



University of Idaho
 College of Agriculture
 Cooperative Extension Service
 Agricultural Experiment Station

Current Information Series No. 358
 November 1976

Betty P. Turner
 Family Economics Specialist

LIBRARY

APR 28 1977

UNIVERSITY OF IDAHO

Credit
 or
 Cash

Advantages and Disadvantages of Buying on Credit

Consumers are constantly faced with the question, "How can I best use my money?" Each major purchase requires a decision as to whether you will pay cash, use a credit card or use installment credit. Here are some of the advantages and disadvantages of buying on credit.



Credit Cards, Charge Accounts	Installment Credit	Paying Cash
No down payment required.	Down payment usually required.	Each price is paid in full at time of purchase.
Application for basic credit is made and, when accepted, buyer need only sign receipt in return for accepting goods at time each purchase is made.	Buyer signs a closed-end, conditional sales contract that is a binding legal document. Nonfulfillment of any point in the contract can result in repossession.	Cash and carry. No further contract to comply with.
Payment can be made in a flexible way — usually involving a minimum monthly payment. In the case of a revolving charge, an initial agreement is made between buyer and seller on the "credit ceiling" (the limit up to which the consumer can charge or borrow at any given time).	Amount of each installment payment is predetermined and included in the contract. Usually payments are made at regular intervals (weekly, monthly) over a period of 12, 24 or 36 months.	Payment is complete at time of purchase. No need to worry about keeping up with periodic payments.
No finance charge if account is paid within stipulated time after receipt of the monthly statement — usually 30 or 60 days after billing date. After that, daily interest is charged.	Either finance charge is added to purchase price and will be included in regular payments, or you pay interest each month on the unpaid balance.	Buyer has no kind of finance charge or interest added to purchase price.
Used for purchase of smaller consumer goods and services. Convenient — one need not carry large amounts of cash, allowing one to take advantage of sales.	Generally used for purchase of major items — TV, furniture, car, appliances.	Use is determined by what fits best in the budget, how one prefers to save and spend.

Credit Cards, Charge Accounts	Installment Credit	Paying Cash
Buyer has possession/use of goods and is legal owner.	Buyer has possession/use of goods, but seller retains the title and is the legal owner until buyer makes the last payment.	Buyer has possession/use of goods and is legal owner.
You will be sued if you don't pay. Then you'll have to pay what you still owe, plus court costs.	Merchandise will be repossessed and auctioned off if you don't pay. Then you'll have to pay the balance owing on the contract (what the auction didn't cover), plus court costs, plus legal fees. Or in some cases, the creditor may just sue you.	No worries. The goods are yours and you owe no one.
Merchandise can usually be returned or exchanged easily.	Merchandise cannot be returned or exchanged. Contract cannot be cancelled. However, cars are often "traded" (exchanged) before "pay-off." Contract is then cancelled and a new one written.	Buyer might have some difficulty exchanging or returning merchandise, but this can be arranged in some cases.
Servicing of merchandise, if such is needed, will be easier for "preferred customers" who have charge accounts or credit cards.	Servicing of merchandise is usually easily obtained.	Seller might feel less inclined to service cash customers in an expedient and efficient way.
Short term convenience is nice. If prudently used, shouldn't cut too far into future income.	Takes away from future income.	Future purchasing power is intact, depends only on one's own budget plan.

Disadvantages of Buying on Credit

You may be tempted to buy more than you need because "charging" is easy.

Often less comparison-shopping for items and the cost of buying on credit.

Instead of shopping around, you might buy at one store because you can use credit there.

The amount of credit you use may cut into the available money you have for emergencies by tying up current and future money.

Individuals and families who habitually buy on credit pay an additional charge on everything they purchase — adding as much as 18 per cent or more to the cost of the goods or services.

Advantages of Buying on Credit

Buying on credit gives you the use, and in some cases, the ownership of goods or services when you haven't available cash to pay for them.

Charge accounts and credit cards are convenient to use. No need to carry large amounts of cash.

Buying on credit can be a form of forced savings. An individual or family may find it easier to pay off a debt in regular amounts than to save the money first, then make the purchase.

Before you decide which form of credit to use, or whether to pay cash, inform yourself. Know the options available within each type of credit so that you can make a responsible choice that will fit within your budget.