Beware Holiday Shoppers: Deferred Interest Promotions Promise 0% Now, but Can Cost Big Bucks Later

FOR IMMEDIATE RELEASE: November 13, 2017 || **CONTACTS:** Chi Chi Wu (cwu@nclc.org) or Jan Kruse (jkruse@nclc.org), (617) 542-8010

(BOSTON) As Black Friday approaches, the National Consumer Law Center warns holiday 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 2018," but there is a debt trap 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 diamond necklace on November 25, 2017 using a one-year 24% deferred interest plan, then pays off all but $100 by November 25, 2018, the lender will add to the next bill nearly $400 in interest on the entire $2,500 dating back one year. In December 2015, NCLC 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 Amazon, Apple, Sears, J.C. Penney, Macy's, Home Depot, and Best Buy, where they are used to sell big-ticket items, such as electronics or appliances. The biggest credit card issuers offering deferred interest are Synchrony Bank (formerly known as G.E. Capital), Comenity Capital Bank, and Citibank. While there are a number of well-known retailers that offered deferred interest, one prominent retailer has dropped the product: Walmart, which instead offers true 0% interest promotions.

"Deferred interest promotions are one of the biggest credit card traps on the market today," stated National Consumer Law Center staff attorney Chi Chi Wu, who authored the report. "Avoid them at all costs. No interest sounds tempting now, but you could end up in the trap of huge interest payments later."

Wu also encouraged retailers to follow Walmart's lead, stating "If the world's largest retailer can eliminate deferred interest, so can other companies, some of whom have much higher margins on their goods." In addition to Walmart, at least one credit card issuer has taken significant steps to stay out of the deferred interest business– Capital One sold off the Best Buy card portfolio that it acquired from HSBC and does not offer deferred interest cards.

Wu noted that the Federal Reserve Board found that the 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, unless you make special arrangements with your credit card company.

Wu urged that deferred promotion plans be abolished, stating "Eight years after the passage of the Credit CARD Act, it is well past-time to get rid of one of the last tricks and traps for credit cards."