

## C

**USING CREDIT****BACKGROUND INFORMATION**

Credit is just one method of paying for goods and services. Other payment options include debit cards, lay-bys, store cards, cash and personal loans.

***Advantages and disadvantages of credit***

Credit is a promise to pay back, with interest, money borrowed from another person. No credit is free, it is paid for through interest and other fees and charges. To increase sales of goods and services, people are often encouraged to pay for goods using credit.

Credit can be very useful to buy goods and services as long as it can be managed and the repayments can be met. Credit can lead to serious problems if it is used recklessly.

***Credit providers***

There is a wide range of credit providers (lenders). A lender can be a bank, an insurance company or other lending organisation. Information on loans and services is available from the providers, and most have a website.

All money lenders will provide advice on money management, however, they have products and services to sell so they will try to persuade you to use their products. Be careful, use only the products that suit your particular needs.

***Choosing credit***

Like all contracts, a credit contract is legally binding. Before signing a contract, it is important to compare credit products. You should read the paperwork thoroughly and if there is anything you don't understand, seek further advice. No-one should be pressured into signing a contract. When choosing credit, you should:

- shop around for the best deal. It could save a lot of money.
- compare brochures that explain different credit products.
- talk to family and friends about their experiences with different lenders.
- check out the interest rates, fees and charges the banks, credit unions and finance companies are offering. You can generally find a list of interest rates in the money sections of your local newspaper.
- Don't automatically take the credit suggested by a salesperson. It may not be the best deal.
- Don't fall for the low interest rates without checking out the fees and charges. It may work out to be more costly overall.



When choosing a credit card, you need to specifically work out how it will be used. Further information about choosing a credit card is available on the Money Stuff website ([www.moneystuff.fairtrading.nsw.gov.au](http://www.moneystuff.fairtrading.nsw.gov.au)) or the Australian Competition and Consumer Commission's website ([www.accc.gov.au](http://www.accc.gov.au)). When on the site click on publications then publications catalogue and find the publication "Know your credit card".

Money CHOICE\$, the Australian Consumers' Association service has a low cost telephone service designed to help you choose the cheapest and most appropriate financial services for your needs.

### **Credit contracts**

If a person has applied for a personal loan, a credit card, car finance, a consumer lease or any other credit arrangement predominantly for personal, domestic or household purposes, they will be protected under the Uniform Consumer Credit Code. Credit providers (lenders) must provide consumers with certain information about the contract before they sign it. This information is contained within a Pre-contractual Statement and an Information Statement. This information should allow the consumer to compare the total cost of the loan and all fees and charges with other loans. The Department of Fair Trading suggests there are key questions that should be asked about the costs of any loan and these should be disclosed in the contract:

- Can the lender vary the interest rate or add extra charges?
- Will there be a termination fee or penalty for early repayment?
- Will there be a charge if payments are late?
- Can the borrower make extra payments?

### **Credit, debit cards and electronic transactions**

There are significant differences between credit cards and it is important to shop around and compare terms and conditions when choosing a card. Your credit card does not have to be with the financial institution where you do your banking. Card issuers can be contacted to provide information and advice on the cards they issue.

Increasingly, financial organisations are encouraging consumers to conduct all their transactions electronically. There has been an increase in use of plastic cards (both credit and debit cards), Automatic Teller Machines (ATMs), telephone and internet banking. Most card issuers allow consumers to use their debit cards at an ATM to obtain money or transfer money between accounts. The PIN (Personal Identification Number) or password is provided (or selected by you) to secure the account. It is the consumer's responsibility not to reveal the card PIN or password to anyone. The card issuer will provide a copy of the terms and conditions with the card, which includes information on protecting your PIN.

## Key words

transactions	credit provider	financial services	credit contract	interest
loans	credit product	credit card	fees	debtors
creditors	electronic transactions	liability	debit card	card issuer
PIN	car finance	ATM	interest charges	

## ACTIVITY OUTLINE

Ask students: What is credit? Why do we use credit? How do we use credit?

Get the students to look through the case studies on the *Money Stuff* website ([www.moneystuff.fairtrading.nsw.gov.au](http://www.moneystuff.fairtrading.nsw.gov.au)) and to report back on the kinds of problems people have with credit. Also ask the students about their experiences with credit. Compile a brief list of problems with credit on the board.

Ask students to discuss with a partner the statement: *Buy now, pay later.*

- Is this a good way to think of credit?
- Make up your own statement to reflect what you think of using credit.

Ask the questions: What is a credit provider or money lender? What are some examples of lenders?


Distribute WORKSHEET C1 and ask students to carry out this research. They can look in the yellow pages or use the internet to find out about credit providers.

To find out about services, you may want to provide brochures (see additional resources section of this book), arrange visits to or speakers from credit organisations or students can search the internet.

DISCUSS the findings with the class.

Divide the class into groups and explain that they are about to move into a share house with friends. A credit card will be used to pay for the furniture they need to purchase. Before they complete the worksheet, ask them to consider their likely incomes and savings.

Ask each group to choose a card and complete the research for WORKSHEET C2. More information about choosing a credit card can be found on the *Money Stuff* website ([www.moneystuff.fairtrading.nsw.gov.au](http://www.moneystuff.fairtrading.nsw.gov.au)) or the Australian Competition

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and Consumer Commission's website ([www.accc.gov.au](http://www.accc.gov.au)). When on the site click on publications then publications catalogue and find the publication "Know your credit card".

Discuss student responses with the class. Explain that the terms and conditions of credit cards and loans need to be examined carefully. Using credit to pay for goods and services involves a contract that is legally binding. There are legal rights and obligations of both the money lender and the consumer.

Ask the students to work in pairs and complete WORKSHEET C3.

Ask the class: Are mobile phone contracts a form of credit? Does anyone know of a friend or relative who has had trouble paying off a mobile phone call plan?

Ask them to read the article on WORKSHEET C4 and answer the questions.

Discuss their responses as a group.