

BUYING ON CREDIT

What is Buying on Credit?

When you buy on credit, you pay extra for the privilege of spreading your payments out over a period of time.

What Kinds of Things Are Usually Bought on Credit?

Today, virtually anything can be bought on credit. Big-ticket items such as automobiles, major appliances, furniture and jewelry are often bought on credit, but so are smaller items such as clothing, food and gasoline.

What is the Difference Between “Open-End” Credit and “Closed-End” Credit?

“Open-end” credit is the type of credit you expect to use over and over. An example would be a credit card such as Visa, MasterCard or Discover.

“Closed-end” credit is one-time credit. Examples would be a car loan or a loan to remodel your house.

The difference is important because federal law makes creditors give you different information depending on the type of credit you get. In general, you get more information with closed-end credit. So if you’re getting a one-time loan, make sure the lender doesn’t set it up as open-end credit. Also, with open-end credit, the credit terms, such as interest rate or minimum payment, can change.

How Can I Get the Best Credit Terms?

You can get the best credit terms if you shop around and know what to look for. Many people focus on how much they will have to pay every month. These people usually get worse credit terms than they could have received if they had shopped carefully.

The federal truth in lending law makes creditors tell you certain things about the cost of credit. Some of the more important ones include:

- The AMOUNT FINANCED. This is the amount of credit you are actually getting. If this amount is higher than what you thought you were borrowing, take a closer look. You may be paying for things you don’t need and don’t want.
- An ITEMIZATION or the AMOUNT FINANCED. This spells out

where the money that you are borrowing is going – to you, to your account with the lender, or to someone else. If you see anything in the itemization you don't understand, ask about it. If you don't, you may wind up paying for things you don't want or need.

- The **FINANCE CHARGE**. This is how much the credit is costing you in actual dollars. The higher this is, the more you are paying for credit.

- The **ANNUAL PERCENTAGE RATE** (sometimes called “APR” in advertising). This is how much the credit is costing you, stated as an annual rate instead of a dollar figure. The higher this is, the more you are paying for credit. APR adds the interest rate to the other costs of credit, so you can compare accurately. For example, a loan with a low interest rate but a high origination fee can be compared accurately to a higher interest rate loan that carries lower additional fees.

- The **PAYMENT SCHEDULE**. This is how many payments you have to make, how much they are, and when they have to be paid.

- The **TOTAL OF PAYMENTS**. This is the total of what you will have paid when you have made all of the scheduled payments.

- The **TOTAL SALE PRICE**. This is the grand total price of your purchase on credit, including your **DOWN PAYMENT**.

- Whether the lender or seller is taking a **SECURITY INTEREST** in what you are buying or in anything else you own. A security interest means you have given collateral for the loan. If you do not meet the terms of the loan, the collateral can be repossessed, in addition to having to pay additional money.

- Whether there will be a **PREPAYMENT PENALTY** if you pay off early.

- How much any **LATE PAYMENT** charges will be.

How Can Knowing This Information Help Me?

By helping you understand exactly what you're getting into

Example: Supposed the advertised sale price of a car is \$7,495. You agree to buy the car, and to pay \$240 per month for 36 months, with a \$500 down payment. How much are you actually paying for the car? You can tell that easily by looking at the truth in lending disclosures.

Although the “cash price” was only \$7,495, your **TOTAL OF PAYMENTS**, including the **FINANCE CHARGE** of \$1,645, will be \$8,640. Add in your \$500 **DOWN PAYMENT** and your **TOTAL SALE PRICE** – the total amount you are agreeing to pay for the car – is \$9,140. You're paying \$1,645 – the amount of the **FINANCE CHARGE** – for the privilege of buying the car on credit.

By helping you compare credit terms to get the best deal.

Example: Dealer #1 offers you a car for \$7,495, with \$500 down and monthly payments of \$240 for 36 months.

Dealer #2 says, “We can do better than that,” and offers you the same car at \$7,295, with only \$300 down, and monthly payments of \$210 for 48 months.

Which deal is better?

In each case, you are financing \$6,995 – the cash price of the car minus the down payment. Dealer #2 is taking payments of only \$210, which seems cheaper. But Dealer #2 requires payments for 48 months. How much difference does that make?

The truth in lending disclosures will tell you. Dealer #1’s FINANCE CHARGE will be \$1,645. Dealer #2’s FINANCE CHARGE will be \$3,085 — \$1,440 more.

The ANNUAL PERCENTAGE RATE will also tell you. Dealer #1’s APR is 14.27%. Dealer #2’s APR is 19.23% — almost five percentage points higher.

Either way you look at it, Dealer #1 is giving you a better deal on credit.

Does It Really Matter Whether You Read a Contract Before Signing It?

Yes! Be sure to *read and understand* any contract before you sign it. Not only will it have the credit information described above, but it also contains all of the legal duties and terms to which you are agreeing. If you don’t understand something, get advice. If you feel pressured, ask to take the contract home for review. If the lender won’t let you, take your business elsewhere, because it is a violation of federal law for them to refuse to give you the written credit disclosures before you agree to the loan.

Can the Lender Sell My Contract?

Yes. Most loans and other agreements to pay money can be sold. It is common for sellers to sell their loans to a bank or finance company. The new owner of the loan then has the right to collect its payments from you.

