

Use credit to combat those inflation blues

Inflation is eating into the wallets of all of us. More of us are finding that the use of credit is one way we can fight back.

Nationally, according to the Federal Reserve, consumer spending is down, however, that is not as true in the Detroit area.

What is credit? Essentially, it means the ability to use money you have not earned yet because someone — a lender or store owner — believes you will pay the money back.

Your ability to pay back is referred to by creditors as your capacity. And, when you use credit, the one who provides it to you charges you interest.

As more and more Americans are using credit today, it is becoming increasingly important for consumers to look at the pros and cons of it.

Credit can be your best friend when used wisely. When used unwisely, it can destroy you financially.

What are some of the benefits of credit?

FIRST, you can enjoy something immediately without having to wait until you have earned the money to pay for it. This allows you to raise your standard of living.

Many people might not be able to buy some products if they had to save the price before they could buy them.

Many of these kinds of purchases require substantial amounts of cash, and most families and individuals do not have it.

Examples of such purchases are major home appliances, cars, or a college education.

Second, the use of credit allows you to use the item while you pay for it. If you finance a car, you have the pleasure of driving it while you make the monthly payments.

Third, when used wisely, credit can be the way to handle an emergency. If, all of a sudden, the roof starts to leak or the refrigerator "dies," it is nice to know that you can get a new roof or refrigerator quickly and pay later.

This is a form of insurance and illustrates why you should never owe so much that a sudden purchase would exceed the amount of money you can afford to owe.

Fourth is the ease and convenience of credit. Today, most large retailers use credit cards to make it easier for consumers to buy goods and services.

They do not analyze the full debt load but only how much they must pay each month.

Third, impulse buying can increase with the availability of "plastic money" in your wallet. Many purchases would not be made if the consumer had to pay cash. It is easy to charge an

MONEY GO ROUND

By BRENDA L. SCHNEIDER



lot of cash. Most major bank cards are accepted in lieu of cash in shops and restaurants throughout the world.

ON THE other hand, credit also has its dangerous face.

First, you are committing money you haven't made yet. This reduces your future spendable income, and this can be serious should an emergency arise. Also, having your money committed before you even receive it can lead to a life of financial frustration.

Many people begin to develop a sense of hopelessness and foresee a future of never ending creditor payments.

Second is the tendency to adjust your standard of living to a higher level by using credit to buy more than you can afford. Many people view credit from the standpoint of what they can charge and still make a minimum monthly payment.

They do not analyze the full debt load but only how much they must pay each month.

Third, impulse buying can increase with the availability of "plastic money" in your wallet. Many purchases would not be made if the consumer had to pay cash. It is easy to charge an

item, not worrying about paying it later.

Fourth, the use of credit actually reduces your actual spending power. Credit is not free money.

Usually, credit purchases are paid for over a specified amount of time, so interest is charged. Because of this, you should ask yourself if buying the item now is worth the extra money it will cost you.

And fifth, what happens if you cannot make all the payments? You will lose all the money you have paid. You also will get a bad credit rating.

When that happens, it will be harder for you to get credit, if you can get it at all. And, you will probably have to pay a higher rate of interest as the lender will view you as a greater risk.

These are just some of the many things you must consider when it comes to credit. The pros and cons are many and should be considered before entering into any credit agreement.

By fully understanding all the aspects, it can be a good experience.

(The author is director of consumer and urban affairs for Manufacturers National Corp., Detroit.)

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