Monday, February 01, 2010

Your Money Matters

Consumers Wising Up to Credit Card Habits

By Gail Buckner
FOXBusiness

It's not easy being an optimist these days, especially about financial issues: the federal deficit is at a record high, the stock market still hasn't fully recovered from its 2008-09 selloff, roughly seven million homeowners are either behind or in default on their mortgages, etc., etc.

Nonetheless, certified financial planner Terri Kallen sees a glimmer of hope: American consumers seem to be wising up about spending. Specifically, we are getting smarter about not spending more money than we have. Kallsen, an executive vice president with the financial services firm First Command, points to evidence that Americans are cutting the use of - and, in some cases, cutting up - their credit cards.

First Command, which caters to middle-class investors, has been conducting a monthly survey of American adults since early 2008. The goal is to gauge how we "are emotionally feeling about money." Why? Because, according to Kallsen, our money mood affects our savings and spending habits. She's encouraged by the latest results which, she says, indicate that more of us are adopting a "back-to-basics" mentality. "Creating an emergency fund, paying down or consolidating debt are bigger priorities."

Is she talking about the American consumer? The one that other countries have been happily selling their exports to while, at the same time, chastising us for sinfully over-spending?

Overall, Kallsen says First Command's Financial Behavior Index suggests "there has been an improvement in the financial literacy of Americans." For instance, we're paying more attention to our credit card statements. In the latest poll, 61% said they noticed changes to their credit card terms over the past 12 months, including an increase in the interest rate they're being charged (40%), higher late fees (20%), and a decrease in their credit limit (17%). A third claim they are using their credit cards less than they did a year ago.

Six-out-of-ten people are aware of recently-enacted federal legislation that, among other things, limits credit card fees and interest rates, requires increased consumer disclosure, and spells out how issuers must apply your payments to your balance. While 44% of these folks say the higher cost of credit won't affect the way they use plastic, 28% vow to pay their balance in full each month or permanently pay off their credit card accounts.

"Changes in credit card usage are an important indication of Americans wanting to be more financially secure," asserts Kallsen.

Shopaholics will be relieved to know she's not advocating we stop spending altogether. Instead, Kallsen says the goal is to "get it just right. Then you have peace of mind and you're not beholden to a financial commitment you may never be able to fulfill."

Indeed, debt is not necessarily bad - as long as you keep it within limits. First Command clients are advised that their housing costs (monthly mortgage payment or rent plus property taxes and homeowners insurance) should not make up more than 25% of their monthly gross (before-tax) income.

Excluding housing costs, the rest of your debt (credit cards, vehicle loans, etc.) should be less than 20% of your net income (the amount you actually receive in your paycheck after taxes and retirement plan contributions are deducted).
By the way, if you are disgusted, angry, or sick over those "we-are-raising-your-maximum-interest-rate" notices from credit card issuers, in Kallsen's opinion it's OK to cancel your account. (After you pay it off, of course.)

Although canceling a line of credit decreases the total amount of credit available to you and can reduce your credit rating, she maintains the impact is just temporary. "It could hurt you short-term, about six months," she says. "But if you're not looking to get a mortgage or take out a loan, it doesn't matter." And, by enabling you to keep better track of where your money is going, having fewer credit cards could simplify your financial life.

Not to mention give you a sublime sense of revenge.

Revenge aside, the most important thing to do is to get a clear idea of what you want to do with your money. Or, better yet, what you want your money to do for you. "A lot of people think a financial plan is just for the rich," says Kallsen. "A financial plan is as simple as understanding what your goals are and taking one or two steps to achieve that over the next 12 months. It doesn't take a lot of time or effort."

A financial "coach" can be a big help, says Kallsen. This individual will help you define, prioritize, and, perhaps most importantly, encourage you to stick with your goals. Once you get your short-term finances under control, you can start to think long-term. Or, in Kallsen's rosy view, you can begin, "to dream about your future, your retirement goals, and not be so psychologically overwhelmed."

Personally, I'm more skeptical. I'm holding out for more evidence that the American consumer's new sense of fiscal discipline is here to stay.

Please prove me wrong. I've been dying to buy a pair of rose-colored glasses for years.

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