

# Credit

## Factsheet

### What is credit?

Credit is money you borrow from a lender. You have to pay it back by an agreed time. You need to pay back the money you have borrowed plus interest, fees and charges. If you do not pay the money back on time there will be extra costs.

Lenders are also called credit providers. They include banks, credit unions, building societies and finance companies that lend money. Lenders make money by lending money and charging interest, fees and charges for this service.

### What are interest, fees and charges?

Interest is an ongoing amount of money you pay to use credit.

Fees and charges are the extra costs for borrowing money (credit). They can be charged monthly or yearly. These costs can include:

- ▶ monthly fees for keeping your account
- ▶ fees if you do not pay on time
- ▶ fees if you do not make a repayment.

### Credit law

In Australia lenders must follow consumer credit law. This is regulated by the Australian Government. The person borrowing the money also has to follow the law.

### Types of credit

There are many different types of credit in Australia and the type you use depends on what you borrow money for. Some examples are credit cards, car loans, home loans, store cards, short-term loans and consumer leases.

### Remember

- ▶ Credit is borrowed money you have to pay back.
- ▶ Credit has extra costs.
- ▶ Too much credit can cause money problems.

For more information about credit, visit ASIC's MoneySmart website, [moneysmart.gov.au](http://moneysmart.gov.au), or call 1300 300 630. You can also call a Financial Information Service Officer on 13 23 00 who will help you better manage your use of credit.

To order your credit file, visit [mycreditfile.com.au](http://mycreditfile.com.au).



### Hussein gets a car loan

Hussein wants to buy a second hand car. He wants the cost of registration and insurance (about \$1000) to be included and decides he can spend up to \$5000. This means the car can cost no more than \$4000. He does not have any savings so he has to borrow the money.

One Saturday morning, Hussein goes to the car yard to look for a second hand car. He sees one he likes for \$3900. Hussein finds a sales person and asks some questions about the car. Hussein wants to know if the car is reliable, what year it was made and if it is safe to drive. Hussein decides he would like to buy the car. The car yard's finance person says Hussein can apply for a loan but he must answer some questions first.

Hussein gives the information to the finance person. The finance person tells Hussein he is able to get the loan for \$4900 (which will also pay for the registration and insurance).

The finance person gives Hussein the credit contract and asks him to read it and sign it. However, Hussein's friend once told him 'Never sign something you do not understand.' Hussein wants to read the whole contract so he asks if he can take it home to read first. He agrees to meet the finance person again on Monday morning.

Hussein reads the credit contract and goes back to the car yard on Monday to meet with the finance person. After reading the credit contract, Hussein has many questions. He asks the finance person what the total amount of the loan is, what the interest rate is, how much and often he needs to make the repayments, and how long the credit contract is for. Hussein completely understands the terms and conditions of the loan and he signs the contract and buys the car.

