# Methods of Financing Purchases

## Introduction

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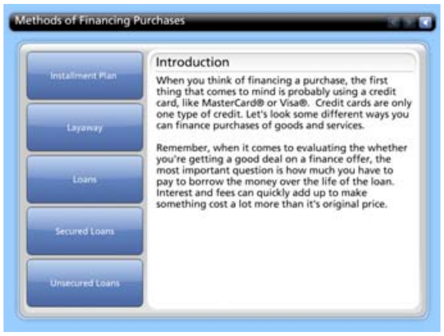


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When you think of financing a purchase, the first thing that comes to mind is probably using a credit card, like MasterCard® or Visa®.  Credit cards are only one type of credit. Let's look some different ways you can finance purchases of goods and services.

Remember, when it comes to evaluating the whether you're getting a good deal on a finance offer, the most important question is how much you have to pay to borrow the money over the life of the loan. Interest and fees can quickly add up to make something cost a lot more than it's original price.

## Installment Plan

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An installment plan is when you finance the cost of purchasing a specific item, like a computer. When you buy an item on an installment plan, the store or business gives you the item to use and you promise to pay the original price plus interest and any fees over a set number of payments, or installments.

If you fail to make your payments on time, the business can charge you penalties, raise the interest rate, or even take the item back. Businesses can make more money on installment plans because they sell products that people might not have bought, and make additional money on the interest charged for the loan.

## Layaway

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Layaway is where the store holds your items for you until you pay for them in full, then you can have the items.  Stores generally charge a small fee for holding the items while you take a couple of months or more to pay for them.  If you fail to make a payment, the merchandise may be returned to the shelves, and you may be charged a cancellation fee.

The benefit of layaway is that you pay minimal fees and no interest to buy the item since you aren't borrowing any money. The downside is that you have to wait until you have paid for the item in full before you get to use it. Layaway plans can be a good way to buy things without increasing your debt load.

## Loans

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With loans, you borrow money to buy something and then pay back the money with interest while you use the item.

Loans fall into two categories: secured and unsecured. Regardless of the loan type, all loans have two things in common: the lender charges interest on any money borrowed, and the borrower has to pay back the loan over a set number of payments, usually due every month.

Let's look at how secured and unsecured loans differ.

## Secured Loans

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With a secured loan, you borrow money to purchase a specific item, and that item, or some other item, is pledged as a guarantee that you will repay the money. The pledged item is the collateral for the loan. The most common secured loans are car loans and mortgages. When you pledge an item as collateral, the lender may take out a lien on the item.

If you don’t repay the loan, the collateral may be repossessed by the lender and resold to pay as much of the debt as possible. If the sale of the collateral isn't enough to pay off the outstanding balance, the lender may take other actions to get money from the borrower.

## Unsecured Loans

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With unsecured loans, you borrow money without pledging any collateral in return. The lender makes the loan based on the belief that you will repay it. Since they are taking a larger risk with an unsecured loan, lenders tend to charge higher interest rates for unsecured loans.

Some common examples are loans for:

- Home improvements
- Vacations
- Payday loans - short term loans intended to cover expenses until a borrower's next paycheck

Just because you didn’t pledge collateral for the loan doesn’t mean the lender can’t collect if you don’t pay. They may be able to other items you own to cover your debt!