Beware Holiday Shoppers: Deferred Interest Promotions Promise No Interest Now, but Can Cost Big Bucks Later

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National Consumer Law Center 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, big box store or online: deferred interest promotions on credit cards. These promotions entice consumers with promises such as “no interest for 12 months” or “0% interest until December 2020,” 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 laptop on November 29, 2019 using a one-year 24% deferred interest plan, then pays off all but $100 by November 29, 2020, the lender will add to the next bill nearly $400 in interest on the entire $2,500 dating back one year. NCLC’s report *Deceptive Bargain: The Hidden Time Bomb of Deferred Interest Credit Cards* details the risks and abuses of these promotions.

Deferred interest promotions are offered at many stores, including Amazon, Apple, J.C. Penney, Menards, Home Depot, Zales, 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, 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 began offering true 0% interest promotions in 2017. Walmart subsequently replaced Synchrony as its credit card issuer and switched to Capital One, which does not offer deferred interest cards.

“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 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. “Nine 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.”

For more information about NCLC’s work on credit card abuses, please visit: https://www.nclc.org/issues/credit-cards.html