

Consumer Advisory: Beware Holiday Shoppers Deferred Interest Promotions Promise 0% Now But Can Cost Big Bucks Later

FOR IMMEDIATE RELEASE: November 16, 2016 || **Contacts:** Chi Chi Wu (cwu@nclc.org) or Jan Kruse (jkruse@nclc.org), 617.542.8010

(BOSTON) As Black Friday approaches, kicking off the busy holiday shopping season, the National Consumer Law Center warns shoppers of a lurking danger in the local mall or big box store: deferred interest promotions on credit cards. These promotions entice consumers with promises such as “no interest for 12 months” or “0% interest until December 2017,” but there is a hidden time bomb at the end.

Consumers who don’t pay off the entire balance before the promotional period ends will be hit with a huge lump sum interest charge going back to the date that they bought the item, even on amounts that have been paid off. For example, if a consumer buys a \$2,500 stereo system on November 25, 2016 using a one-year 24% deferred interest plan, then pays off all but \$100 by November 25, 2017, the lender will add to the next bill nearly \$400 in interest on the entire \$2,500 dating back one year. Last year, the National Consumer Law Center issued a report *Deceptive Bargain: The Hidden Time Bomb of Deferred Interest Credit Cards*, which details the risks and abuses of these promotions.

Deferred interest promotions are offered at many stores, including Walmart, Sears, J.C. Penney, Macy’s, Lowe’s, and Best Buy, where they are used to sell big-ticket items, such as electronics or appliances. The biggest credit cards issuers offering deferred interest are Synchrony Bank (formerly known as G.E. Capital) and Citibank. And the practice is growing: A December 2015 study by the Consumer Financial Protection Bureau (CFPB) found that deferred interest purchases grew nearly 21% from 2010 to 2013.

“Deferred interest promotions are one of the biggest credit card traps on the market today,” said National Consumer Law Center staff attorney Chi Chi Wu, who authored the deferred interest report. “‘No interest’ sounds tempting now, but you could end up in the trap of huge interest payments later.”

Wu noted that the Federal Reserve Board found that deferred interest plans were so deceptive that the Board banned them in 2009, but then reversed itself under pressure from retailers. The CFPB has also called the plans “the most glaring exception to the general post-CARD Act trend towards upfront credit card pricing.”

Pitfalls of deferred interest plans include:

- **Confusion and deception.** It’s hard to understand the complicated and confusing nature of these promotions.
- **Minimum payments don’t pay off the balance.** If you make only the minimum payment, you’ll inevitably be hit with retroactively assessed interest.
- **“Life Happens.”** One of the biggest risks with deferred interest is when something

unexpected happens, like a job loss or serious medical condition, and you can't pay off the purchase by the end of the promotional period. You'll be socked with a huge lump sum of retroactive interest at the worst possible time, when you can least afford it.

- **High Annual Percentage Rates (APR)s.** Deferred interest credit cards typically carry very high interest rates, with an average of 24% and as high as 29.99%, compared to a typical APR of 14% for mainstream credit cards.
- **Difficulty avoiding retroactive interest if you make other purchases.** A particularly thorny problem happens when you make another purchase using the same credit card that does not have a deferred interest promotion. Most of your payments above the minimum will be applied to the other purchase, making it nearly impossible to pay off the deferred interest balance.

Wu urged that deferred promotion plans be abolished. "Six years after the passage of the Credit CARD Act was enacted, which eliminated many of the worst credit card abuses and has saved families billions of dollars, it is well past-time to get rid of one of the last tricks and traps for credit cards," she said.

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Related Resources

Report: *Deceptive Bargain: The Hidden Trap of Deferred Interest Credit Cards*, Dec. 2015:
<https://nclc-old.ogosense.net/issues/deceptive-bargain.html>

NCLC's body of work related to consumer protections related to credit cards:
<https://nclc-old.ogosense.net/issues/credit-cards.html>