

Revolving credit essay



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A bank credit that is negotiated for a specified period; it allows for drawdown and repayment within that period. Repaid amounts can be redrawn up to the agreed limit of the credit. At the end of the loan period there is a bullet repayment of the principal and any outstanding interest; alternatively, a repayment schedule is negotiated for the outstanding principal and interest. In the USA a revolving credit is called an open-end credit.

Explanation: Revolving Credit is a modern-day innovation which evolved because of the special credit needs of certain consumer. Today it has become as extremely successful selling technique for many retailers. Concomitant with its development, a need arose for legislation to effectively regulate this new credit mechanism. In response to this need the states enacted regulatory schemes reflecting a variety of approaches to the problem.

Perhaps the most controversial aspect of the resulting revolving credit laws is the provision denoting the balance upon which the monthly finance charge is assessed. Several techniques for computing the monthly finance charge are in use which allows the computation to be made on a variety of balances, such as the “adjusted” balance, the “previous” balance, and the average daily balance. The basic problem centers around the treatment of payments made during a billing period but prior to the next successive billing date. (Creditor Web, 2007; How Stuff Works, 2007) There appears to be little agreement as to which balance is most appropriate in terms of fairness to both the buyer (credit recipient) and the seller (credit grantor).

Classification of Credit
Remortgage If a homeowner is in need of some money instantly, the best and most common method is to generate some equity against the owned property. A remortgage is comparatively cheap method of borrowing if the property value is higher than the current mortgage. Personal Loan There are basically two types of personal loan. An Unsecured Loan: is where the loan provider is not in need of any security for the credit provided, and the application for loan will be judged on the details provided by the applicant and information held by the Credit Reference Agency. The market of unsecured Loan has become very competitive due this comfort. A Secured Loan: is where the loan provider requires some valued asset e.

g. home, as security or guarantee against the loan from providing the credit. This type of loan, in long term, is usually more cost effective compared to unsecured loan, as the individual will usually payback the loan at lower interest rates. (Investor words, 2007) However, there is one drawback as well, i. e.

the process for approval might be take longer time as it requires more legal verifications. Bank Overdraft There are cases that a bank also settles an attractive overdraft deal with its outstanding customers. In current credit market, as marketing tool, some banks are offering free overdraft to its new customers. (ICC, 2002) This can be very useful way of borrowing if customer requires funds for short periods of time.

Credit Card A Credit card is one of the latest innovations in credit market. A good or evil of a credit card depends solely on the usage of the credit card. (University of Illinois Extension, 2007) It is best if the customer is able to pay

the balance within the free credit period. It is also now advised to use credit card only if there are some money in your balance and not in your pocket at the time of shopping. Since paying after the free credit period can initiate high interest rates.

(Aichen et al., 2004) However, recently, many companies are now offering free periods of generally six months along with some other incentives e. g. reward points. Store Card These are offered by various department stores and large chains for purpose of shopping on their outlets.

It is generally advised to not to be attracted towards such cards as they are backed by high interest rates. The Evolution of Revolving Credit Revolving credit as a separate credit form may be traced back to both the open account and the traditional account since it has some characteristics of each. Open book accounts are the typical 30-day arrangements which allow the account holder to purchase goods and to pay within some given period, usually 30 days, without paying a finance charge for the credit received. Such credit plans find their origin in colonial times in predominantly agricultural areas.

(Walker, Sauter, & Ford, 1974) There is little evidence that separate charges were made for the extension of credit, but since most customers used such plans the cost was built into the price of the goods or service sold. It appears that the 30-day accounts of today are descendents of the 9- or 12-month arrangements of the colonial period. (Johnson & Touches, 1969) In a retail installment contract, an arrangement is reached between the buyer and seller for the payment of the purchase price over an extended period of time.

A finance charge is assisted for the privilege of delayed payment. The agreement is normally closed-end in the further purchases on the same account are not allowed until the first purchase is paid in full.

Finance charges are pre-computed in most instances and added to the purchase price of the goods rather than being assessed on a monthly basis. The arrangement is generally made for the purchase of only one item, and the account may be secured by some additional legal agreement.

Installment credit has become an integral part of credit arrangements facilitating the movement of high priced durable goods from sellers to buyers. (Cole and Hancock, 1961) A revolving credit plan allows the consumer to purchase against a line of credit, which is determined by the store, any amount he desires. If he pays within 30 days, no finance charge is imposed.

However, if total payment is not made in 30 days, some stated portion of the balance, which is also determined by the store must be paid, and the customer is purchaser is assessed a finance charge on the unpaid balance.

The consumer is normally allowed to pay his account in full at any time.

World Financial Capital Bank states: If you make a purchase under a Regular Revolving Credit Plan, no Finance Charges will be imposed in any Billing Period in which (i) there is no Previous Balance or (ii) payments received and credits issued by the Payment Due Date, which is 25 days after the Statement Closing Date shown on your last Statement, equal or exceed the Previous Balance. If the New Balance is not satisfied in full by the Payment Due Date shown on your last Statement, there will be a Finance Charge on each purchase from the date of purchase.

(WFCP, 2007, 14. a) The use of such revolving credit plans has grown very rapidly, and today in many retail stores revolving credit has become the most important credit arrangement. Revolving credit thus evolved out of both 30-day and installment credit and has at least two characteristics of each. Revolving credit is similar to 30-day credit in that the customer may make many small-dollar purchases against either type of account and receive one monthly statement of his account. (Hawkins, 1982) They also are similar in that the customer may pay the account in full within 30 days and avoid financial charges.

Both revolving and installment credit plans allow the purchaser to spread payments for goods acquired over several monthly periods. Each allows the seller to earn a finance charge on the credit balance. Conclusion Not long before, a potential borrower had limited credit options. In terms of both the types of loan available and the kinds of lenders in the business, there were very few alternatives. (Fisch & Berg, 2004) Now, there are as many types of consumer credit available as one can think of.

There are loans available for almost everyone now. Today, many lenders are also providing loans only on word of mouth of the customer i. e. unsecured loans. Concluding, the gates of opportunity are as wide open as could be for every one, only that one has to choose the correct one.