



Extension News Column

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Re: Pinching Pennies

“Zero percent financing!” “Best interest rate!” “Free shipping!” “Rebate!” These offers barrage us from all sides. But are you getting a good deal? Most of us believe the numbers that are thrown around by these advertisements. If you don’t check the math, you accept the claim and might even pay more for an item.

Here are some actual sales pitches and how to interpret them:

- “Earn six times the national average interest rate when you open a money-market account online with our bank.” This goes back to the idea of comparing apples to apples. The bank may be comparing their money-market rates with other banks’ money-markets, or maybe with standard passbook savings, or any other type of savings account. Ask questions about any offer until you are comparing similar accounts. Right now with passbook savings wavering around the .25 percent rate, six times that rate still isn’t a very enticing amount.
- “Add \$30 to your order to qualify for free shipping.” Free is a word that strikes an emotional chord with most of us. I had selected a \$70 item, when this one popped up. So I went back to shopping to find a \$30 item. Soon, I had found another item for \$50, when I came to my senses. They had almost talked me into spending an additional \$50 to save \$7.99. Buy what you want, and if the freebie works, good for you. But don’t buy what you don’t need.
- “Zero percent financing or a \$2,500 instant cash rebate on all 2011 vehicles.” Many people automatically go for the zero percent financing, but is that the best way to go? If a vehicle costs \$16,000 and you finance it at zero percent, your payment would run \$445 for 36 months. By financing the vehicle somewhere else at 5 percent, you will receive a rebate of \$2,500. Use that money as the down payment and you’ll pay \$404 a month.

- Always run the numbers before you choose which way to finance. The devil is in the details on this one, though. Only the best customers qualify for the zero percent rate, those with a high credit rating. In addition, the special deals are offered on a limited range of vehicles. If you want a small car, the offers are slim. The deals are on the big vehicles and SUVs. Negotiate the cost of the car and focus on that before deciding whether to choose the zero percent or rebate. Remember that not all vehicles come with a rebate or zero percent financing.
- “This bed sells for 50 percent off the manufacturer’s suggested retail price.” The manufacturer’s suggested retail price (MSRP) is a sales tool that is used to promote luxury goods. Letting you know what the MSRP gives you a “price anchor” in your mind. It suggests that the item is more valuable and you won’t even try to negotiate. Suggested prices can also be increased, allowing retailers to show the excessive price and then their actual selling price, implying to customers that they are getting a bargain. Know what similar items are selling for and don’t be confused by the MSRP.
- “Mortgage rates near 30-year lows!” “Rates as low as one percent!” “Loan amount \$300,000 — pay only \$900 per month!” Ads with “teaser” short-term rates or payments like these don’t often disclose that a rate or payment is for a very short introductory period. If you don’t nail down the details in advance about your rates and payments for every month of the life of your loan, expect payment shock when the rate and payment increase dramatically.
- “Important Notice From Your Mortgage Company.” “Open Immediately — Important Financial Information Enclosed.” “Please do not discard — account information enclosed.” Appearances can be deceiving. Mailers that have information about your mortgage and your lender may not be from your lender at all, but rather from another company that wants your business. Companies can legally get your information from public records. Before you respond to any offer, review it carefully to make sure you know whom you’re dealing with.

Make sure you know exactly what you are paying for and don’t be deceived by confusing offers.

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