

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8662
October 17, 1979

NEW CONSUMER CREDIT INFORMATION PAMPHLET

"On Using Credit"

*To All Financial Institutions, and Others Concerned,
in the Second Federal Reserve District:*


Enclosed is a pamphlet, entitled "On Using Credit," produced by this Bank in conjunction with its Consumer Credit Information (CCI) program.

This educational pamphlet is designed to assist individuals make personal credit decisions and it discusses the advantages and disadvantages of credit, alternatives to using credit, and creditworthiness. Borrowers' rights and responsibilities under Federal credit regulations are also covered.

The new pamphlet is available, free of charge, from our Public Information Department. Requests for more than 500 copies should be made in writing to that department.

CCI materials are intended as a resource to help both creditors and borrowers. Comments are always welcome, and may be directed to Peter Bakstansky, Vice President.

THOMAS M. TIMLEN,
First Vice President.



**on
using
credit**

credit decisions...

There are many valid reasons for using credit. A medical emergency finds a person strapped for funds. A homemaker returning to the work force needs a car. Or an item can be bought now at a lower price on sale. But it may not be reasonable to finance an African safari on credit when a week at the shore is all the budget allows.

Decisions to use credit reflect a number of factors: needs, goals, values and income. Sensibly used, credit is an important financial tool. Effectively used, it can help us to have more and enjoy more. Misused, it can result in default, bankruptcy and loss of reputation.

Before using credit, your financial condition and other options must be evaluated carefully. Remember, when inflation is high, essential living costs often require a greater part of the paycheck. And debt can accumulate slowly until the burden suddenly is unmanageable.

credit options...

There are two alternatives to using credit. You can save to pay for the item you want and buy it later or convert savings and investments to cash, permitting immediate purchase.

If you save part of your income, the amount you can spend now is reduced. Saving a sizable sum can take quite some time. But prices might go up, which could make your purchase more costly later.

Converting savings and investments into cash means you can buy things at today's prices without committing future income. However, earnings on savings and investments are forfeited and you certainly lose the sense of security a nest egg often provides.

Keep in mind that, if you use credit, it costs money in the form of interest charges. Further, if you can't afford to save some part of your income, chances are you can't afford to take on more credit. Credit isn't merely more money and additional funds will not appear magically when the bill arrives in the mail.

credit advantages...

Consumer credit enables us to have and enjoy goods and services now and pay for them through payment plans based on future income.

Charge cards permit the purchase of goods even before payday when funds are low. Customers with previously approved credit also may receive other extras, such as advance notice of sales, the right to order by phone or buy on approval. And, many shoppers believe it is easier to return merchandise which has been purchased on account.

With credit on hand, you are better equipped to cope with financial emergencies, too. Should an aching tooth suddenly require extensive dental surgery or a windstorm cause property damage, you'll be able to take immediate action without dipping into savings or seeking help from friends and relatives.

Of course, credit is more than a substitute for cash. Many of the services it provides are taken for granted. Consider that every time you turn the tap, flick the light switch or dial a friend, you are using credit. Yes, service credit... which permits you to pay the bill after the service is provided.

There is also the safety factor—important in our mobile society. Charge accounts and credit cards let you shop and travel without carrying large amounts of cash. Credit cards serve as identification when cashing checks on the road and the use of credit provides a record of expenses.

Lastly, credit indicates stability. The fact that lenders consider you a good risk usually means you are a responsible individual.

in summary...

The use of credit provides:

- immediate use of goods and services
- flexibility in money management
- safety and convenience
- a cushion in emergencies
- a means of increasing resources
- a character recommendation, if the debt is paid back on a timely basis.

and disadvantages...

The greatest disadvantage in using credit may be the temptation to overspend, especially during inflation. It seems easy to buy today and pay tomorrow with cheaper dollars. But continued overspending, no matter what the economy is doing, leads to serious trouble. If payments are not made in time, you may have to give up the merchandise. And when credit involves collateral, failure to pay may result in the loss of income, valuable property and your good reputation. Further difficulties could be court action, garnishment of salary and bankruptcy. Therefore, credit should be approached with caution and must not be more than what you can afford.

remember...

The use of credit is a two-sided coin. An intelligent decision demands careful evaluation of:

- the debt factor
- the added cost, and
- the consequences of overspending.

This pamphlet is not intended to provide legal interpretations in credit matters. It offers consumers educational information which may be useful in making personal credit decisions.

being creditworthy...

Your decision to become a borrower implies that a lender is willing to extend credit. For that to happen, a lender must evaluate you as a borrower. That evaluation is based on creditworthiness... your ability to pay and your record of repaying previous debt.

Since credit is largely dependent on trust, lenders will ask where you live, where you work and what you earn. Lenders must, by law, judge you on your own merits and not by group characteristics. A divorced woman may not be denied credit because of her marital status or gender... and race cannot be a factor in the evaluation.

Lenders can review your credit history to see how well you have handled debt in the past. A newcomer with no credit credentials may be evaluated primarily on the basis of capacity and capital. Capacity is earning power... income versus financial commitments. Capital is a measure of financial resources or net worth, such as a home, car, stocks or other tangible items which can be offered as collateral.

your responsibilities...

As a credit user, you should assess your entire financial situation before signing a credit contract. If you do sign, read the agreement carefully. Make sure credit terms are clear and accurate... look for the finance charge and the annual percentage rate (APR).

Ask questions about your obligations. Pay all bills promptly. And, if you think there is an error on your statement, notify the lender in writing as soon as possible.

Remember something else: lenders rely on prompt payment in order to conduct business successfully. In cases of serious hardship, some are willing to reschedule payments, rather than force the issue with legal action, although there may be an additional charge for lateness. You are legally responsible to fulfill the obligations outlined in the contract, so be sure you understand what may happen to the merchandise you buy on credit if you don't pay.

Lastly, protect your interests by dealing only with reputable and legal lenders.

10/79

your rights...

These Federal consumer credit laws offer you protection:

- Truth in Lending
- Fair Credit Reporting
- Equal Credit Opportunity
- Fair Credit Billing
- Real Estate Settlement Procedures
- Home Mortgage Disclosure
- Consumer Leasing
- Preservation of Consumers' Claims and Defenses
- Fair Debt Collection Practices
- Community Reinvestment
- Electronic Fund Transfer

Additional information about your credit rights is available from the 12 Reserve Banks and from the Board of Governors in Washington, D.C.



Consumer _____
Credit _____
Information _____

FEDERAL RESERVE BANK OF NEW YORK
New York, N.Y. 10045