South Carolina
Consumer Affairs Report

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS, P. O. BOX 5757, COLUMBIA, S. C. 29250 1-800-922-1594

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CIRCULATION WOES

The circulation of our newsletter has more than tripled during the past year. Although we are pleased to send it, the cost of producing and mailing the newsletter six times each year makes it necessary that we not waste any copies by sending them to deceased subscribers, incorrect addresses or to consumers no longer interested in receiving it. If you find our newsletter interesting and the information useful, we ask that you clip off the address portion, make any corrections in the spelling of your name, address and zip code numerals and mail it back to us. If you are receiving duplicate copies, let us know that and clip and send them all to us. No phone calls, please. Address label correspondence should be sent to the attention of Sandra Thurman at our regular mailing address.

TYPES OF CREDIT

Credit is a means by which goods and services may be acquired without paying for them at the time of purchase. In return for permitting the goods or services to be used without immediate full payment, a charge is made over and above the selling price of the item. The amount of this additional charge is the cost of credit, and it can differ substantially, depending upon who is giving the credit. Consumers who deal with credit should know there are two commonly-used forms. Open-end credit normally is typified by revolving charge plans and store, bank and department store credit cards. Generally, a top monetary limit is set and purchases of goods and services are permitted up to that amount. The cost of open-end credit varies, but is usually one or one and one-half percent monthly - or 12 or 18 percent annually. In S. C. the legal limit is generally 18 percent APR for credit card accounts. With open-end credit, it is often possible for a consumer to avoid finance charges completely by paying the entire balance due shortly after receiving a monthly bill. Closed-end credit applies to a particular transaction in which the consumer may either borrow cash or sign a retail installment contract to purchase goods or services. The specific amount to be borrowed, the number and size of payments and the due date are all settled in advance. The cost of closed-end credit can be influenced by several factors, including the borrower's character and ability to repay, the amount of money involved and the finance charge the creditor charges.

CUTTING THE COST OF CREDIT

When shopping for credit, the Annual Percentage Rate (APR) the consumer pays has a great bearing on cutting credit costs. Since different creditors credit unions, banks, savings and loan institutions may charge different APR's, it's a good idea to contact several different creditors to learn how much it will cost to obtain the credit. To illustrate the differences in the rates creditors may charge, consider the cases of two consumers. Both purchased identical new cars at the cost of $6,000. each with each paying the same amount $1,000. as a down payment. Consumer one arranged his financing of the remaining $5,000. through a credit union. He got a 36-month loan at an APR of 12%, the legal maximum charge in S. C. The finance charge totaled $978. so his total payback was $5,978. and the total cost of the new car was $6,978. Consumer two got his dealership to arrange a loan for him through a commercial bank. He also got a 36-month loan, but at an APR of 18.40 percent which is the legal maximum under the terms of the S. C. Consumer Protection Code. The total finance charge

for consumer two was $1,543.50 and his total payback was $6,543.50 and the total cost of his new car was $7,543.50. The example of the two consumers vividly illustrates that the APR is essentially the key to cutting the consumer's credit costs. The APR represents what will be paid for an item above its actual price, when it is purchased on credit. The APR is figured on the unpaid balance of the item. Federal law requires creditors to show the APR on all consumer credit contracts. With both open and closed-end credit, the consumer should look for the creditor who offers the lowest APR since the lower the APR the cheaper the credit.

