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Deciding When To Use Credit

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Deciding When To Use Credit

The decision to use credit is a personal one. Each person or family is different. Families have different amounts of money, as well as different wants, needs, resources and skills. No two families will spend their money in the same way! That is why individuals or families must decide for themselves if they will use credit, when to use credit and how much credit to use.

To decide if you should use credit, it is helpful to know the good points about using credit and the bad points. Here are some of the advantages of using credit:

Advantages of Using Credit

Loss of Income

- Using credit may help you make it through times when your income is not regular or is stopped for awhile.

Immediate Needs

- Using credit means you can use the item while you pay for it. Sometimes the need for an item is urgent and credit helps you to have it now.

Credit Rating

- If you use credit and make your payments on time, it gives you a good credit rating. This is important because a good credit rating makes it easier for you to get a loan or other credit when you need it.

Sales

- Using credit, you may buy something while it is “on sale” even though you can’t pay for it right

then. For example, buying a winter coat on credit at the end of winter when the price is 40 percent off may be cheaper than paying cash for one at the regular price. If you were going to buy it anyway and if you won't have to pay a "finance charge," you have saved some money!

Savings

- Using credit can help you to save money. For example, a family who spends \$10 per week at the laundromat might be wise to pay \$10 per week in installment payments to buy a washing machine on credit. This will save the family money after the washing machine is paid for.

Disadvantages of Using Credit

Using credit also has some disadvantages. If you are not aware of these disadvantages and how to handle them, they can cause serious problems. A few of the disadvantages of using credit and ways to handle them wisely are:

Credit Costs Money

Usually when you use credit, you pay for it directly. If you don't know about the cost of credit, you could be paying a lot more for credit than you need to! You can avoid doing this by learning about the cost of credit. Learn to look at the finance charge and to shop around for the lowest Annual Percentage Rate (APR). (See ***Understanding Credit Costs.***)

Credit Contracts Are Hard To Understand

Many credit agreements or contracts are full of legal words that are hard to understand. If you are not careful, you may sign a contract that you do not understand — and that can be dangerous! You can avoid this situation in two ways: 1) Learn what to look for in credit contracts or agreements (see ***Buying on the Installment Plan***) and 2) Take a copy of any such paper, **before** you sign it, to a banker, counselor, lawyer, legal aid advisor or other person you can trust and ask them to explain anything you do not understand.

Credit May Restrict Where You Buy

You may buy only at places where you have or can get credit. You may be paying higher prices because you do not shop around to compare prices. To avoid doing this, do not automatically buy where you have credit, but call or go to several stores to find the best price. Learn about the sources of credit and do not be afraid to apply for credit at new places.

Using Credit Ties Up Future Income

If you use credit, it means that some of tomorrow's income has already been spent. In fact, it is possible to spend all of tomorrow's income before you get it. If you plan carefully before you buy anything on credit you can avoid this situation. If you have already committed too much of your income to credit payments, learn where to get help. (See *Handling Credit Problems.*)

Before Using Credit — Think It Over

When you use credit, you promise to use future income to pay for the goods, services or money that you get now. You are making promises about the future. Because the future cannot be known, try to plan ahead. Think about the things that could happen. Before you decide to use credit, ask yourself these questions:

The Cost:

- Is it worth the extra cost to buy on credit?
- Is this something I really need?
- Is this something I have carefully planned for?
- Does the total cost of this fit my budget or money plan?
- Can I make the payments?
- Have I tried to be exact in estimating my other expenses?

The Risk:

- What if I get sick or have an accident? Could I still pay?

- Is it worth losing the money I have paid if I miss a payment or cannot finish paying for the item?
- Do I want to risk repossession, a bad credit history or legal action if I can't pay for all of it?

The Obligation:

- Can I afford to tie up my future income?
- Am I borrowing from a fair and honest person?
- Do I understand what the contract says?
- Will I still want to be paying for this item for the length of the contract?
- Would it be wiser to save my money and buy this later?

The answers you have for these questions may help you decide if you should use credit.

It's Your Decision!

The ideas here can help you make your decisions about using credit. There will be times when you will decide not to use credit and times when you will decide to use it. If you manage your credit dollars wisely, credit can serve you and help to make your life more pleasant. But, like fire, if it is used unwisely, it can be damaging.

Remember, when to use credit is your decision. Make it wisely!

Other publications in this series include:

- L-1881 Understanding Credit Costs
- L-1883 When You Apply for Credit
- L-1884 What Is Credit?
- L-1885 Using Credit Cards
- L-1886 Borrowing Money
- L-1887 Handling Credit Problems
- L-1888 Buying on the Installment Plan

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