

TIPS ON CREDIT MANAGEMENT

Introduction

At HSBC, we believe that information and awareness leads to informed decisions. With this initiative, we bring for you some general tips on debt management and credit counselling.

What Is Credit?

Credit allows you to buy goods or commodities now, and pay for them later.

We use credit to buy things with an agreement to repay the loans over a period of time.

The most common way to avail credit is by the use of Credit cards.

Other credit plans include personal loans, home loans, vehicle loans, student loans, small business loans, trade financing, etc.

What Is The Cost Of Credit?

Interest Rate is charged on the credit amount that you take.

Banks and other lenders will give credit and charge interest on the amount that is borrowed.

There are two types of loans

Secured loans are loans such as home loan and vehicle loans. They are backed by your assets in order to minimise the risk assumed by the lender. The assets may be forfeited in case there is a failure to make the necessary payments.

Examples of unsecured loans are personal loans and credit cards, where the lender has no entitlement to any of the borrower's assets in case borrowers fail to repay the loan. Such a loan normally carries a higher interest rate than a secured loan.

Repayment plans of loans vary based on each type of loans. Home loan repayment plans can be as high as 20 years or more, whereas vehicle loans can be repaid in 3, 5 or 10 years, and the credit period for credit cards is around 50 days.

Maintaining Good Credit

Below are a few points that will help you in maintaining good credit.

• Pay Your Bills On Time

Make it your personal goal to pay your credit and other obligations on time and for the required amount each month.

• Build A Strong Payment Pattern

Avoid adverse conditions by making payments on-time .

Your credit report will also list all open credit cards and loans, listing the amount borrowed and the amount owned on the account.

Pay large credit card balances in full, each month.

This pattern conveys a sense of responsibility for your debt obligations.

- **Maintain Only A Few Credit Cards**

Limit your credit to a maximum of 3-4 cards. Maintaining a large collection of cards can hurt your credit rating.

- **Don't Have Too Many Outstanding Loans**

Excessive loan balances (especially loans that exceed your Debt-to-Income ratio) can affect your credit rating consolidating balances, closing unused credit card accounts, and paying off outstanding loans.

- **Avoid Charging Close To Your Credit Line Limit**

Do not use your credit card close to your credit limit. Using your credit up to your maximum credit line balance can impact your credit rating.

Managing Your Debts

- **Accept Responsibility**

Your first step is to accept responsibility for your debt. You need to accept its existence with determination to repay and control your debt position.

Understand that your debt has repercussions on your family and others.

- **Rid Yourself Of Instant Gratification**

You must forgo your pleasure of short-term "wants" for the more important long-term "needs" to reduce your debt.

- **Establish A Monthly Budget**

You need to plan and quantify your expenses for housing, food, transportation, savings and paying down your debt. Budgeting disciplines your spending habits.

- **Set Financial Goals**

Your first goal is to reduce and eliminate your financial debt. This motivates your need for a budget, debt consolidation plan, and debt reduction plan.

- **Set up A Debt Repayment Plan**

Finally, you need to establish a debt repayment plan. It generally involves the following:

Debt Consolidation: This allows you to consolidate your debt into one, low monthly payment.

Budget Planning: You need to establish a budget line item that allocates a percentage of your income for debt repayment.

Control Your Debt: You need to restrict your use of credit cards and other retail incentive programs.

Credit can help you get something when you need it. Whether you're trying to establish, maintain or repair your credit - empower yourself by learning how to use credit wisely.

Having a good credit history is an important part of maintaining a happy, healthy, and financially fit life. Building a good credit rating also goes a long way to help you meet your financial goals.

So, plan your finances well, and they will take care of you.