WOMEN AND CREDIT

A working woman who handles her income wisely and who needs or wants credit can now be assured that her application for credit will be considered on its merits. Under the Equal Credit Opportunity Act, women may no longer be denied credit simply because they are women. The law which became effective in October, 1975 and was intended to ban sex discrimination in the granting of credit still - over four year later - tends to be one of the lesser known and understood pieces of legislation related to consumer credit. The law does not mean that stores and lending institutions must give charge accounts, credit cards and loans to every woman who fills out an application. What it does mean is that women applying for credit must be judged by the same standards used for men: a steady income, prompt payment of bills, a regular savings record, and cautious use of credit. This new law gives women protection they have long needed. But women - like men - do have a responsibility to show that they can handle credit wisely. They should never borrow more than they can comfortably repay on a regular monthly basis. They should never open more charge accounts than they can handle. They should never let themselves get in over their head when it comes to credit. They could face serious problems if they were ever turned down for credit on the grounds of a poor credit rating which is based on character, collateral, capacity to repay and credit record. Credit reporting agencies do not give credit ratings. That is a function of the credit grantor. Credit reporting agencies maintain records, issue reports and may prepare investigative reports. Some other suggestions for women concerning credit: Open a savings account and a checking account in your own name. Married women often neglect this, but it is useful in helping you to establish your credit standing. If you are ever refused credit, find out the reason. Whenever you apply for credit, a report on your credit standing is usually prepared, normally by a credit reporting agency. Under the Fair Credit Reporting Act, you have the right to learn the name and address of the credit reporting agency that put together the report on you. Contact that company -- they are required to tell you what information went into the report. If the data in the report is accurate, and if you were turned down because you actually do have a poor credit record, get some help. Talk with a credit counseling service or the credit manager at the credit reporting company. Ask for suggestions on what you can do to establish a sound credit record. However, if the data in your credit report is inaccurate, take action. The law sets up ways for you to remedy the situation if a false credit report has been filed against you. Take action, also, if you are turned down for credit even though you do have a good credit record. Ask the credit grantor the reason for your refusal. He must either tell you the specific reasons or inform you that you have the right to the specific reasons if request is made to them within 60 days.

CREDIT FOR RETIREES

There's convenience and relief in being able to use credit. But in general, people who are retired and are living on fixed incomes are usually advised to be particularly careful about using credit. Many stores and lending institutions are reluctant to open charge accounts or give loans to people who are retired or are over 65. They justify this policy by saying a fixed income usually requires cautious budgeting down to the last dollar sign. When it's tight to meet each month's regular bills, "charging" extra bills may loosen the squeeze for the moment, but it's not the prudent approach. Consumers who have not already retired should remember that it is much easier to get credit while they are still working and plan ahead. If they do not already have a bank credit card or a travel and entertainment credit card, they should probably apply for one now. If they plan to travel and to purchase small luxuries after retirement, credit cards may be convenient. But they should always be sure they can afford it before they say, "Charge it." For some consumers, credit may not be advisable once they are retired. A special savings account for "extras" may be wiser - and easier - than self-monitoring the use of it or getting a credit card or opening a charge account. Consumers who are retired

and need extra money may want to consider using a co-signer to get a loan. But before doing so they should consider these points. First, they must be certain that they can meet the monthly payments, regularly and promptly, before they apply for a loan. Second, they must decide who they want to ask to act as co-signer such as a son or daughter who is working. Admittedly, asking someone to be a co-signer might be hard to swallow. The decision must be yours. But first, retired consumers must know that they really can afford to repay the loan. Worse than asking someone to co-sign would be having the co-signer bail them out.

CREDIT AND YOUTH

For young consumers, credit is not always easy to get. When you borrow - or buy something and say, "Charge it" you promise to pay later. The "paying later" is very important to the stores, banks and other lenders that give credit to consumers. They will ask where you work, how much you earn, where you have savings accounts and credit cards. They are checking on two things: whether you earn enough to pay later and your past record of repaying. As a new worker, you don't have much of an earning or a repaying record to report in your first credit application. This makes it difficult to prove your ability to pay later. But there are some ways in which young people can establish credit. Your first move is to apply to local department stores for a charge account. Find a store that is looking for young customers. Talk with credit personnel at several stores, and ask for their advice. If you are offered a special account with limited credit, accept it. Use it only for small items until you know how well you can handle monthly payments. Apply to a bank, finance company or savings and loan institution for a small loan. Even if you do not need the money - even if you put it right in a savings account to draw interest - borrowing and repaying promptly will help you to build a good credit rating. A good bet is a bank or savings and loan association where you or your family have accounts. If they are hesitant to approve your loan, ask a member of your family to co-sign a loan for you explaining you don't need the money or plan to spend it but want to borrow it just to build some credit. If there is a credit union where you work, join it, start saving regularly with them and ask about the possibility of a small loan. Credit union charges for borrowing are usually low. Learn as much as you can about credit and how it works. Don't skip over those articles and stories in magazines and newspapers on different aspects of credit. Read them carefully, more than once if necessary, until you understand how to shop for credit and how to use only as much credit as you can comfortably afford. Make all payments promptly. Wherever you borrow - no matter how much or how little - paying promptly is the best way of establishing and maintaining a good credit rating.

