



## **The Basics of Credit**

For most people, the major purchases in life – home, car, college education – are difficult or impossible without credit. Loans allow you to spread the expense over time, making these purchases affordable.

A good credit record is a valuable asset – and one you should protect. However, if you haven't had the best record in the past that doesn't mean you can't start making changes now to help improve your record for the future. The more you know about how credit works, the better equipped you'll be to use credit responsibly.

### ***What is credit?***

Credit is defined as *confidence in a borrower's ability and intention to repay*. People use the credit they have with financial institutions, businesses, and individuals to obtain loans to buy goods and services.

The credit a person has typically determines how much they will be permitted to borrow, for what purpose, for how long, and at what interest rates.

The level of "confidence" lenders have in potential borrowers depends on many factors. A person's income is an indicator of a person's ability to repay, particularly when compared to the amount of debt they already have. The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention to repay.

### ***Why use credit?***

The reasons people borrow are varied and personal. Loans allow you to obtain goods and services today, such as homes and automobiles, and spread the cost over time. This makes these purchases more affordable than they might otherwise be. Most Americans could not afford homes or cars without the ability to borrow.

Many people who have built up their savings use loans instead because they consider rebuilding their savings more difficult than repaying the loan. Many people who already have the money to pay for items use credit cards because it is more convenient and safer than using cash or checks. They just pay the full balance when the bill comes.

### ***What does responsible use of credit mean?***

Responsible use of credit revolves around the family budget and how much you can afford to devote to loan payments. As a general guideline, borrowing may be justified for automobiles, homes, recreational vehicles, education, home improvements, and other purchases that have value lasting beyond the time it takes to pay them off. Borrowing to pay for daily expenses such as groceries, gasoline, and utilities is often a recipe for trouble. These bills will often accumulate faster than you can pay them off.

Responsible use of credit also refers to living within your means. You should limit the size of the home you buy or the price of the car you drive by the size of the monthly payment you can comfortably afford. We can help you determine what monthly payment you can reasonably afford. Heritage Valley's goal as your financial partner is to help give you the information and resources to put yourself on the path to a better financial well-being. When you succeed, we succeed!