

The Consumers' Corner

By Mary K. Simmons

THE COST OF CREDIT

The saying "My credit must be good — everyone has some of it," is only too true of most Americans today. Approximately 80 percent of American families use consumer credit to buy appliances, cars, homes, and clothing. But how many of us really understand the costs of credit and how many of us think about shopping for credit to get the most money for the least interest?

Credit, if used properly, offers people opportunities they might otherwise not experience. However, the continuous surge of time buying can create economic instability. The consumer is exposed to constant buy now-pay later propaganda! This daily 24 hour entreaty over radio, TV, magazines and newspapers has supplied much of the powder in the credit explosion. Easy money



MRS. SIMMONS (left) makes practical application of her own home economics training. Here, in a supermarket at Globe, the author discusses selection and purchase of fresh vegetables with Mrs. Lucy Romero (center) and Mrs. Stella Lara (right). The youngster in the grocery cart is an interested observer.

is reflected in the phenomenal rise in family bankruptcies, the startling increased use of wage attachments, and the rise in debt consolidation.

Dr. Kenneth Galbraith, economist, states one cannot avoid the conclusion that a new class — the indigent debtor — is emerging in America. This class is made

up of people from all walks of life, with a variety of incomes, who have been overloaded and oversold into debts they cannot pay. Our values are changing and we are unwilling to wait for the things we want. This rush into debt makes it impossible for us to plan for future emergencies and family needs.

Results of a Ford Foundation study showed 60 percent of the parents interviewed had not saved any money for their children's education and the 40 percent who were putting away money had saved only \$150 a year. During the past 10 years consumer installment loans made by banks rose four times as fast as deposits.

Many people charge even though they could save considerable sums of money by paying cash. Not only the average citizen, but even the most sophisticated consumer, is incapable of calculating the cost of credit. We buy without asking how much and pay without question.

The consumer has an increasing number of different sources from which he can buy or borrow on time, yet he is incapable of taking advantage of the variety of credit because he is unable to compare cost of credit and then make an intelligent choice. Following are typical credit charges, with charges based on the beginning amount of the loan and included in 12 equal monthly installments.

If Charge Is:	Simple Annual Rates Is:
\$4 per \$100 or 4% per year	7.4%
\$6 per \$100 or 6% per year	11.1%
\$8 per \$100 or 8% per year	14.8%
\$10 per \$100 or 10% per year	18.5%
1% per month	22.2%

If Charged Only on Unpaid Amount Owed:	Simple Annual Rate Is:
3/4 of 1% per month on unpaid balance	9%
5/6 of 1% per month on unpaid balance	10%
1% per month on unpaid balance	12%
1 1/4 % per month on unpaid balance	15%
1 1/2 % per month on unpaid balance	18%
2 1/2 % per month on unpaid balance	30%

A number of states have passed legislation that protects the consumer. New York laws place a limit on credit service charges, require that charges be clearly itemized, require the seller give the buyer a copy of the contract, forbids taking a contract signed in blank, gives the consumer the right to prepay account at any time and get credit for unearned charges, prohibits fine print, and defines and limits revolving credit plans. Massachusetts has recently passed laws making the seller tell the cost of credit in terms of simple annual interest.

It is amazing how many people will willingly accept whatever credit terms are offered them. It is more important to compare when you buy on credit than when you pay cash. If you can't understand the terms you might find yourself tied to a contract that will pull you down into financial bankruptcy. Don't let anyone overload you with debt. There is nothing easy about "easy" credit. When you can — pay cash!

If you use credit, also use knowledge, perseverance and be willing to study and learn from credit counselors, banks, credit unions and extension educational programs to become aware of your consumer rights.

This is third article of a series written by the Gila County Extension Home Economist.