Date: Dec. 3  
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From: Roxie Dinstel via Ronda Boswell  
Re: Pinching Pennies to run Monday, Dec 9  
Additional Contact: Debbie Carter, information officer, 474-5406, dscarter@alaska.edu

NOTE: PLS. RUN THIS COLUMN ON DEC. 9

The National Retail Federation estimates that consumers will spend $602 billion during the holiday shopping season. This is an increase of 37 percent over last year. How you pay for this shopping spree can affect your finances for the rest of the year.

Credit card companies are getting quite creative in enticing you into purchasing during the holidays. Deferred interest cards are the latest entry into the crowded credit card market. Knowing exactly how this type of card works will help you make the decision of whether it is a good choice for you.

Deferred interest cards are advertised as “0 percent financing for 6 months” or “special financing.” These cards defer interest for a specified time from 6 to 18 months. The devil is in the details, however. Deferred interest credit cards allow you to pay for your purchases interest free for a certain amount of time. It sounds like a good deal, but there is a catch. If you don’t pay off the whole amount within the specified period, you owe interest on the whole purchase price, even the part you have already paid off. The interest rates are also at much higher rates, many as high as 25 percent.

Let’s check an example of how it could work. Say you spend $1,000 on a couple of big ticket items for Christmas. If you choose to use your regular credit card at 15 percent (today’s average rate) and pay it off in one year, you will pay $86 per month and a total of $88 interest. The deferred rate credit card if paid within the 12-month period would be $83.40 per month, with no interest costs. If life intervenes, as it often does, and you take 13 months to pay for it, the cost goes up considerably. You will pay $107 per month and will be responsible for a total of $109 in interest when you are paying the 25 percent rate that is common on deferred payment cards.

Take these costs into consideration when you think about taking advantage of some of the sales during the season. When you add the cost of financing — no matter what type of
credit card you use — it may easily negate any savings you might get on those holiday sales.

How do you know exactly what the terms are on any credit card? The small print on the information that comes with the credit card will tell you the terms. But the terms are often complicated to understand and in microscopic print that is difficult to read. At least, the same information is available on the web and you can increase the font where it is readable. A recent study by J.D. Powers found that only 47 percent of us know what the terms of our credit card are. Not knowing can put you at serious peril in your financial life. If you don’t know the terms on your credit cards, now is the time to find out exactly what they are. Make it your new year’s resolution to find out the terms on your card.

Deferred interest credit cards can be an excellent tool to finance a short-term purchase, but only if you can pay it off within the specified time period. It takes planning and discipline to use these cards to your advantage.

Roxie Rodgers Dinstel is a professor of extension on the Tanana District Extension Faculty. Questions or column requests can be e-mailed to her at rrdinstel@alaska.edu or by calling 907-474-2426. The Cooperative Extension Service is part of the University of Alaska Fairbanks, working in cooperation with the U.S. Department of Agriculture.

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