

# CASH OR

# CREDIT

**Credit** means you're borrowing someone else's money and promising to pay it back. For example, if you use credit to buy a car, that means a bank, a credit card company, or possibly even the car dealership itself will loan you the money you need. But be warned. That money doesn't come for free. The people that loan you the money will charge you interest. **Interest** is another name for the fee that they charge you for using their money. It's usually a percentage of the remaining balance, the amount you have left to pay.

Interest rates aren't always the same. Your bank may have a lower interest rate than the one across the street does. The credit union down the block may be even lower.

Only borrow what you

So if you need a loan, shop around to find the lowest possible interest rate before you say yes. Remember: If you're taking out a loan, a high interest rate will cost you more money over time.

A low interest rate will cost you less money over that same time. But it all costs.

can pay back tomorrow.

Credit cards work the same way. Let's say you see a new dvd you want for \$20, so you whip out your credit card. What you're actually doing is taking out a \$20 loan from the credit card company. So it may not seem like much at the time, but these charges (\$20 for a dvd, 6 bucks for lunch, \$30 for something you found online) can really add up. And if you have to pay interest on them, they'll cost you even more! But remember, you only have to pay interest if you DON'T pay the balance off each month. If you charge items to your card and continue to pay off your bill, you won't have to pay a cent of interest.

The alternative to paying with credit is paying with cash. There's no interest at all if you pay cash.

## ADVANTAGES TO PAYING WITH CASH:

- No interest, so cheaper in the long run
- Everyone accepts cash
- You don't need to be approved before you use it
- No bills to pay later

## ADVANTAGES TO PAYING WITH CREDIT:

- You can buy things right now, instead of waiting to save up enough money
- Buying online or over the phone is much easier with a credit card
- It can improve your credit rating. **A credit rating is a scale of how well you pay your debts.** If you have a high credit rating, you can take out more credit and buy bigger things in the future.



## The COST of Credit

Paying on credit is different than paying with cash. Below is an example of what happens when you make partial payments on a credit card.

Amount Owed	Interest Rate	Monthly Payment	Months Needed to Repay Loan	Extra Cost of Cash vs. Credit:
\$1000	9%	\$25	48	\$195
		\$50	22	\$ 89
		\$70	15	\$61
		\$95	11	\$46
\$1000	18%	\$25	62	\$543
		\$50	24	\$198
		\$75	15	\$125
		\$100	11	\$ 92