

Make Sure You Understand Your Consumer Credit Options

There are many types of credit options available to you. Your community banker suggests you make sure you know the difference between these options—terms of the contract, interest and finance charges—before choosing one over another.



*Tips from your
Community Banker*

➤ **Revolving Charge Account**

Unlike a credit card, a charge card is good at only the issuing store. Although you are required to make regular monthly payments, you do not have to pay the whole amount you owe every month. However, you will be charged interest on the remaining portion of your balance and will be charged a fee if your payment is late.

➤ **Retail Installment Contract**

With this type of contract, you are buying an item by making a certain number of monthly payments. Part of each monthly payment is used to pay interest and part is used to pay off your balance. You own the item, but it can be repossessed if you default.

Don't confuse a retail installment sale with a rent-to-own contract. If you want to use furniture or an appliance for a short period of time, this option might be for you. But if you're looking to own the item, the weekly payments can add up to a high cost. Also, you do not own the item until you make the last payment.

➤ **Signature Loan**

These are generally small loans that extend over a brief period of time and do not involve pledging any collateral. Rates can be very high.

➤ **Payday Loan**

These loans are also called "deferred presentment" transactions. The "borrower" writes

a post-dated check but gets his money right away. The lender agrees to defer presentment of the check until its date, which typically has been the borrower's payday. Fees may run about \$10 per transaction, but the term of the loan is very short, making the interest rate very high.

➤ **Pawn Loan**

These types of loans are typically small and secured by collateral held by a pawnbroker. While this is a quick way to borrow money, make sure you are dealing with a reputable pawnshop. Pawn loans are written for a set period of time and at the end of that time the customer is required to repay the loan in full or forfeit the collateral to the pawnbroker.

➤ **Secured Loan**

A secured loan is a promise to pay a debt secured by property (collateral) of the debtor. If the loan is not repaid, the creditor can recoup the money by seizing and liquidating the collateral.

➤ **Home Equity Loan**

These types of loans are collateralized by your homestead, which is pledged in case of default. These loans are larger with longer repayment periods and generally have lower interest rates. Most often, consumers use these types of loans to consolidate their debt or finance a child's college education.

When deciding on a credit option, ask questions to make sure you fully understand the implications of the terms of the contract in order to protect your collateral and keep your credit rating from being damaged.

*Provided as a public service by the Pennsylvania
Association of Community Bankers.*

Note: These tips are intended to provide accurate, yet general consumer information. They are not intended to provide legal, accounting or other professional services. Please contact a professional service provider for specific questions.