

CREDIT – Part 1

Business Issues

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What is credit?

- Promise to repay an obligation
- Paying later for goods & services obtained now

4 Types of Credit

1. Utilities credit

- Examples: Power, water, gas, telephone, cable/dish, internet
- Cost based on use
- Deposit may be required
- Credit may be granted with no formal agreement
- Penalties, late fees, interest and finance charges may be charged

2. Incidental credit

- When a credit arrangement involves no extra costs & has no specific repayment plan
- Examples: doctor, dentist, plumber, baby sitter
- Small business provides a service & sends a bill
- May be some late fees, interest or finance charges
- No contract agreement

3. Closed-end credit

- A specified amount used for a specific purpose
- Examples: home loan, car loan, large furniture & appliances loan, boat loan, education loan
- Contract/agreement will list repayment terms
- Cost dependent on current interest rates, borrowers credit, price of item, repayment time, and demand

4. Open-end credit

- Not for a single purchase or amount
- Used for whatever you want to purchase if you do not exceed your “credit limit” -maximum amount you can borrow
- Contract/agreement will list repayment terms
- Cost dependent on current interest rates & borrowers credit
- Examples: VISA, MasterCard, department store cards, checking account overdraft protection

Advantages of Credit

- Access to cash if emergency
- Helpful when purchasing large items
- Safe & more convenient
- Some items cannot be purchased without credit
- Purchase safety
- Bonus points, awards, discounts & sales

Disadvantages of Credit

- Credit costs money
- Too convenient
- Overuse can result in DEBT – **BANKRUPTCY!**
- Some places don't take credit