

## Unit 3, Lesson 18

### Visual 1

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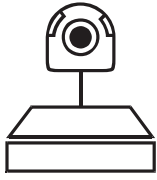
## WHY USE CREDIT?

### ADVANTAGES

- Use a good or service today and pay for it later.
- Acquire assets such as a college education or a home.
- Help with an emergency.
- Take advantage of a unique opportunity to buy.
- Pay back with cheaper dollars in a time of inflation.

### DISADVANTAGES

- Loans have to be repaid with interest.
- Convenient credit might encourage impulse buying.
- People may use too much credit in relationship to their income.
- Poor credit use can harm credit ratings and make credit more expensive in the future.



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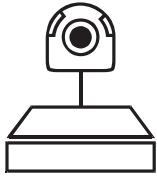
### Visual 2

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## CONSUMER CREDIT INFORMATION

The following information about consumer credit will help people to make better decisions regarding its use:

- Credit cards enable people to obtain instant loans from banks, gasoline companies, department stores, and other retail businesses.
- Most credit cards come with limits as to how much a person can borrow.
- Most credit cards allow for cash advances, and most charge a fee (*up to 4 percent*) for cash advances.
- Interest charges on credit-card debt can be as high as 26 percent.
- The owner of a credit card is liable for up to \$50 for unauthorized charges.
- Credit cards are usually valid for a period of 12 to 36 months.
- Most credit cards offer unsecured loans; the issuer relies on the credit user's promise to pay.
- Affinity cards connect credit-card use to special benefits such as frequent-flyer miles or automobile discounts.
- The real interest rate being charged credit users is the posted rate minus the inflation rate.
- The average delinquency rate for credit-card debt is on the rise.
- According to a recent issue of *U.S. News and World Report*, the typical American has between one and three credit cards and owes credit-card balances of approximately \$8,000.
- Most Americans save very little, if any, of their disposable income.
- The credit-card debt of low-income families continues to rise.



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## CONSUMER CREDIT GUIDELINES

- Don't think you will save money by borrowing more.
- Don't impulse buy.
- Pay off high-interest credit-card balances.
- Start an emergency fund savings plan.
- Avoid joint obligations with people who have questionable spending habits.
- Charge only those items you can reasonably afford with your basic income.
- Create a realistic budget and stick to it.
- Find alternatives to spending money.
- Realize that the over-spending culprit is YOU.
- Calculate the cost of using credit before you decide to buy.
- Ask: "Can I pay for this credit purchase if I lose my job?"
- Ask: "What will happen if I don't make my credit payment on time?"
- Ask in each case: "All things considered, do the expected benefits from a credit purchase outweigh the costs?"