

# Using Credit—A Big Decision

The decision to purchase an item using credit—borrowing rather than saving and paying cash—is to be taken seriously. How badly do you need the desired item? Is it something you can live without, or is it a need you must satisfy immediately? Saving requires that you wait, while buying on credit allows you to purchase goods and services now in exchange for a promise to pay later. Cash? Credit? There are advantages and disadvantages to both methods of payment. You need to consider them carefully.

Credit use has many benefits. Credit allows you to buy major items, such as cars and houses, without having to save the entire purchase amount. Even though you don't have enough money to spend, you can enjoy an item now. Credit cards also are widely accepted at a variety of stores, allowing you to buy wherever you are. When using a credit card, you don't have to carry much cash, which is great if you're traveling. If you see something on sale at a great price but have no cash, you can buy it anyway just by signing your name.

A credit card allows you to be a telephone or Internet shopper. Buying on credit also permits you to inspect your purchase before it is fully paid for. If something goes wrong with a purchased item, it may be easier to return it when paid for with a credit card. In an emergency, a credit card allows you to respond immediately, even if you have no cash. Another advantage to credit is that it allows you to keep accurate records of your spending and combine multiple purchases into one lump payment.

There also is a downside to using credit. There are varying fees associated with credit, such as interest, finance charges, and annual fees. All of these add to the real cost of purchases. If you buy an item on sale, you must remember that the interest and charges could amount to more than the savings (if you don't pay off the credit card bill each month).

Also remember that when charging, you are spending future earnings now, which means you are giving up purchases you may want to make in the future. Perhaps the biggest disadvantage of credit buying, however, is that it encourages impulse buying. If left unchecked, this impulse buying can lead to disastrous problems, such as the repossession of cars and homes when payments aren't made on time. A poor credit rating can ruin your chances for a future home or car loan. It can even affect your ability to get a job.

Credit can be a tool for successfully managing your money and improving your lifestyle, or it can lead to bankruptcy and financial ruin. Credit reporting agencies keep records on your credit experience. If you are a responsible borrower, you will have a good credit rating. If not, you will have a poor credit rating. Whether to use credit is an important decision. Consider all the advantages and disadvantages to make the best decision.

Name \_\_\_\_\_

# A Big Decision

Create notes in each column using the Using Credit–A Big Decision information sheet found on Page 17. Use one column to list the advantages of credit and the other column to list the disadvantages of credit.

## Advantages of Credit

## Disadvantages of Credit

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