Consumer's Edge
Consumer Protection Division, Maryland Office of the Attorney General
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No-Interest Financing Can Cost You Plenty

"0% Interest for 6 months"
"No Interest for 12 months"

"Free Financing" offers seem to be everywhere these days. If you are a careful consumer and read all of the fine print, you might be able to save some money with a "no-interest" buying plan. But beware — many no-interest offers carry hidden charges that can more than make up for the interest charges, or are not really offering what they claim.

Here are some questions to ask before you sign up for a "no-interest" financing plan:

- Will you have to pay interest and then get it refunded back to you at a later date?
- What happens if you cannot pay off the full purchase price by the designated date?
- If you end up having to pay interest because you cannot pay off the full purchase price, what interest rate will you be charged and when will it begin accruing? Would you be better off using your lower-interest bank card?
- Is the price of the item inflated to make up for the lack of interest?

Hidden costs

"No interest" financing plans can carry some hidden costs. Here are some you might encounter:

- **Zero interest only if full payment is on time.** In many zero-interest programs, you do not have to pay interest for the first six months, or whatever period of time is advertised. However, if you do not pay off the full price of the purchase within that time period, you will then be charged interest on the entire purchase amount dating back to the purchase date, even if you have paid off most of the balance. The interest rate charged

by the store could be 20 percent or more – often higher than most bank credit cards. More than half of the consumers who signed up for "no-interest" financing plans with one company did not pay off the balance in the time required and ended up paying interest.

- **Interest paid but rebated.** In some no-interest programs, your payment each month does include an interest charge. If you make all of your payments on time and pay off the entire purchase price by the agreed-upon date, the interest you have paid is credited back to you. If you miss a payment, pay late one month or do not pay off the whole balance by the end of the agreed upon period, you forfeit your rebate.

- **Inflated prices.** Some stores offer no-interest financing but inflate the selling price to make up the difference. An advertisement from a large appliance chain offered a choice: no interest for six months or $150 off the purchase price. Another chain offered comparable 35-inch televisions: $1,499 with no interest for 15 months, or a similar TV for $999 without the no-interest offer.

- **Minimum purchase requirements.** No-interest financing offers can include minimum-purchase requirements or may apply only to specific brands.

- **Store credit card catches.** If you make your purchase on a store credit card on which you carry a balance or make other purchases that are not no-interest financing, you might have to make two payments each month: a minimum monthly payment and the payment due under the zero-interest program. Read your billing statement carefully to understand what payments you have to make and when they are due.

If you are interested in a zero-interest offer, read the fine print in the advertisement and the financing agreement. Make certain you understand exactly how the zero-interest program of the store works. There are many different types of programs. Also, if you are not familiar with the price of the product, comparison shop to make certain the product is not available elsewhere at a substantially lower price. A zero-interest purchase will save you money only if you are able to comply with the terms of the program and the purchase price is a reasonable one.

Can You Compare the Costs of Paying for Things Over Time?

Unfortunately, the answer is, not always. In 1968, Congress passed the Truth in Lending Act requiring merchants to disclose to consumers borrowing money or purchasing goods over time the Annual Percentage Rate (APR) of interest. For transactions regulated by that law, all merchants must compute the APR the same way and consumers can easily compare the cost of credit.

However, alternative forms of consumer credit transactions, such as rent-to-own and auto leases, are in the marketplace. For the time being, merchants using these forms of credit transactions are not required to disclose the APR. It is therefore extremely difficult for consumers to compare the cost of credit when entering into such transactions. Although it is not as accurate or easy as comparing APRs, consumers entering into these transactions need to find out the total amount of money they will end up spending under the contract. They can then compare that total cost with the total cost they will pay under other forms of credit. The bottom line is that consumers must always learn the cost of the credit before signing on the dotted line in any contract.

How to contact us

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  9 a.m. to 3 p.m. Monday-Friday
  www.marylandattorneygeneral.gov/Pages/CPD/

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  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

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