

Financial Smart Start for Newlyweds

Credit and Overspending

James P. Marshall, Ph.D.
Associate Professor -
Family Life Specialist

Laura Connerly
Instructor - Family
Resource Management

Thrift used to be a basic American virtue. Now the American virtue is to spend money. — DAVID BRINKLEY

Is Credit a Tool or a Trap?

Credit can be a tool or a trap, depending upon how it is handled. Used well, credit can be an asset that helps build wealth as part of a financial plan. Credit can allow you to use goods and services you need while paying for them. Credit can also provide a temporary solution to financial emergencies, such as when the water pump in the family car needs to be replaced. Used unwisely, credit can lead to excessive debt or even bankruptcy. Financial experts advise that credit/debt payments, excluding a home mortgage, should equal no more than 15 to 20 percent of your monthly take-home pay.

Cash or Credit?

Making the decision to use credit is a very personal matter, and one on which both partners should agree. There are a number of reasons why a couple may want to have a major credit card:

- Safety
- Convenience
- Emergencies
- Identification purposes
- Acquiring a credit history
- Ability to buy goods by phone or online



Some cards offer a merchandise guarantee in case a product you buy turns out later to be shoddy or defective. A credit card can also provide a record of spending and documentation of expenses for tax purposes.

The reasons for not using a credit card include high interest costs, additional fees, privacy concerns, the potential for overspending and credit's ability to affect your financial flexibility. Problems can arise with using credit when it becomes a tool for overspending or when one partner values thrift and saving and the other partner wants the latest of everything right NOW. To assess your decisions about how to use credit, go back to your discussion about your values concerning money. Look at the goals that you set together.

- How is (or will) the use of credit help you achieve your goals?
- How is (or will) the use of credit keep you from achieving your goals?

Be honest about your answers. If one of you thinks the other is a spend-thrift (or an absolute tightwad), credit

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can become the battleground over which you fight out your differences. You would think that savers would always marry other savers, and they do sometimes, sharing their days together happily watching the balances in their 401(k) accounts grow. However, savers often marry spenders, who feel and act differently toward credit. Two spenders joined in married bliss do not both remain spenders forever. If they do, it is unlikely their bliss will remain forever. Generally, one of them will eventually become a saver or at least less of a spender. Otherwise, their financial boat would sink. A spender-saver marriage needs lots of open communication, a joint agreement on goals, a sharing of ideas, compromise and negotiation and a mutual discipline that grows out of placing each other and your mutual welfare first.

Creating a Credit Control Sheet

If you and your spouse decide to use credit, financial experts Tom Garman, professor emeritus and fellow, Virginia Tech University, and Ray Fogue, Ph.D., University of Kentucky, suggest using a credit control sheet to help you manage your credit obligations and keep track of what you are spending. This prevents a nasty shock if he decides to buy a new power drill the same month she replaces her old winter coat. You do not need to wait until the end, middle or beginning of next month to get a reading on your entire credit picture. In addition, when the bills come, you can check your control sheet against your statements for accuracy.

Poverty is not the absence of goods, but rather the overabundance of desire.

— PLATO

Setting your own debt limit, which is the maximum you believe you should owe based on your ability to meet your repayment obligations, is better than relying on what lenders are willing to lend. Lenders are willing to take the chance that some

borrowers will not repay. Setting your own debt limits also takes you out of the “how much do I pay per month?” mind-set. Low monthly payments simply lengthen the time that a loan or bill will be outstanding and will increase the total cost of using credit by adding to the interest fees. Credit should be used for things that last long after the final payments have been made. Consider credit purchases carefully.



Help! We're Already Overextended

If any of the statements below apply to your financial situation, you may have a credit problem.

