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 do not waste any copies by sending them to deceased individuals, incorrect addresses or to consumers no longer interested in receiving it. If you find our newsletter interesting and the information helpful and wish to continue receiving it, we ask that you clip off the address portion (or make a copy of it if you don't want to cut your newsletter) and mail it back to us. Please make any corrections in the spelling of your name, address and zip code numerals. Address your label correspondence to the attention of Linda Jones at our regular mailing address.

CREDIT

You get credit by promising to pay in the future for something you receive in the present.

Credit is a convenience. It lets you charge a meal on your credit card, pay for an appliance on the installment plan, take out a loan to buy a house, or pay for schooling or vacations. With credit, you can enjoy your purchase while you're paying for it - or you can make a purchase when you're lacking ready cash.

But there are strings attached to credit too. It usually costs something and of course, what is borrowed must be paid back.

ADVANTAGES OF CREDIT

Credit can be a convenience, and there are often advantages to borrowing;

- Interest charges are tax deductible if taxes are itemized.
- Because of the impact of inflation, the value of the dollar decreases over time, so repayment of a loan is made with less valuable dollars.
- Borrowing can allow persons to buy goods or services now for a lower price than they might have to pay if the purchase were delayed for a year or two.
- Financial emergencies can be handled quickly.
- There is immediate use and enjoyment of an item while still paying for it.

Remember, however, all of the advantages of credit make it easy to abuse the convenience of credit.

ESTABLISHING CREDIT

Even though you may be financially able to pay cash for all purchases of goods and services, it is important that all consumers establish credit.

Initial attempts to obtain credit sometimes lead to frustration: sometimes it seems you have to have had credit in order to obtain credit. Some creditors will rely entirely on your salary and job and the other financial information you supply on your application for credit. But most lenders also want to know about your experience in handling credit and how reliably you've repaid past debts. This can be a problem if you have never established credit. However, there are several ways in which a consumer can begin to build up a good credit history:

- Open a checking account or a savings account, or both. These do not begin your credit file, but may be checked as evidence that you have money and know how to manage it. Cancelled checks can also be used to show that you pay utilities or rent bills regularly, which is a sign of reliability.
- Apply for a department store or oil company credit card. Repaying credit card bills on time is a plus in credit histories.
- If you're new to a community, write for a summary of any credit record kept by a credit

bureau where you formerly lived. You may need to contact your former bank or department store in your former home town for the name of the credit bureau it reports to.

- If you are turned down on an initial credit request because you never had credit before, ask the lender if they will approve your credit if you can find someone to co-sign your credit application.
- If you're still turned down in that attempt to establish credit, find out why and try to clear up any misunderstandings.

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 providing 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 for goods and services are permitted up to that amount. The cost of open-end credit varies, but is usually one and one-half percent monthly - or 18 to 24 percent annually. In South Carolina the legal limit is 24 per cent 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.

SOURCES OF CREDIT

There are many types of lenders and other credit sources. The services and the costs of those services vary widely.

Banks offer a very wide range of consumer credit services including loans with or without collateral, loans and other financing for major purchases such as automobiles, home improvement loans and financing, and home mortgages. Most banks also offer the convenience of bank credit cards which are widely accepted by stores and which can be used for cash advances at many banks. Of course, banks take deposits, and a great number also offer the convenience of "overdraft checking"; under such a plan, the customer has a pre-arranged borrowing limit and simply writes his own loan by overdrawing his checking account.

Credit unions offer consumer loans designated "for any worthwhile purpose" to members only. Credit unions also take deposits and pay interest, offer share draft accounts and revolving loans, but, as yet do not offer credit cards.

Finance companies (loan companies) offer consumer loans and financing for all purposes to the general public. Most finance companies tend to limit the amount loaned to any one customer and do not take deposits, offer credit cards or overdraft checking.

Insurance companies commonly offer loans to holders of their policies. The loans are frequently limited to the cash value of the policy held by the borrower and must be applied for through the insurance agent or the company's home office. Rates are usually very low because you are, in essence, borrowing your own money.

Savings and loan associations, in addition to the traditional long-term home mortgage loans, often make other consumer loans especially for home improvements and automobiles. Savings and loans take deposits but do not offer credit cards or overdraft checking and generally prefer not to make very small loans.

Merchants are not lenders, as such, but commonly offer financing services. Such merchants will sell "on time" or arrange financing for the consumer-buyer.

There are also illegal lenders, more commonly referred to as "loan sharks" who operate without license or supervision and thrive on the business of low-income or credit pressed consumers. The lowest interest rate commonly charged by a loan shark is 120 percent per year. The average rate is approximately 20 percent per week, which is 1040 per-cent per year. High interest rates are not the only evil connected with illegal lenders. This type of lender usually tries to keep the borrower in debt. He does this by requiring the borrower to pay the entire loan at one time or no payment will be accepted. If the borrower misses interest payments, he is usually subject to a heavy delinquency charge or refinance fee and harassing collection methods. Although it is easy to simply decry illegal lenders, it is also true that for

some people the loan shark may be the only available source of credit. Consumers who come into contact with lenders they suspect of loansharking should report such individuals and incidents to the S.C. Department of Consumer Affairs.

