

What is credit?

You use credit to buy things when you don't have the cash. Credit means you are borrowing money that you have to pay back later.

If you use credit you end up paying more than if you paid in cash. This is because you have to pay back the money you borrowed plus interest, fees and charges (depending on how much you borrow). Also, if you don't pay the money back on time, there will be extra costs.

Types of credit

There are many different types of credit:

- ▶ Credit cards
- ▶ Home loans
- ▶ Car loans
- ▶ Rent to buy deals
- ▶ Rental of household items
- ▶ Interest-free deals
- ▶ Book up
- ▶ Payday loans (short term and small amount loans)

Questions to ask

Too much credit can cause money problems. Before you use credit to buy something ask yourself these questions:

- ▶ Is credit the best option for me – could I save the cash instead?
- ▶ Can I afford to pay back the money plus the extra charges?
- ▶ Have I read the documents before signing them?

Mike gets a no interest loan

Mike's fridge broke down and he needed \$400 for a new one. Mike thought about getting a payday loan but found out he would be charged \$96 in fees and 40% interest if he couldn't pay it back in time, meaning Mike would have paid more than \$800 for the \$400 fridge.



Mike's sister suggested he apply for a loan through the No Interest Loans Scheme at the local community centre. He applied, got the loan, and bought his new fridge. Mike was able to pay back the loan over 18 months.

Getting help

See a free financial counsellor before you sign a credit document. They can also help you sort out your debts. Call 1800 007 007.

Tip - Check the interest rate



Always check the rate of interest you will be charged. The higher the interest, the more money you will have to pay back.