

# CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

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## ARE YOU ADDING UNNECESSARY COSTS TO YOUR PURCHASE PRICE?

You've read, you've compared, and at last you're ready to make your purchase. You're certain you have found the best quality for the least amount of money. As you head for the sales representative, ready to tell him what you want, be prepared! Your work isn't finished yet. You still have decisions to make and they could cost you plenty.

When you purchase a big ticket item like an appliance or an automobile, you need to carefully consider quality and price before making your purchase. But you also have to consider the high cost of add-ons such as financing costs, credit insurance, and service contracts. You might be asked to decide on these additional costs quickly, as you make your purchase. Planning ahead can save you plenty.

### Finance Charges, Including Interest

If you've done your homework and found the best price on the product you want, don't blow your savings in finance charges. All too often, consumers lose out by failing to research financing options. Before you get to the check-out line, you should know how you plan to pay for your purchase.

Many stores offer financing but what they offer might have a high interest rate. Compare the store's finance charges to those of outside sources, including banks, credit unions, and credit card companies. Looking at the Annual Percentage Rates is the best way to make the comparison.

Look out for penalty charges for failing to pay off the balance on time. Some no-interest financing plans carry high-interest charges if you don't pay off the balance in the specified time. The same is true of some "same as cash" offers. Some "90 days, Same as Cash" offers really do allow you 90 days to pay without interest charges, but if you don't get the balance paid in 90 days, you may have to pay interest on your total purchase price for the preceding 90 days as well as the remainder of the loan.



### Credit Insurance

If you finance your purchase, you may encounter an unanticipated charge for credit insurance. The charge is often automatically figured into the cost of financing, and you might not notice it unless you read your contract carefully. But credit insurance is usually unnecessary and can cost hundreds of dollars over the life of the loan.

Credit life and accident insurance guarantees your debt will be paid if you die or are injured or disabled and can't work. The lender – not you or your family – is the beneficiary. It's a good deal for the business but often a bad deal for the consumer. A report by the Consumer Federation of America and the National Insurance Consumer Organization called credit life insurance "by far the most overpriced insurance purchased by many customers."

Most people do not need credit insurance, and in Maryland, lenders cannot require the purchase of most types of credit insurance. Read your contract carefully before signing. One of the places you will be asked to sign your



contract may be a request for credit insurance. So, when the salesperson says “just sign here, here, and here,” read carefully what each signature represents. Ask questions if you don’t understand. If credit insurance is included and you don’t want it, make the lender take it out.

Some consumers don’t realize they have purchased credit insurance until after the deal is finished. If you realize you’ve signed a loan contract that includes credit insurance you don’t want, you can cancel the insurance at any time and receive a prorated refund.

If you want protection for a substantial loan, a separate life insurance policy, taken for the same amount as the debt, will assure repayment. You also can buy private disability insurance or add a rider to your whole life insurance policy. All of these options usually cost much less than credit insurance.

### Service Contracts

As the salesperson rings up your purchase, they may turn to you and ask, “Would you like to buy a service contract?” Service contracts, or extended warranties, are often offered – at an additional cost – for automobiles, electronics products and home appliances. Like manufacturers’ warranties, service contracts provide repair or maintenance for a specific period of time.

Service contracts may sound like a good deal, but they are often unnecessary – 80% of purchasers never use them. Even for the 20% who do use them, it might have cost less to pay for the repair than it cost to pay for the service contract. Often, the extended warranty overlaps the manufacturers’ warranty that comes with the product. In addition, when you purchase a service contract, you are assuming your equipment will break down and need repair. If you properly research your purchase before you buy, you can reduce the chances of buying a product of poor quality.

If you are considering a service contract:

- Make sure it covers all costs of repairs, including labor and parts.
- Make sure it begins when your regular warranty ends, so you are not purchasing duplicate coverage.
- Make sure you can get service at a convenient location.
- Find out who backs the contract. Sometimes consumers try to use their extended warranties only to find that the company that backed it is no longer in business and cannot pay claims.

- Is the coverage available later, or by another means? Ask if you can decide later to buy the extended coverage and how much it would cost. Even if the store won’t sell it to you later, service contracts often are available from repair shops and service companies. Or you might automatically get extended coverage if you purchase the product with your credit card. Some credit card companies offer the service. Call your card issuer for terms and conditions.

Service contracts can generate more profit for the retailer than the merchandise does, as retailers receive as much as 50% or more of the price of the contracts as a commission, according to Consumer Reports magazine. How can credit insurance companies pay such high commissions? Only 4-15% of the money paid for service contracts is ever paid out in claims.

Remember, you should already know which, if any, of these add-ons you want to purchase before you go to the store. If you are offered any other types of add-ons, just say “no thank you.” If the retailer won’t permit you to purchase the add-on later, after you have a chance to think about it, it probably isn’t worth much.

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## HOW TO CONTACT US

### Consumer Protection Division

200 St. Paul Place, 16th Fl., Baltimore, MD 21202

- **General Consumer Complaints:** 410-528-8662  
Toll-free: 1-888-743-0023 TDD: 410-576-6372  
En español: 410-230-1712  
9 a.m. to 3 p.m. Monday-Friday  
[www.marylandattorneygeneral.gov/Pages/CPD/](http://www.marylandattorneygeneral.gov/Pages/CPD/)
- **Health Consumer Complaints:** 410-528-1840  
Toll-free: 1-877-261-8807 TDD: 410-576-6372  
9 a.m. to 4:30 p.m. Monday-Friday  
[www.marylandcares.org](http://www.marylandcares.org)
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: [www.marylandattorneygeneral.gov/Pages/contactus.aspx](http://www.marylandattorneygeneral.gov/Pages/contactus.aspx)

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