

Credit

5-5-82

L-1884

10m
New

What Is Credit?

The Texas A&M
University System



**Texas
Agricultural
Extension
Service**

Daniel C. Pfannstiel,
Director
College Station

What Is Credit?

Credit is so common today that almost everyone uses it in some form. Have you ever borrowed money from a friend or neighbor? Do you use electricity? Do you have a telephone?

If you said “yes” to any of these questions, you have used credit. You probably have spent money you borrowed from a friend and paid it back later. You use electricity or a telephone in your home **before** you pay the company for its use. These are all examples of credit.

Credit is a service that allows you to use and enjoy the things you need or want today by promising to pay for them later.

Credit is offered by stores and other businesses. It gives customers the privilege to “buy now — pay later.” Businesses may say you can “charge it,” “finance it,” “buy on time” or “use a payment plan.” It is all credit.

No matter what it is called, it is important for everyone to understand what it means to use credit.

Credit Is a Promise

When you use credit, you promise that you will use future income to pay for goods, services or money that you have the use of now. You are responsible for having the money to pay when you should. But you make other promises, too, when you use credit.

When using credit, you have these responsibilities:

- To pay back the amount of money you borrow or the cost of what you are buying, **plus** an additional charge for the use of the money or for the time you take to repay. (Sometimes, if you repay all of what you owe within 30 days you may not have to pay any additional charges.)
- To pay all of the money you owe, regardless of personal crises or unexpected situations.
- To make your payments on time. If you are late with a payment, you may be asked to pay all the money you owe immediately.

- To not sell items you are buying until **all** payments are made. You can use the item, but it still belongs to the seller.
- To give back what you are buying if you cannot finish paying for it. You will lose the money you have already paid. You may even have to pay **more** money if the creditor is not able to sell the item for the amount you still owe on it.
- To be responsible for any damage done to what you have bought on credit if you must return it.
Before using credit, you should be sure you can meet these responsibilities.

Credit Is a Temptation

Credit lenders know that credit is convenient and easy to use. They know it is hard to save enough cash to buy the things you want. They also know that credit customers may buy more than they should. The lenders of credit know these things — that is why they offer credit!

Because credit is so easy to use, it is easy to forget that credit should be used in a responsible way. Knowing what credit is **not** will help you to use credit wisely.

Credit Is Not...

- **Increased Income.** Credit simply allows you to spend tomorrow's income today.
- **A Way To Buy What You Cannot Afford.** Credit payments will be subtracted from your future income, so you should think of them as part of your total spending plan.
- **Unlimited.** The amount of credit granted to you depends on your credit rating — your history of paying monthly bills and other personal information.
- **The Lender's Responsibility.** Stores may offer you more credit than you can afford to repay. It is **your** responsibility to decide when to use credit and how much you can afford.
- **Free.** Credit is a service and you must pay for it. When you pay for something over a long period of time, there is a charge for using credit. Also, stores that offer credit may have higher prices than stores which only accept cash.

- **A Game.** You must sign a credit agreement, a contract or another legal paper to be able to use credit. Credit is serious business!

The use of credit can help you have the things you need or want. But it takes careful planning and should be used responsibly. If you remember what it means to use credit, you may be ready to make credit work for you!

Now that you know what it means to use credit, you should know the different ways you can use credit.

The four kinds of credit are:

- **Service credit**
- **Installment credit**
- **Loans**
- **Credit cards**

Other publications in this series include:

- L-1881 Understanding Credit Costs
- L-1882 Deciding When to Use Credit
- L-1883 When You Apply for Credit
- L-1885 Using Credit Cards
- L-1886 Borrowing Money
- L-1887 Handling Credit Problems
- L-1888 Buying on the Installment Plan

Reprinted with permission from the Cooperative Extension Service, University of Illinois at Urbana-Champaign.

Educational programs conducted by the Texas Agricultural Extension Service serve people of all ages regardless of socioeconomic level, race, color, sex, religion or national origin.

Cooperative Extension Work in Agriculture and Home Economics, The Texas A&M University System and the United States Department of Agriculture cooperating. Distributed in furtherance of the Acts of Congress of May 8, 1914, as amended, and June 30, 1914.