# NCLC Report: ’Tis the Season to be Wary of Deferred Interest Credit Card Promotions Advocates Urge CFPB to Ban Deceptive Practice

*FOR IMMEDIATE RELEASE: DECEMBER 16, 2015; CONTACTS*

### Advocates Urge CFPB to Ban Deceptive Practice

DOWNLOAD the report, executive summary, charts, and link to an online calculator for comparing deferred interest charges at: http://bit.ly/1MfxZbW

(BOSTON) As holiday shoppers stream into stores and shopping malls, a new report by the National Consumer Law Center (NCLC) warns of a lurking danger: deferred interest promotions on credit cards. *Deceptive Bargain: The Hidden Time Bomb of Deferred Interest Credit Cards* details the risks and abuses of these promotions that are used to promote purchases of big-ticket items.

Deferred interest promotions entice consumers with promises such as “no interest for 12 months” or “0% interest until December 2016.” 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 December 20, 2015 using a one-year 24% deferred interest plan, then pays off all but $100 by December 20, 2016, the lender will add to the next bill nearly $400 in interest on the entire $2,500 dating back one year.

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, which both also offer the promotions through healthcare providers to pay for dental and medical bills. 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 abuses on the market today,” stated National Consumer Law Center staff attorney Chi Chi Wu, who authored the report. “Six 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.” Wu noted that the Federal Reserve Board found that the plans were deceptive and banned them in 2009, but then reversed itself. The CFPB issued a report last week that also highlighted the risks of deferred interest, calling the practice “the most glaring exception to the general post-CARD Act trend towards upfront credit card pricing.”

**Pitfalls of deferred interest plans include:**

- **Inherent deception.** Many consumers do not understand the complicated and confusing nature of these promotions. The CFPB has observed that “there are significant indications that the lack of transparency in this market contributes to avoidable consumer costs.”
- **Minimum payments don’t pay off the balance.** Consumers who make only the minimum

payment – often thinking they are doing what they need to do to avoid interest – will inevitably be hit with retroactively assessed interest.

- **“Life Happens.”** Even consumers who understand deferred interest promotions are at risk. They may expect to be able to pay off the balance by the end of the promotional period, but a job loss or other financial emergency could intervene – imposing a huge lump sum of retroactive interest when families 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.
- **Impact on the most vulnerable.** The CFPB found that more than 40% of subprime consumers are unable to pay off their balances in time to avoid deferred interest, and thus were socked with a lump sum retroactive charge. In contrast, nearly 90% of superprime consumers avoid getting hit with deferred interest. Thus, better-off consumers get the benefit of interest-free financing, while credit card lenders profit disproportionally from financially constrained consumers.
- **Difficulty avoiding retroactive interest when consumers make other purchases**. If a consumer makes another purchase using the card that does not have deferred interest, problems can arise with applying the consumer’s payments to the different balances. Payment allocation is extremely complex and fraught with pitfalls, and it can be nearly impossible to pay off a deferred interest balance while minimizing interest charges.

“The CFPB should simply ban deferred interest promotions, which are inherently unfair,” Wu urged. “The credit card lender’s profits depend on trapping consumers either by confusion or because the consumer cannot pay due to financial problems, thus imposing a huge lump sum retroactive interest charge on those least able to afford it.”

###

Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC’s expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitative practices, help financially stressed families build and retain wealth, and advance economic fairness. www.nclc.org

**CONTACTS: Chi Chi Wu (cwu (at) nclc.org) or Jan Kruse (jkruse (at) nclc.org), 617.542.8010**