

The 20 Greatest Myths About Credit and Debt



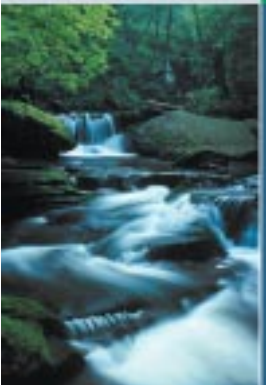
MYTH #1

My financial condition is so bad that my situation is hopeless.

REALITY

Although you may not be able to find the perfect solution, you probably have some choices about how to best resolve your situation. Open your mind and be realistic about your options.

► Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.



MYTH #2

If I don't use credit, I'll never have anything.

REALITY

If you don't use credit, you won't have debt. Remember when people used to pay for purchases in cash? If you want something badly enough, save for it. It is much more rewarding to purchase something and own it outright than to create another liability that you owe.

Many people who worry about their spotless credit records make poor financial choices

MYTH #3

I must get out of financial trouble with zero negative marks on my credit history.

REALITY

Some people would sell their souls to have a stellar credit report. Why? If they have a negative mark on their credit report, would that prevent them from getting more unsecured credit? Maybe. Would that be so bad? Isn't that how they got themselves into trouble in the first place?

Having a negative mark on your credit report does not mean you won't be able to get credit. It won't stop you from buying a house or car. Often, the most important factor in buying a home or car is not how spotless your credit is, but how much of a down payment you put down. Having a negative mark also does not mean you won't be able to get a credit card. You can get a secured credit card, where you put down a deposit. There is less risk to the lender since he has the security of the deposit and, therefore, he is more lenient in his lending guidelines.

Credit is like many other things in life: when used incorrectly, it can hurt you.

Many people who worry about their spotless credit records make poor financial choices, such as taking out a home equity loan that they can't afford or taking a cash advance on their credit card(s) to make their monthly payments. These actions may delay negative marks on credit reports, but they won't solve financial troubles. If you're having a tough time, do the best you can. If you fall a little behind, it's possible you might have some problems with lenders in the future. However, you can send a 100-word statement to the credit bureau(s) explaining your situation. The statement will appear on your credit report, enabling future creditors to understand what happened to you and why you temporarily fell behind. However, keep in mind that this can also work against you. How? Negative information stays on your credit report for only seven years. There is no time limit for when the consumer statement will be removed.

MYTH #4

Credit is bad.

REALITY

Wrong. Credit can be used for many good and worthwhile purposes, such as buying a home. Credit cards are very convenient when making purchases as long as you've got the money to pay off the credit card bill. Credit is like many other things in life: when used incorrectly, it can hurt you.

MYTH #5

Credit card companies wouldn't send me applications in the mail if I couldn't afford it.

REALITY

Wrong. The credit card companies are simply making you an offer based on mailing lists or research they have performed.

It is your responsibility to determine if you can afford to accept their credit card offers.

MYTH #6

My credit card company is taking advantage of me by charging 25 percent interest.

REALITY

Were you forced to get a credit card from that particular bank? If you were unaware of the interest rate before you completed the application, you should have inquired.

By using the card, you accepted the bank terms, no matter what they were. If you don't want to be charged a high interest rate, either don't get the card or, when the bill comes, pay the entire balance within the grace period. Every credit card charges 0 percent when you pay the balance in full each month.

MYTH #7

Since I have no assets, the creditors can't do anything if I don't pay my bills.

REALITY

If you don't pay your bills, creditors may sue you, obtain a judgment against you, then enforce that judgment by garnishing your wages or waiting until you have assets.

Chances are that you won't be broke forever and creditors will wait for that day (while interest is building).

Although collection activity might currently be quiet, your account will

most likely be sold to another agency and the collection calls will start again.

MYTH #8

If my debts get to be too much, I'll just file bankruptcy.

REALITY

Bankruptcy is a very serious matter and should be a last resort, not an easy "out." It is a legal case filed with the bankruptcy court that is a matter of public record, and it can be reported for the rest of your life if you apply for certain loans, life insurance or jobs. Many people who filed bankruptcy wish they had tried other alternatives before filing. Once you file, you will always be "a person that filed bankruptcy," and you can never take that back.

MYTH #9

Somewhere there is a magic solution to my money problems.

REALITY

Wrong. Sometimes, you really do run out of good options.

Unlike television or the movies, there is not always a perfect ending. However, doing something about your problems, no matter how unpleasant it may be, is better than doing nothing in the long run.

MYTH #10

I can wrap up all of my credit card debt into a home equity loan and my interest will be tax deductible.

REALITY

You have just placed your home at risk and could lose it if you fail to make your payments. Nobody ever plans not to be able to make payments. The reason the lender uses your home as

collateral is so he can take it from you if you default on the loan. As for the tax deduction, who knows if the interest will be deductible for the life of the loan? Credit card interest used to be deductible but no longer is. Are you confident that home equity interest will always be deductible?

