DIFFERENT TYPES OF CREDIT

|  |  |
| --- | --- |
| Credit Type | Summary |
| Credit Card | A credit card is a plastic card that you use to buy things on credit or to get cash advances.  If you buy something, you have to pay interest on the loan after a certain period.  A cash advance is cash withdrawn from a credit card account. It’s really a loan from your credit card company. A transaction fee is usually charged for this, as well as interest which is from the date the cash is withdrawn and at a higher rate.  This is an unsecured loan. |
| Store Card | A store card is a form of credit card offered by large stores for you to buy things from their store (and sometimes from some other stores too). Store cards are used like regular credit cards but usually charge much higher interest rates.  This is an unsecured loan. |
| Personal Loan | A personal loan is a one-off loan for personal use such as to buy a car or take a holiday. The contract says what the interest rate is and the period of the loan (usually 2 to 7 years). You pay the same amount each month so that, by the end of the loan period, the total amount has been paid back (including interest).  A personal loan can be secured or unsecured. |
| Secured Loan | A loan for which an asset of yours has been used as security. An ‘asset’ is something you already own – such as your car or your home. The credit provider may sell the secured asset to get its money back if you can’t repay the loan. |
| Unsecured Loan | A loan for which no asset has been used as security. An ‘asset’ is something you already own – such as your car or your home. The interest rate is usually higher than for a secured loan as there is a higher risk to the credit provider of not getting their money back. |
| Interest-free Deals | A retailer may offer interest-free deals but the purchase is interest-free only for a certain period of time. You can buy a higher priced item and make monthly payments “interest-free” (0% interest) for a period of time, typically 12 months to 24 months. Once the time period is over though, the interest rate is often much higher than a normal credit card interest rate, making the purchase more expensive |
| Consumer Lease | This is an arrangement where you rent an item (e.g. a home computer or television) over a period of time. You don’t have the right or option to purchase the item. The total amount you pay will be more than if you paid for the item with cash. You may also have to pay fees and charges.  This is an unsecured loan |
| Rent to Buy | This is an arrangement where you can choose to purchase the item after renting it for a certain period of time or you could continue to rent it.  This is an unsecured loan |

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| Credit Type | Summary | |
| Credit Card  *Unsecured* | A card allowing you to buy things with the bank’s money that you MUST pay back with the possibly of interest. They can have rewards like cash back, points, travel.  Example: Alaskan Miles Card | |
| Store Card  *Unsecured* | A credit card you can ONLY use at the store it’s from. Can have rewards like cash back etc. Usually have higher interest rates than traditional bank credit cards.  Example: TJMax (Homegoods, Marshalls, Ross), Amazon, Target |
| Personal Loan  *Secured or Unsecured* | An individual use loan from a bank. You pull money out one time and then must back pay back over time with interest. Same payment is required each month. Usually for a set amount of time.  Example: Medical bills |
| Secured Loan | A loan that you have to ‘pledge’ a valuable item of property you own to the lender which becomes theirs if your loan is not paid off. Item usually something like your car or home.  Example: Bail bonds |
| Unsecured Loan | A loan that does NOT require an item of property to be pledged (no collateral). Usually have a higher interest rate than a secured loan. |
| Interest-free Deals | A deal from a store or credit card company that provides you with a higher limit than items you are purchasing and provides you with 0% interest rate for a set period of time (12-24 months) but afterwards has a MUCH higher interest rate than a regular credit card.  Example: Mattresses, Cars, Home Depot |
| Consumer Lease | An arrangement where you rent an item (apartment, TV, furniture, computer) over a period of time. You do NOT have the ability to *buy* the item at the end. So over time you might end up paying more than the item is worth. |
| Rent to Buy | A legal contract between buyer and seller to rent an item (house, car) for a period of time and when time is up you can buy the item for the rest of what it’s worth.  Example: Cars |

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| Credit Type | Summary | |
| Credit Card  *Unsecured* | A card issued by bank that allows users to buy goods. Use it as a cash advance. Money MUST be paid back in full along with interest. Credit cards often offer rewards like cash back, points, travel etc.  Example: Chase | |
| Store Card  *Unsecured* | A credit card offered by a store that can ONLY be used at the store or affiliated stores. Has rewards associated with it for the specific store, usually points or cash back. Interest rates are usually MUCH higher compared to credit cards.  Example: Target Red Card |
| Personal Loan  *Secured or unsecured* | A one-time/use loan for a specific amount from a bank for a large sum for purchases (car, trip, home improvements etc.). For a period of time. You pay back the same amount each month in repaying the loan plus interest.  Example: Car loan |
| Secured Loan | A loan where the person borrowing money pledges an asset to the loaner. If the person doesn’t pay on time the loaner gets to keep the asset. An asset is anything worth money (home, car, computer, etc.)  Example: Bail bonds |
| Unsecured Loan | A loan where no ‘asset’ has been secured as collateral. Collateral is something that if you fail to pay back the loan, the loaner gets to keep (collateral is the asset). An asset can be something like a house, car, anything worth money. An unsecured loan carries no risk of losing collateral, but could affect your credit history.  Example: Store card, credit cards |
| Interest-free Deals | Usually for a fixed period of time (12 - 24 months) where the loan is interest free (0% interest). However, after the period of time elapses, an interest rate does apply and it’s usually MUCH higher than other interest rates.  Example: Mattresses, Car, Home Depot |
| Consumer Lease | An arrangement where you rent an item for a period of time but at the end you CANNOT *buy* the item. You normally end up spending MORE than if you had bought item straight out.  Example: TV, house, computer, and apartment |
| Rent to Buy | An arrangement where you rent an item for a period of time and at the end you CAN choose to buy the item or not. If you choose to buy you pay for whatever else the item is worth that you haven’t paid already  Example: Car lease, furniture, electronics, engagement rings |