



NATIONAL FOUNDATION FOR
CREDIT COUNSELING

*Knowing the difference can
make all the difference.*

NFCC PRESS RELEASE

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WHEN A GOOD IDEA GOES BAD

Some Techniques Intended to Save When Shopping Can Backfire

Silver Spring, MD – The shopping season is in high gear, with consumers trying every way they can to work the angles and spend smart. But even the best of plans can go awry if you don't know the details. For that reason, the National Foundation for Credit Counseling (NFCC) advises consumers to use caution when:

- **Purchasing a gift card** - Even though it may seem like the ideal way to ensure that the recipient gets exactly what he or she wants, there may be strings attached that become more of a burden than a gift. Some cards come with activation fees, while others may have expiration dates. Read the fine print before purchasing to make sure you fully understand the terms. There is pending legislation to restrict some of the fees associated with gift cards, but if passed it is not scheduled to take effect until late in 2010 and would not cover gift cards purchased prior to the legislation.
- **Signing up for a Buy Now/Pay Later program** – If you know the rules and follow them to the letter, you can come out ahead using one of these plans. However, if you fail to meet all of the requirements, it is likely that double-digit interest will be assessed back to the date of purchase, significantly increasing what you paid for the item.
- **Using layaway** – This old-fashioned tool is making a come-back in a big way, allowing consumers to pay for an item with cash over time. Nonetheless, there are costs associated with layaway. Most outlets will assess a small fee to set up the account, as well as require a down-payment to activate. Know that some stores will adjust the price if an item you've put in layaway goes on sale, but some may not. Further, if you decide you no longer want the item, you may be able to get a refund, but there will likely be a cancellation fee charge to do so. Most importantly, know what happens if you miss a payment, as doing so could cause you to lose both the item and the money you've put toward it.
- **Using your ATM or debit card** – Studies show that consumers are moving away from using credit cards and toward using debit cards. This can be a good way to control your spending, as when the money's gone, the spending is supposed to stop. However, if you overdraw your account, it will result in an overdraft fee. If this happens multiple times, the charges can add up fast. Be sure to record each ATM or debit withdrawal when you make it, and keep a running total of your checking account balance.

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- **Opening a new credit card to save a percentage off today's purchase** – Everyone enjoys saving 10 percent on a purchase, but opening a new line of credit to do so may not be the best idea. For one thing, the inquiry will ding your credit score. Also, having one more piece of plastic in your wallet will equal more temptation to spend, and multiple cards make it harder to keep up with how much you've spent. If you needed this card, you probably would have already established the account. You're better off sticking with general purpose cards which usually have lower Annual Percentage Rates.
- **Buying without knowing the return policy** – This is critical to know when buying a gift for someone, as believe it or not, they may want to return it. Most stores try to establish reasonable, customer-friendly return policies, but there may be restrictions, particularly if the item you purchase is on sale. Further, there may be a restocking fee associated with the return. Make sure you know the rules in advance.
- **Charging your purchases** – In a perfect world, you would always pay your bill in full each month. If that is not possible, the longest you should stretch out payments is 90 days. If your holiday charges are more than you can pay off in the first quarter of 2010, then you're on a slippery slope financially as you'll end up paying interest on top of interest. Further, carrying a balance limits your access to additional credit, due to the fact that you've already utilized some of your available spending dollars.
- **Charging more than 30 percent of your credit line** – Even though your creditor will allow you to max out your line of credit, doing so will likely lower your credit score and diminish the likelihood that you'll be approved for additional credit. Both the lenders and the scoring model like to see consumers control their spending. Doing otherwise could make it appear that you have too strong of a reliance on credit, indicating a lack of available cash with which you could make your purchases.

“There is nothing wrong with any of the above tools. As a matter of fact, used properly, they can add convenience and savings to your holiday shopping experience,” said Gail Cunningham, spokesperson for the NFCC. “However, just because it's the holidays doesn't mean you can leave common sense at home when shopping. Reading the fine print, knowing what you're signing, and understanding how your spending will affect your overall financial health is being financially savvy, regardless of the season.”

For help with your holiday spending, reach out to an NFCC Member Agency. To find the agency closest to you, call toll-free to (800) 388-2227. To locate a counselor online, go to www.DebtAdvice.org. For assistance in Spanish, call (800) 682-9832.

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The National Foundation for Credit Counseling (NFCC), founded in 1951, is the nation's largest and longest serving national nonprofit credit counseling organization. The NFCC's mission is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services. NFCC Members annually help more than three million consumers through close to 850 community-based offices nationwide. For free and affordable confidential advice through a reputable NFCC Member, call (800) 388-2227, (en Español (800) 682-9832) or visit www.nfcc.org.