- Paying only the minimum amount due each month on a credit card or loan
- Borrowing money to pay fixed expenses such as rent or car payments
- Opening additional accounts to increase the amount you can borrow
- Using credit card advances to pay for everyday living expenses
- Charging on credit cards more each month than you are paying
- Using savings each month to pay credit debt
- Having little or no savings

Credit flow for: January-May _____										
Date	Purpose for Credit	VISA		MasterCard		M&F Dept. Store		Summary of All Creditors		
		Chg/Pay	Balance	Chg/Pay	Balance	Chg/Pay	Balance	Charges	Paid	Balance
1-2	Gas for car	14.95	14.95					14.95		14.95
1-2	Clothing					32.00	32.00	32.00		46.95
1-15	Paid VISA	(14.95)							14.95	32.00
1-27	New desk			320.00	320.00			320.00		352.00
2-28	Paid Ames					(32.00)			320.00	320.00

If you recognize credit problems, begin working on them NOW. The temptation will be either to ignore the problem as “no big deal” or to begin to feel there is no escape from the financial bondage you see is coming toward you. However, doing little things can make a big difference. Make no new charges. You may need to cancel accounts. Contact creditors if you see that payments may be late or missed. Do not wait for them to contact you. Before you contact them, know what you owe. Be honest. Be willing to work out a payment plan and stick to it. Try to find ways to increase your income and/or decrease your expenses. Apply extra money to pay off debt.

PowerPay

You may be able to reduce debt sooner by making larger payments on accounts that have the highest interest. You can design a personalized repayment plan using Extension’s PowerPay program. PowerPay features online financial calculators to help you design your best money management plan. Go to <https://powerpay.org> and click on the “Arkansas” tab.

Beware of Credit Repair Scams

Some companies who advertise debt reduction may seem to offer a quick fix for your credit problems. Some companies are trustworthy and give practical advice, and some do not. Beware of companies that ask for money up front. A reputable program will spend time reviewing your financial situation, help you set up a budget and teach you about money management. Check the company’s references before you provide any personal information or credit card account numbers. Reputable credit counseling organizations have counselors who are certified and trained in the areas of consumer credit, money and debt management and budgeting.

Credit Counseling Services and Debt Management

Credit counseling and debt management services work with consumers who are having problems with debt. They provide counseling and may help you set up a debt management plan with your creditors.

The **Consumer Credit Counseling Service** provides money management counseling to individuals and families including budget counseling, debt management, reviewing credit reports, housing counseling for families experiencing mortgage default, first-time

home buyer classes and consumer education. They have offices in Little Rock, North Little Rock, Fort Smith, Conway, Hot Springs, Pine Bluff, Russellville and Jacksonville. They are also in Memphis, Tennessee, and Southaven, Mississippi. You can contact the main office at 1-800-255-2227 or 501-753-0202 or online at <http://www.helpingfamilies.org>.

Credit Counseling of Arkansas, Inc., is a nonprofit organization dedicated to reducing financial stress through free credit and housing counseling, free seminars, credit report reviews and debt management. They offer credit counseling in-office, by telephone and online. They have offices in Fayetteville, Bentonville, Fort Smith, Springdale, Siloam Springs and Harrison. Contact Credit Counseling of Arkansas at 1-800-889-4916 or online at <http://www.ccoacares.com>.

Recommended Resources

- www.arfamilies.org – The Arkansas Families web site of the Cooperative Extension Service has the latest research-based information on family life, personal finance, nutrition, health and personal development.
- <https://powerpay.org> – PowerPay features online financial calculators to help you design your best money management plan. Go to <https://powerpay.org> and click on the “Arkansas” tab. Features include:
 - PowerPay: Discover your fastest debt repayment plan.
 - Spending Plan: Compare what you spend to experts’ recommendations.
 - PowerSave: Project savings based on different options.
 - Calculators: Calculate house and transportation costs, emergency savings and more.
- **The Marriage Garden** – Creative, research-based marriage education curriculum that focuses on six keys of healthy marriage relationships (available at www.arfamilies.org or by contacting your local county extension agent).
- **The Seven Principles for Making Marriage Work** by John Gottman – A practical guide from the country’s foremost relationship expert (available from most booksellers).

You have just completed *Credit and Overspending*, FSFCS205.

Please check out these other fact sheets in the **Financial Smart Start for Newlyweds** series:

Financial Smart Start for Newlyweds:

Introduction, FSFCS200

Understanding and Sharing Your Financial History, FSFCS201

Debt in Marriage, FSFCS202

Realistic Expectations About Expenses and Income, FSFCS203

Creating and Sticking to a Budget, FSFCS204

Money, Manipulation and Power, FSFCS206

DR. JAMES P. MARSHALL is associate professor - family life specialist and **LAURA CONNERLY** is instructor - family resource management, University of Arkansas Division of Agriculture, Little Rock.

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