CREDIT FOR LOW INCOME CONSUMERS

The credit picture has begun to change for consumers in low-income brackets. Until recently, banks and stores considered low-income consumers to be a poor credit risk. Their thinking was that if your income is low, you might never complete your payments; therefore, they charged higher interest rates. But recent pilot projects run by government agencies and private industry show that low-income consumers can be good credit risks when they get training in family money management in such areas as how to budget, how to shop for low credit costs, how to establish credit rating, how to buy on installment plans and how to apply for loans. Before applying for credit, low-income consumers should work out an accurate budget listing their exact monthly expenses for the next six or eight months. This will help establish whether their monthly income will cover all these expenses and leave extra money for emergencies. If not, they probably cannot afford to buy on credit. Low-income consumers should also remember when they apply for credit, a store or bank will judge them on their answers to the following questions: Where do you work? What do you earn? What do you do? A credit application also asks about dependents, wife's or husband's job, whether you rent or own your home, how long you've lived there and whether you always pay bills promptly. The answers will help stores and banks decide whether you will be reliable about credit. Low income consumers should also study credit contracts carefully before signing. The Truth in Lending law says lenders must tell consumers the total price, the down payment, the total amount to be financed, the dollar amount of the loan and the annual percentage rate. The APR is not an interest rate although interest may be included in it. If there are charges for late payments, the due date and the amount of payment and many other facts should be contained in the credit contract. Low-income consumers who are turned down for credit have a right to know why. They can get the reasons by contacting the credit reporting company that prepared their credit rating report. They have the right to check

the information in their credit bureau file - there may be a nominal fee - and to request the correction of any inaccuracies. Low-income consumers who run into trouble meeting credit payments should never try to hide from creditors. Instead, they should go right to the store or bank and explain the problem: illness or sudden job loss or whatever else is the true reason. Then, they should ask for help in planning a new schedule for payments. It's also wise to protect their credit rating by visiting their local credit bureau or reporting company and explaining the problem.

CREDIT AND CONTRACTS

Wise use of credit can help you get some of the things you need and want that would be out of reach if you had to save up the cash. But credit, used unwisely, can lead to financial disaster. Most credit agreements require you to sign a contract of some type. Before you sign a contract for a product or use credit, shop around. Ask questions about the credit or product you are being offered - before buying. Read the contract thoroughly. Get all promises in writing. Don't sign a contract with blank spaces. Check the creditor's reputation. Don't borrow money from a loan shark.

ADDENDA

For most consumers the use of credit has become a way of life. A recent study shows that two out of three American families use credit for such everyday expenses as gasoline, clothing and household goods while 25% of all families use credit for most Christmas expenses. Used prudently, credit can be one of the most productive tools consumers can use to obtain a more comfortable standard of living. Used unwisely, credit can be almost as devastating to the security and stability of home and family as a destroying fire, tornado or hurricane. There is no one answer to the question of "How can I be sure I am using credit wisely?" This issue of the S. C. Consumer Affairs Report is designed to help consumers make credit decisions by examining various aspects of credit, including the advantages and disadvantages of its use and laws available for the protection of credit using consumers.

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