

Econ 103 Money and Banking – Dr. Douglas Rice Week 9 Lecture – Thrift and Consumer Finance

This is a very personal week for many as we cover consumer finance and loans that many of you either already have or will have someday. Consumer finance is a big part of retail banking and a big revenue generator for the firms that engage in it. A typical consumer finance company offers loans, some of which are secured with cars or homes. They search for customers through other firms such as car dealers, appliance stores, jewelry stores, etc. When customers want products but can't pay, they are offered credit so they can pay over time. The store may seem like the lender, but it's a consumer finance company that is usually behind the scenes doing the lending. Most of these loans are at really high rates and one ploy they use to "help" the borrower is to call and offer to refinance the loan as a home equity secured loan at a somewhat lower rate and a lower payment.

These firms are given far more leeway in terms and structure of contracts and can often have very unique collection methods. They aren't held to the same standard as say a Citibank or BofA would be. They also have been charged with many unscrupulous practices in misleading customers into higher profit products and higher fees.

But most of us are smart enough to see through all that and not get involved in these types of deals. However, one very common consumer finance entity that we all have is the credit card. Let's take just a minute to discuss the pain of the plastic.

Lecture – Credit Cards – The Pain of the Plastic

One of the most important and practical discussions here is about personal finance, the basics on managing your money and minimizing your expenses. The situation is that just about anyone can get a credit card that can provide more money that is actually available at the mere signing of a name, but the undisciplined use of this can literally ruin your life as financial delinquencies and a bad credit report can hurt your chances for an apartment, new car, loan for graduate school, a house, and even a job. You have to understand that they are in this business to make money from you, not help you purchase great stuff.

Then you have to grasp such things as the interest rates (fixed versus variable), calculating finance charges (average daily), the "grace" period, line of credit, how to read your monthly statement, minimum payments, length of payoff of outstanding balance, late fees, over limit fees, membership fees, contesting charges or statement errors, charge versus credit cards, debit versus credit cards, "courtesy" checks, and theft or loss of credit card.

But all that aside, where they get you is that feeling of power and importance, which led to those "necessary" and costly purchases--plus interest, which can catch up with you very quickly. When the junk is in the garage and the trip is over, it's all just a fading memory, the bills are still rolling in. The statements are unrelenting with all those extra charges and fees. Paying later means working later and that's not as much fun.

They are really good at getting new customers too. From "pre-approved" offers, "teaser" or low introductory interest rates, "transferring" high interest debt to lower interest credit cards, the courtesy check that really a sales call, the "free" annual memberships, my personal favorite the "frequent flier" credit card program, there are ton of market gimmicks to get you to sign up and use their card. And locating the "hidden fees" in everything from courtesy checks, to cash advances is almost impossible.

The best thing to do with a credit card is never to carry a balance. Use it when convenient, but not as a substitute for money. If you can't pay it off every month, you can't afford it. It's that simple.

Well, that's enough for now, you get the picture. Credit cards and consumer finance isn't where you want to be borrowing money. It's set up for the firms to make big money off of less than knowledgeable clients. You now knowledgeable, so don't do it.