MYTH #11

My lender wouldn't have approved the loan if I couldn't afford it.

REALITY

Wrong. Some lenders are paid bonuses for lending you money up to and beyond your ability to repay. Ultimately, you are the only one to ensure that you do not get in over your head.

MYTH #12

All I need is for someone to give me a loan and that will solve my problems.

REALITY

Wake up! If you're having financial problems, a loan is usually a quick fix to a larger problem. By getting a loan, you are putting yourself deeper in debt just to make yourself believe that your problem is under control. Consolidation loans are often more costly over the long run, even though your monthly payment might be lower. You could end up consolidating no-interest debts like utilities and medical bills and, once consolidated, you'll end up paying interest. In addition, a consolidation loan usually requires you to put up some collateral, such as your home or vehicle. If you default on the loan, you could lose your property.

The keys to financial success are continuity and time

MYTH #13

It's wrong for my lender to take my collateral or sue me if I fall behind.

REALITY

When you signed the contract stating that if you failed to repay the loan, the lender could take the collateral or sue you, did you think the lender was kidding? Isn't that your signature on the contract?

MYTH #14

It's okay if I take a cash advance to keep me from falling behind on my payments.

REALITY

Some people take cash advances on their credit cards to pay their other creditors "on time." It is better to accept a late payment than to borrow your way deeper into debt just to pay for bills that you can't afford. What often happens is you put yourself so deep in debt that it is nearly impossible to improve your situation without significant negative marks being made on your credit report.

MYTH #15

I'll never have money to retire.

REALITY

With that attitude you probably won't. Most people simply give up because it is more fun to spend money than it is to save it. However, you can build a fortune starting with just a few dollars. The keys to financial success are continuity and time; the earlier you begin to invest, the more you will have when you retire. Don't be concerned about where you are going to invest your money when you begin. Just start with a simple savings account. It doesn't pay much in interest, but you can develop the habit

of regularly investing your money (at least monthly) while you look around and decide where you want to invest the funds for the long haul. You can invest in mutual funds, individual stocks, treasury bills, bond funds or a host of other investment vehicles. Go to the public library, local bookstore or visit the Myvesta.org online bookstore for good, easy to understand books on investing your money.

MYTH #16

People that look wealthy are wealthy.

REALITY

People that look wealthy often have big bills that they can't afford. They might be living in a fancy house and driving a fancy car, but sleeping on lawn chairs and avoiding the repo man.

MYTH #17

Everything is okay because I pay the minimum payment due each month.

REALITY

By just paying the minimum payment on a debt, you extend your payments for many years. If possible, send more than the minimum payment. If this isn't possible, you are probably living close to the financial edge. What would happen if you were injured or sick and could not work? Would you be able to pay your bills if your spouse was suddenly out of work or if your company downsized and released you?

Simply being able to live from paycheck to paycheck is not a sign of financial well-being.

Do you have any assets or cash reserves that you could fall back on? Simply being able to live from paycheck to paycheck is not a sign of financial well-being. Look

at the Debt Eliminator report at Myvesta.org for a personal plan to get out of debt as quickly as possible.

MYTH #18

If I co-sign on a loan, the lender will never come after me.

REALITY

Wrong. You co-signed for the loan, which means you promised to repay the debt if the borrower couldn't. When the borrower is unable to pay back the loan, you are on the hook. Unless you are prepared to repay the loan when the borrower defaults, you should never co-sign a loan.

MYTH #19

I can solve all of my financial problems if I sign up for this fantastic work-at-home business opportunity I heard about.

REALITY

Possibly. However, most people invest their last few dollars into such an opportunity, hoping it will save them from financial misfortune. They usually don't have enough business experience to be immediately successful. Once they invest their available funds getting into the program, they don't have enough money to sufficiently operate the business. Don't believe that you will be rich just because the person that told you about the opportunity appears to be doing well. That person probably has much larger bills than you do, and is trying to recruit as many people as possible into the program to keep himself from sinking.

If you have extra money to play with, then get involved and have a good time. But be prepared to lose both the time

and money you invested. Do it because it's fun and you really enjoy the people you work with, not because you are betting that the business will solve your problems.

MYTH #20

I'm a loser and a failure because I'm in financial trouble.

REALITY

You have to accept responsibility for your actions and remember that you did accept the credit with the promise of paying it back. But most families and our schools do a poor job of teaching financial responsibility. How many classes did you take while growing up that taught you how much credit you should accept? Maybe the truth is you made a mistake and got in over your head because you didn't know better. If you can learn from this mistake, you are neither a loser nor a failure. Accept your setback, learn from it and move on.

About Myvesta...

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