Focusing on Credit...

WHAT IS CREDIT?

Doris Myers  Wanda Meyer  Linda Jacobsen*

Credit enables a person to buy before he can pay. If you get a light or gas bill, you are using credit. You use both electricity and gas in your home before you pay for them. This type credit does not cost you any extra money.

You may use credit:

• To buy a stove
• To buy a house
• To buy clothes
• To buy a car

Credit costs you money, just like anything you buy. The extra money you pay when you buy on credit is called "service charge" (sometimes termed "time price differential.") It is figured in dollars.

You also use credit when you borrow money. The extra money you pay when you borrow money is called "interest." It usually is figured in percents. It can also be figured in dollars. Borrowing is like renting a house—the longer you keep it, the more you pay.

WHEN YOU BUY ON CREDIT YOU AGREE TO DO THESE THINGS:

• You will pay the money you owe.
• You will make payments when they are due.
• You will give back what you are buying if you cannot finish paying for it. You likely will not get back the money you have already paid.
• You will not sell what you have bought until it is paid for.
• You will not move it away until you make all the payments.
• You will take care of any damage done to it if you have to return it.

You do not own what you are buying until all payments are made. You can use it, but it still belongs to the store.

PROTECT YOUR CREDIT RATING:

• Keep your promise to pay on time.
• Let your creditors know if you can’t pay. Do this before the payment is due.
• Explain why. Sometimes other agreements can be made.

*Extension specialists in home management, Texas A&M University.