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4 REASONS WHY YOU NEED CREDIT

Finances > Skeels Cygan has clients all over the state, including LA

In these recessionary times, "debt" is a four-letter word no one wants to hear. But managing a small amount of debt within your means is not evil, say financial experts. You have to know the difference between having credit and being in debt, and above all, keep those installment payments within your means.

"Some people use the terms debt and credit interchangeably and they shouldn't," said Mitchell Freedman, a CPA and personal financial specialist in suburban Los Angeles. "Debt is an obligation, credit is a tool."

Living on a cash basis isn't practical in today's economy. Credit can help you in an emergency or help manage cash flow for a home-based business. Mortgages can help homeowners take advantage of tax benefits, and credit cards are necessary to handle a variety of transactions, from buying online to making travel reservations.

Here are four reasons why you may need to spend on credit — and how to do it responsibly:

To establish a credit history

"It's important to have good debt from time to time so that you can build an excellent credit history," said credit card expert Beverly Harzog, author of Confessions of a Credit Junkie (Career Press, 2013).

Credit cards, mortgages, student loans, and any other kind of installment agreements you enter into become a part of your credit history. That's used by the credit reporting bureaus such as Experian, Equifax, and TranUnion to assign you a credit score. And that score is used by everyone from prospective employers to insurance companies to decide if you're a good risk. No credit means no score.

Just make sure to maintain a clean credit history by keeping your borrowing low and making payments on time. Control your credit score, don't let it control you.

"Because the credit score is so important in everything we do, having some amount of debt that you manage responsibly is important to have," said Freedman.

To take advantage of tax deductions

“I’m a huge fan of having a mortgage,” said Donna Skeels Cygan, a financial advisor in Albuquerque, New Mexico and author of The Joy of Financial Security (2013). With mortgage interest rates still at historic lows, a home owner with a fixed-rate mortgage can free up cash to pay for health or education expenses, rather than take out higher-rate personal loans or pay with credit cards. Also, getting a fixed-rate mortgage now can be protection against inflation later; both interest rates and expenses increase along with inflation.

The mortgage interest deduction on your taxes helps, says Cygan. Mortgage interest is tax-deductible, while interest on credit cards and other installment agreements is not. She recommends fixed-rate mortgages to her retired clients as a way to have cash assets, but she warned that if you’re not going to sleep at night if you have a mortgage, it’s best not to do it.

To manage cash flow

Many more us are now freelancing and running home-based businesses. Cash flow on these can be unpredictable, especially when the business needs to buy materials to work with before collecting payment for the work. This is where credit comes in.

Credit can also help households deal with emergencies, said Freedman. He recommends that his clients keep an emergency fund in case of job loss, illness, or some other large household expense, but in this economy, that’s not always possible, he said.

“Most people live paycheck to paycheck, so having a form of credit available to enable you to get through those challenging times is important,” he said.

To handle everyday transactions

“Our society runs on credit,” said Cygan. Everything from shopping online, to making hotel and car rental reservations to putting a deposit on an order require credit cards, said Freedman. But you don’t need to have every single store card you’re offered; one or two general-use credit cards will do, he said.

Debt has to be well managed and people should not overextend themselves, said experts. Pay your bills in full every month, or at least pay more than you spent, so you are reducing your debts with every payment.

If you’re carrying credit card debt, it is a warning sign that you may be spending beyond your means, said Cygan. Freedman recomends never going over 50 percent of your available credit line.

Read more: http://allaboutfinances.net/finance-tips/4-reasons-why-you-need-credit