

**STOCKTON CENTER FOR
ECONOMIC & FINANCIAL LITERACY**
THE RICHARD STOCKTON COLLEGE OF NEW JERSEY



**Stockton Peer Financial Education Program
Buying Stuff: The Good, The Bad, and The Ugly**

Many people use credit cards when shopping in their favorite stores. College students are no exception. Credit is necessary to keep up your credit score, but do you know how to use credit? People make mistakes by overusing store credit cards and by not paying more than their minimum balance. While store credit isn't a bad thing, you can get "ripped off" easily. You must also be cautious when using PayPal or if you "rent" items from companies like Rent-A-Center or if you make a habit of putting items on layaway. You **MUST** pay more than the minimum balance each month to avoid paying far more than your items are worth.

1. A minimum payment is NOT a credit card company's friendly suggestion of what you should pay according to how much they think you should budget for your bills.
2. A minimum payment is NOT an amount created by the credit card company in an attempt to get your balance paid off in a reasonable amount of time.
3. A minimum payment is NOT the payment you should be making.

Making only the minimum payment will keep you in debt. Credit card companies want you to keep making the minimum payment because they know if you get into this pattern they are going to earn a substantial amount of interest from you.

An Example...

Assume a credit card balance of \$1,000 has an APR (Annual Percentage Rate) of 18%. When you break the APR down to 12 monthly periods, you end up with a 1.5% finance charge per month. For this example, also use the assumption that the card calculates a minimum payment of 2.5% of the balance. This means your minimum payment in the first month is \$25, or $\$1,000 \times 2.5\%$. With the card's APR of 18% or 1.5% per month, that means of that \$25 payment only \$10 is being applied to the balance while the other \$15 is paying that month's finance charge. During the next month, your remaining balance is now \$990 so your next minimum payment would be calculated as \$24.75 ($\$990 \times 2.5\%$). For this payment \$14.85 covers that month's finance charge while \$9.90 is applied to the balance.

As you can see above, you have made almost \$50 in payments only reduced your balance by \$19.90. If you were to continue paying only the minimum and the features of this card remained unchanged, it would take 153 months or almost 13 years to pay off a \$1,000 initial balance. This would result in paying \$1,115.41 on just interest alone, more than the amount of the original balance.¹

NOTE: Keep in mind that you will rarely find a store credit card with an APR as low as 18%!

Did You Know?

- 38.6% of all credit cards issued are store and retail credit cards.
- 84% of college undergraduates have at least 1 credit card.
- Department store credit cards are easier to get approved for.
- Interest rates are usually far over 20% on store credit cards.
- You will end up paying far more for an item you buy with a store credit card than you would if you had used cash if you only pay a minimum balance each month.²

What to Avoid:

- Avoid spending more than you can afford. If you can't afford to pay more than the minimum balance, you will pay much more in the long run. The less you pay off each month, the more profit for the lender.
- Pay attention to the APR on department store credit cards. Some are variable, meaning they can rise quickly if you miss a payment.
- Some stores offer "perks" with the use of their credit cards, but READ THE FINE PRINT. Some stores require you to use the card a certain number of times or spend a certain amount of money (perhaps what you can't afford) to get the benefits.

What is PayPal and is it Safe?

PayPal is an e-commerce business owned by eBay that allows payments and money transfers to be made through the Internet. A PayPal account can be funded with an electronic debit from a bank account or by a credit card. The recipient of a PayPal transfer can request a check from PayPal, establish their own PayPal deposit account or request a transfer to their bank account. *PayPal is as safe as any online bank.*

1. PayPal is guaranteed against fraud and identity theft. PayPal guarantees 100% protection against unauthorized payments from your account. Every transaction is confirmed by email to the PayPal account holder. Any transaction you wish to dispute will give you access to a 24/7 support team of analysts who will sort out your problem for you.
2. eBay purchases can also be insured up to \$1,000 through PayPal. A service called "PayPal Buyer Protection" is another way that PayPal will certify that certain sellers are trustworthy.
3. PayPal's Anti-Fraud Team works 24/7.
4. Many other PayPal safety measures distinguish the service from its competitors.

Currently, PayPal operates in nearly 200 markets, and it manages more than 250 million accounts. PayPal allows customers to send, receive, and hold funds in 24 currencies worldwide.

THINGS YOU SHOULD LOOK OUT FOR WHEN SHOPPING ONLINE:

- Look for a security symbol before disclosing personal information.
- Use a secure browser on your computer.
- Keep personal information private unless you know who's collecting it, why, and how it's going to be used.
- Look for a privacy policy on every Web site that asks you for personal information.
- Look for a privacy seal for added assurance that a Web site complies with credible privacy principles.

The Rent-to-Own Scam

Many people choose to go to a store like Rent-A-Center because they think of it as a cheaper alternative to purchasing a new big screen TV or new furniture. However, this is not the case. Rent-to-own companies charge extremely high interest, which actually means you pay MORE to rent an item than you would to buy it! This is not what most people expect. With a payment spread out over a period of weeks, you feel like you're not paying as much as you would if you paid for the item in full. However, in one example from consumerist.com, a sofa and loveseat combo that originally cost \$1,048 will actually cost \$2,806.96 to rent from Rent-a-Center! This calculates to an APR of 122%. This is obviously not the way to go when looking to buy new furniture or electronics.³

Suggested Further Resources:

Federal Trade Commission (FTC). Online Shopping and E-Payments information is located at

<http://www.ftc.gov/bcp/menus/consumer/tech/online.shtm>

Federal Trade Commission (FTC). Defer, Detect, Defend: Avoid ID Theft. Available at

<http://www.ftc.gov/bcp/edu/pubs/consumer/idtheft/idth01.shtm>

New Jersey Department of Banking and Insurance. Consumer Alert: Not All ATMs are What They Seem. Available at

http://www.state.nj.us/dobi/division_consumers/finance/consumeralert_atm.htm

Calculator tool to tell you what paying your minimum balance will really cost you at

<http://www.creditcards.com/calculators/minimum-payment.php>

Information about layaway and making online payments at <http://www.ftc.gov/bcp/menus/consumer/tech/online.shtm>

Information about several commonly used store credit cards and their catch. At

<http://www.mainstreet.com/slideshow/moneyinvesting/credit/debt/store-credit-cards-rip>

References:

¹ <http://financialplan.about.com/od/creditdebtmanagement/a/minipaym.htm>

² <http://www.indexcreditcards.com/finance/creditcardstatistics/2010-report-on-credit-card-usage-facts-statistics.html>

³ <http://consumerist.com/2007/03/rent-a-center-more-like-ripoff-center.html>

For further information about Peer Financial Education, contact:

Dr. Deborah M. Figart, Professor of Education and Economics

Director, Stockton Center for Economic & Financial Literacy

Deb.Figart@stockton.edu