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## **Credit Decisions**

Credit lets you buy something now and pay for it later.

When you use credit, you promise to:

- ☐ Pay back the amount you borrow plus the charge for using that money.
- ☐ Make your payments on time.
- ☐ Not sell anything used as collateral until the loan is paid.
- ☐ Give back the item if you cannot finish paying for it.
- ☐ Assume responsibility for any damage to the item.

### **USING CREDIT**

Before buying on credit, consider the option of saving money until you have the amount needed so you can use cash to make the purchase. Examine the expenses in your overall budget. Then, ask yourself the following questions:

#### **The Cost of Credit**

Do you know the cost difference between buying on credit or paying cash?

**If no**, ask the sales person and read your contract again.

Is it worth the extra interest cost to buy on credit?

**If no**, then save until you can afford the item.

Is this something I really need?

**If no**, wait until you need it.

Is this something I planned to buy?

**If no**, think again about the purchase.

Is this something I need immediately?

**If not**, then wait.

Does the total cost of this purchase fit my spending plan?

**If no**, revise your spending plan or wait until you can afford the payments.

Can I make the payments?

**If no**, wait until you can afford the monthly payments.

Have I tried to estimate my other expenses?

**If no**, then make a spending plan.

Have I shopped around for the lowest annual percentage rate of interest?

**If not**, always compare interest rates.

### **The Risk of Using Credit**

What if I can't work for a while? Will I still be able to make the payments?

**If no**, think again, especially if your work is seasonal or you are laid off.

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

**If no**, think again. Wait until you have an emergency fund that could cover payments.

Is it worth losing the money I paid if I miss a payment and the item is repossessed?

**If no**, think again. Try to wait until your work is more stable or you have an emergency fund.

Do I want to risk repossession, a bad credit history or legal action if I cannot pay?

**If not**, think again. Try to wait until you can better afford the item.

### **The Obligation of Using Credit**

Can I afford to tie up my future income?

**If not**, wait until your situation improves.

Am I borrowing from a fair and honest lender?

**If not sure**, shop around some more for another lender.

Do I understand the contract requirements?

**If no**, read the contract again and ask questions.

Am I willing to pay for this item for the length of the contract?

**If no**, wait and buy with cash.

Will the item still be usable when I finish paying for it?

**If no**, then use cash.

Would it be wiser to save money and buy this later?

**If no**, go ahead and use credit.

Sources: *BUC\$*, Cornell Cooperative Extension and *Money Management Advisors*, Washington State University, Cooperative Extension.