

Interest-free deals



Factsheet

August 2011

Tempted by that new plasma TV or home theatre system, but don't have the money right now?

Many major department stores offer interest-free deals that let you take goods home before you pay for them.

But think carefully before you sign up for one – interest-free doesn't mean cost-free.

How do interest-free deals work?

- ▶ Most larger stores offer **interest-free deals** for items like computers, electrical appliances, lounge suites and other household goods. For some, you pay a deposit upfront. For others, you don't pay anything upfront.
- ▶ There are usually two ways you can pay for interest-free deals:
 - ▶ **Regular monthly payments** (payment by instalment).
 - ▶ **Buy now, pay later** (deferred payment): you do not need to make any payments until the end of the interest-free period, at which time the full amount is payable, together with fees and charges.
- ▶ Different retailers offer different deals, so make sure you know exactly what you're being offered. Ask questions before you sign up for anything.
- ▶ With an interest-free deal, you almost always end up with a **credit card** or **store card** that has a higher limit than the cost of the goods you are purchasing.

Maya wasn't tempted to buy more than she needed



We went shopping for a new fridge and dishwasher and decided that an interest-free deal would be good for us because, after renovating, we didn't have enough cash to pay for them. My husband wanted to get a new plasma TV and home theatre as well, because the salesman said we could bundle it all together.

But when I asked what would happen if we didn't manage to pay everything off within the interest-free period, I was shocked at how much more it could cost us. They charge you nearly 30% interest on whatever you haven't paid off!

There was no way we could afford to risk that on top of our mortgage. So we only got the kitchen stuff interest-free. We're paying more than the minimum monthly amount to make sure we pay it off in time, so I'm happy. And my husband will just have to wait until we've saved up for a new TV!



TIP Watch out for these hidden traps

Watch out for the end of the interest-free period

- ▶ Your credit provider is under no obligation to remind you when the interest-free period is due to run out, so you need to keep on top of this yourself. If you do not repay the total amount of your purchase by the end of the interest-free period, your credit provider will start **charging you interest**. To avoid this, always aim to repay the debt early.
- ▶ The interest rate charged if you do not repay during the interest-free period could be very high – up to 30%, compared with standard interest rates on credit cards, which average between 12% and 20%.



The minimum monthly payment is often not enough

- ▶ If you're paying by instalment, the **minimum monthly payments** suggested by the retailer who signs you up (or that appear on your monthly statement) are often **not enough** to pay off the full purchase price before the interest-free period runs out. This means you may be left with a large outstanding amount to pay at the end of the interest-free period. So make sure your agreed repayments are enough to pay off the full amount within the interest-free period.
- ▶ Once you've signed an agreement, you may find you cannot make **extra payments** beyond those agreed to in your contract. So even if you want to pay out the deal early and get the debt out of the way, you will be unable to do so.
- ▶ Don't rely on the credit provider's assessment of whether you can afford the loan—work out how much you will need to repay each month to **pay it off in full** and on time, including the account-keeping fee, and make sure you are confident you can afford it before you sign up.

Interest-free doesn't mean fee-free

- ▶ While an advertisement may have a headline like 'no deposit, no interest, nothing to pay today', in most cases you will still be charged fees. These could include an **establishment fee**, a **monthly service fee** and a **late payment fee**. For example, if you sign up for an interest-free deal over four years, the monthly service fee alone can add up to several hundred dollars.
- ▶ Before you sign anything, ask about all the fees and charges so you can include them when you're working out what your monthly repayments need to be.

Store cards may cost you more

- ▶ Interest-free deals can encourage you to spend more, especially when a retailer provides you with a **store card** along with your interest-free deal.
- ▶ You'll often find that your new store card has a **credit limit** that's higher than the value of your interest-free purchase, so you've actually been given a new credit card and may be tempted to purchase more goods on credit. Instead of automatically accepting a higher limit, ask for it to be lowered to the amount of the debt (that is, the full purchase price).
- ▶ Store cards can be an **expensive way to shop**, as they usually have higher interest rates than regular credit cards. Also, extra purchases you make on your store card will not attract the interest-free terms you signed up for in the first place.
- ▶ If you already have a credit card, compare your current interest rate with that of the store card – chances are you will be much better off continuing to use your existing credit card for any future purchases. It may be better to just cut up the store card that came with the interest-free deal.

Terms and conditions can be complicated

- ▶ If you do decide to go ahead, make sure you know exactly what you're getting into. For example, you may be charged **account-keeping fees** and penalties if you miss repayments, break the agreement or pay it off early.