How Much Interest Can I Be Charged?

In recent years, Missouri has removed most limits on interest rates. To check on whether an interest rate is legal, call a lawyer or the Missouri Division of Finance. Remember, though, that you can only be charged a given interest rate if you agree to it. That’s another good reason to read and understand the contract before you sign it.

Can I Pay Off My Loan Early?

You can always pay your loan off early, but sometimes the contract will impose a “prepayment penalty.” Check your contract to be sure. Prepayment penalties are a sign that perhaps this isn’t the best loan for you.

What Are My Duties as a Buyer or Borrower?

That depends on the contract. Of course, you will always have to make timely payments on the debt. But the contract may impose other duties on you as well. For example, it may require that you keep an automobile insured against damage or loss. If you don’t, you may be in default, and your creditor may be able to buy very expensive insurance on the car and charge the cost to you. If the creditor does buy the insurance because you have not, the insurance will be very expensive, and it will only cover the loan itself, not the value of the car or house. This is just one example of why it’s so important for you to know all of your duties under a contract.

What are the Seller’s Duties If I Fall Behind?

In some cases, such as repossessing your car or foreclosing on a mortgage, the creditor must give you notice and at least 20 days to bring yourself up to date. If you do bring yourself up to date within the given time, and later fall behind again, the seller must give you a second notice before taking action. Such notice is not required in other types of credit contracts.

Is There Anything I Can Do If I Have a Problem Making My Payments?

If you have a good reason for not being able to make the payments on time, talk to the creditor. You may be able to work out a more affordable arrangement. Most creditors would rather work with you, at least for a while, than go to the trouble of suing you and trying to collect. But even if you have reached an agreement about making payments lower than amounts due, the creditor does not have to continue such changes in terms and can sue you at any time.

If I Give the Collateral Back Voluntarily, Can I Still Be Held Liable on the Debt?

Yes. Unless the creditor agrees otherwise, your voluntary return of the collateral will not affect the creditor’s ability to collect the rest of the debt from you if the creditor gets less than the full amount of the debt when it resells the collateral.

If the Collateral is Destroyed, Can I Still Be Held Liable on the Debt?

Yes. For example, if you buy a car on credit and then destroy the car in a wreck, you still owe the debt even though you don't have the car any more. Your insurance may cover the debt, but if it doesn't, you are responsible for payment.

If the collateral was destroyed because of something for which the seller can be held liable, you may be able to avoid payment of the debt. For example, if a car burns up because of faulty wiring, and was under a warranty, you may have a claim or defense against the seller or current owner of the debt. If that's the case, you should see a lawyer.

What is a Co-Signer?

A co-signer is someone who signs a contract for someone else, and agrees to be responsible for payments being made.

Think long and hard before agreeing to be a co-signer or co-buyer for someone else. If that person doesn't pay, the seller or lender will look to you for payment.

Can My Wages Be Tied Up Or Taken If I Don't Pay a Debt?

Yes. In most cases, the creditor must first sue you and get a judgment. Then your wages can be subject to garnishment. The creditor can take up to 25 percent of your after-tax earnings, or 10 percent if you are a head of household. The creditor cannot take anything, however, if doing so would drive your after-tax earnings below an amount equal to 30 times the minimum wage per week. That amount is subject to change. You may also be entitled to a hardship exemption, especially if you are supporting minor children.

In rare cases, your wages can be garnished for an unpaid debt without you having been sued. This can be done, for example, on certain student loan debts or other debts owed to the government. Even then, you must be given notice and a chance to be heard on the issue.

What Are Some Things to Remember Before Buying on Credit?

- Read and understand your contract before you sign.
- Don't co-sign unless you are willing and able to pay the debt in full.
- Compare credit terms before you decide where to buy.
- Don't just look at the size of the monthly payment.

- If you can't make the payments, you may get sued on the debt even if you give back the collateral.
- Decide whether it makes more sense to buy on credit or pay cash.
- If you run into a problem, talk to the creditor.

What If I Need Legal Advice?

The Missouri Bar offers a free Lawyer Search function, located at MissouriLawyersHelp.org. Those seeking representation can use the tool to locate lawyers by practice area, geographic location, and spoken language.

The Missouri Bar or the Office of Chief Disciplinary Counsel cannot provide legal advice or refer you to an attorney. If you would like a referral to an attorney in the Springfield or Greene County area, call (417) 831-2783. The Office of Chief Disciplinary Counsel does not screen the attorneys who are affiliated with this lawyer referral service, and OCDC does not have information on their credentials or abilities.

Hiring a legal professional can be costly, but it is important to remember that you are paying for expertise. If you are unable to afford a lawyer, it might be possible to be represented at a lower rate or on a pro bono basis. In these situations, your quality of representation should not decrease, but your out-of-pocket costs will. The Missouri Bar does not match members of the public with pro bono lawyers, but it maintains a list of available discounted services, which is available at MissouriLawyersHelp.org.

Additionally, some matters, such as an uncontested divorce or traffic ticket, may not call for a lawyer at all. The Missouri Bar produces numerous brochures and blog posts – all available at MissouriLawyersHelp.org – that address general legal questions. While they are not a substitute for a hired lawyer, they are helpful for background information on matters and can help you decide if you need to seek representation.

For more information, go to MissouriLawyersHelp.org or call 573-635-4128.