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CARE Program: Do the Math

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In today's world of deregulation, if you don't carefully read the agreements and "do the math" for all of your financial transactions, including credit cards, car loans, mortgages, consolidation loans, rent-to-own contracts and leases, the consumer credit industry will take advantage of you, and no one will care.

Unfortunately, Americans have been brainwashed by that industry into believing that everything is affordable as long as they can make the monthly payment, so they seldom take the time to figure out how much they are actually paying for a loan over time. The bottom line — it is about the interest rate, the term over which you are paying, and any fees you may have to pay. The classic example is the consolidation or refinancing loan that magically guarantees it will lower both your interest rate and monthly payment. To paraphrase P.T. Barnum, "If it sounds too good to be true, it probably is." Chances are that loan will stretch out the term for so long that you actually end up paying significantly more than the original loans. Most homeowners know that if you pay just \$100.00 a month more in principal on your mortgage, you can shorten the term by years and save thousands of dollars. Yet, those same homeowners will enter into one of those stretched out consolidation or refinancing loans that will cost them thousands of dollars more because the monthly payment seems so affordable.

We live in a competitive consumption, debt-is-okay society where purposely set low monthly payments allow people to have more of the things they want now

without having to analyze whether they really can afford that big ticket SUV, more expensive home or vacation. Years ago when credit was strictly regulated, there were only three kinds of home mortgages, now there are more than twenty-five. Car loans used to be three years; now the majority are five years or longer, and many are for seven or eight years. These products may appear to make homes and cars more affordable, but they often result in people paying a lot more for that home or car. If consumers knew how much more, they may never have signed on the dotted line.

The effective interest rate on many rent-to-own contracts and income tax refund anticipation loans can be between 300% and 800%, but few consumers who enter into those transactions actually "do the math" to realize it.

The biggest mistake that consumers make in carrying balances on their credit cards is to believe that making the minimum payments will pay off the debt in a reasonable period of time. Sometimes making just the minimum payment doesn't even cover the interest. More often it means it will take you twenty years or more to pay for what you charged and you will end up paying two or three times more for it. Then, of course, there are the numerous hidden fees like over limit and late fees that account for 35% of the credit card company's revenues. If you carry a balance you will inevitably and sometimes unknowingly incur some of these fees.

If you don't stop and "do the math" for all of your financial transactions, the unregulated consumer credit industry will take as much of your money as it can, every day, as often as it can, in incredibly creative ways. You learned all that "new math" in school. Now is the time to start using it.