Interest-free may not be the best way to buy something

- ▶ Interest-free deals can encourage impulse buying – for things you want rather than truly need. Don't let a bonus offer or pushy salesperson pressure you into a quick sale that you haven't had time to think about properly.
- ▶ Take the time to explore all your purchasing options first. You may be better off waiting a while and saving up for the item.
- ▶ Consider **lay-by**. This option may not be widely promoted, but is usually available if you ask for it. With lay-by, you pay your purchase off in instalments, with no extra fees or charges. Of course, you have to wait until you've paid it off in full before taking your purchase home, but you will save a lot of money in fees and avoid getting hit with hefty interest charges.
- ▶ If you still want to go interest-free, remember that many stores offer deals like these. So **shop around** for the best price on the goods and the best terms on the interest-free deal!



Six steps to smarter borrowing

Step 1.

Work out if you can afford to borrow

- ▶ Before you get an interest-free deal, use our **budget planner** at moneysmart.gov.au to see exactly where you spend your money and how much you can afford in repayments.
- ▶ Think about whether you can save up the money for the item, or put it on **lay-by**. By doing this you won't pay interest or fees, so it will cost you less. You may also get a discount if you pay in cash.
- ▶ Alternatively, see if there are other cheaper forms of credit available.
- ▶ If you're on a low income, you may qualify for a loan through the **No Interest Loan Scheme (NILS®)**, which offers small loans for specific purposes, like buying a fridge or washing machine. To find your nearest provider, go to goodshepvic.org.au or call ASIC's Infoline on 1300 300 630.

Step 2.

Shop around for the best deal

- ▶ If you decide to borrow, take the time to compare interest rates and product features, and make sure you understand all the **fees and charges**.
- ▶ Ask questions about the **terms and conditions** of the credit contract so you know what you're getting into. Find out if there are penalties for missed repayments or paying off the contract early.
- ▶ If you are provided with a credit card along with your interest-free deal, shop around online to compare the card with other cards.
- ▶ Research published by the independent consumer group CHOICE can also help you find the right product for your needs and budget – see choice.com.au.

Step 3.

Know who and what you're dealing with

- ▶ Anyone who wants to engage in credit activities (including brokers) must be licensed with ASIC or be an authorised representative of someone who is licensed. If they aren't, they are operating illegally.
- ▶ There is currently an exemption from licensing for credit assistance provided through some businesses (for example, retail stores and car yards). While the store may be exempt, the actual credit provider must still be licensed. If you are unsure who the credit provider is, ask the person you are dealing with to point out the name in your credit contract.
- ▶ To find out if a credit provider is licensed, visit moneysmart.gov.au or call ASIC's Infoline on 1300 300 630.
- ▶ Anyone engaging in credit activities (for example, by providing credit or assistance to you) must give you either a **credit guide** (with information such as their licence number, fees and details of your right to complain) or a written notice with details of your right to complain about their activities.

Step 4.

Keep up with your repayments

- ▶ Make your own **repayment plan** so that you pay off your purchase in full by the end of the interest-free period.
- ▶ If issued with a **store card**, check the interest rate and fees before using it to make additional purchases. Avoid the temptation to buy more than you actually need. If you do want to buy more on credit, it will usually be cheaper to use a regular credit card than a store card.



Six steps to smarter borrowing

Step 5.

Get help if you can't pay your debts

- ▶ **Act quickly** if you are having trouble making repayments. It may be difficult to face the problem, but ignoring it will only make things worse.
- ▶ If you can't make the full repayment, pay what you can. Contact your credit provider without delay.
- ▶ If you are experiencing financial difficulties, you have the right to apply to the credit provider for a **hardship variation**. If the credit provider refuses, you can complain to its independent dispute resolution scheme for a variation on the grounds of hardship (see step 6 below).
- ▶ There are places you can go for help – visit moneysmart.gov.au for sample letters and information about support services such as financial counselling and legal assistance, call the National Debt Helpline on 1800 007 007 or call ASIC's Infoline on 1300 300 630.
- ▶ See our factsheet *Can't pay your debts?* at moneysmart.gov.au.

Step 6.

Complain if things go wrong

- ▶ Try to resolve your problem with your credit provider first.
- ▶ If you aren't satisfied, take your complaint to your provider's **independent dispute resolution scheme**, the Australian Financial Complaints Authority (AFCA). Go to afca.org.au or call 1800 931 678.
- ▶ If you think that a credit provider has acted unlawfully or in a misleading way, you can complain to ASIC online at asic.gov.au or call ASIC's Infoline on 1300 300 630.



moneysmart.gov.au

ASIC Infoline: **1300 300 630**

Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

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