HOW CREDITORS MAKE CREDIT GRANTING DECISIONS

When an application is made for a credit card, a loan, or any credit account, the creditor considers the three C's of credit: capacity, character and collateral.

Capacity is the consumer's ability to repay the debt. Consideration is given to how long the consumer has worked, in what occupation and the consumer's income. The creditor also considers the consumer's expenses, including any outstanding debts.

Character is the consumer's willingness to repay the debt. The creditor will study the consumer's credit history to determine such things as whether bills are paid on time and whether the consumer lives within his means. The creditor also looks for signs of stability such as the length of time that a consumer has lived at his present address and whether his home is owned or rented.

Collateral is the collection of assets which the consumer has available to secure the debt if it is not repaid. Assets such as a house, household goods, stocks, bonds, jewelry and a car are included in the creditor's assessment.

Creditors use different combinations of these factors and different kinds of rating systems in making lending decisions. Some rely strictly on their own instincts and experiences. Others use a "credit scoring" or statistical system to predict whether the consumer is a good credit risk.

They assign a certain number of points to each of various characteristics that have proved to be reliable signs that a borrower will repay, and credit applicants are rated on that scale.

Whatever rating system a creditor employs, the same standards must apply equally to all applicants. The creditor cannot discriminate against a consumer on the basis of age, sex, marital status, race, color, religion, national origin or because the consumer receives Social Security or welfare.

THE COST OF CREDIT

Credit costs vary. By remembering and understanding two terms, you can compare the cost of credit from different sources. The creditor must tell you - in writing and before you sign any agreement - the finance charge and the annual percentage rate. The FINANCE CHARGE is the total dollar amount you pay to use credit. It includes interest costs, and sometimes other costs, such as service charges, some credit related insurance premiums or other fees. For example, borrowing $100 for a year might cost you $10 in interest. If there were also a service charge of $1, the finance charge would be $11. The ANNUAL PERCENTAGE RATE (APR) is the percentage cost (or relative cost) of credit on a yearly basis. This is your key to comparing costs, regardless of the amount of credit or how long the consumer has to repay it. For example, suppose you borrow $100 for one year and pay a finance charge of $10. If you can keep the entire $100 for the whole year and then pay it all back at once, you are paying an APR of 10 per cent. But if you repay the $100 and finance charge (a total of $110) in twelve equal monthly installments, you don't really get to use $100 for the whole year. In fact, you get to use less and less of that $100 each month. In this case the $10 charge for credit amounts to an APR of 18 per cent.

All creditors - banks, stores, car dealers, credit-card companies, finance companies - must state the cost of their credit - in terms of the finance charge and the APR. The law says these two pieces of information must be shown to the consumer before he signs a credit contract. Federal law does not set interest rates or other credit charges. But it does require their disclosure so that the consumer can compare credit costs.

EXTRA COSTS OF CREDIT

Extras, usually in the form of credit insurance on the borrower's life or health, may seem attractive and will almost always be offered by the creditor. Creditors have the right to be protected by having the debtors insured, but they may not force consumers to purchase insurance from them or anyone they name. If a creditor requires insurance, a consumer may choose his own company or supply the lender with an existing policy. Credit insurance, can be very expensive and can increase the cost of credit by as much as 50 per cent. For example, a loan of $3,500 for 24 months would have a finance charge of $770. If you take all the insurance offered it costs $400 and you would be advanced $3,100 instead of $3,500, your payback in both cases would be $4,270. If you do not want this extra expense be ready to say no. And if the lender requires it as a condition of the loan, - as he may - be prepared to continue shopping for credit elsewhere.

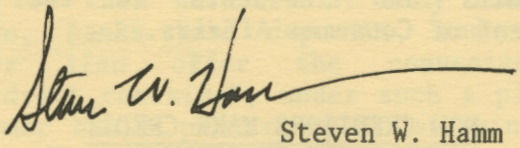
STAFF NEWS

Jean-Mary Edouard Mille has joined the S. C. Dept. of Consumer Affairs as a staff attorney. Mr. Mille was born in Terre Natalie, France, received his License-es-Lettres from the University of Nancy-France and his law degree (Juris Doctor) from USC. Prior to joining the DCA Mr. Mille was an associate with the Columbia law firm of Monteith, Monteith and Gottlieb.

ADDENDA

Credit is similar to other consumer goods and services. The bargains go to the smart shoppers. The consumer who knows where and how to obtain credit will be able to find the service he wants at the lowest interest rate available and save himself considerable money in interest and other charges. The information contained in this bro-chure may help you to make your credit shopping easier and less costly.

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 percent of all families pay Christmas expenses with credit. Used prudently, credit can be one of the most productive economic tools a consumer can use to obtain a more comfortable standard of living. Used unwisely, credit can be devastating to the security and stability of home and family. There is no right or wrong answer to the questions of "How can I be sure I am using credit wisely?" or "When is enough enough where credit is concerned?" This issue of our newsletter is devoted to the subject of credit in the hope it will help consumers in determining how to use and avoid the misuse of credit.



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