under control, focus on paying down the debt you have. Keeping a balance on your card means you will pay interest and, possibly, fees to the credit card company. See the Dig Yourself Out of Debt action plan for steps on how to pay down your debt faster.