**The No-Interest Financing Trap**

There's a catch, which can cost you a lot, to those offers from stores.

By [CAMERON HUDDLESTON](https://www.kiplinger.com/fronts/archive/bios/index.html?bylineID=20),

You've already blown through your holiday shopping budget, but you've still got some big-ticket purchases to make. What to do? How about those special financing deals stores offer this time of year. You've seen the ads: "Buy now and pay no interest until next year." Or "No monthly payments for six months." The offers can be money-savers if you pay off your purchase before the interest-free/no-payment period ends. However, if you don't, you could find yourself with a much bigger bill than you expected. Some of the offers "definitely are traps," says Gerri Detweiler, author of *The Ultimate Credit Handbook*. "Lenders wouldn't do it if it weren't profitable for them."

The deals vary from store to store, but most involve either no monthly payments for a certain period of time or no interest on payments made during the promotional period. To get these deals, you usually have to sign up for a store's credit card. Many stores also require a minimum purchase to qualify for the zero-percent financing. The catch comes when you don't pay off your balance by the end of the promotional period. Detweiler says it's common for interest to be charged to your account from the date of purchase. We checked several retailers offering no-interest deals and found that Best Buy, Lowe's, Home Depot, Circuit City and CompUSA were among those that charge interest from the date of purchase if the balance isn't paid off in time.

Many companies' credit cards also require a monthly minimum payment. Detweiler says if you miss that payment, you forfeit the interest-free offer and will pay full interest on the purchase at the high interest rate.

What's more troubling, says Steve Rhode, president of The Myvesta Foundation, a nonprofit consumer education organization, is that some stores don't send consumers monthly statements during the promotional period. Consumers then forget to pay off the purchase. When all that interest they thought they were avoiding gets tacked on to their bills, consumers end up paying more than if they had charged purchases to a low-interest credit card and made monthly payments, he adds. That's because interest rates on store credit cards tend to be high.

Also beware of universal default clauses, which allow lenders to raise your rates if you've made a late payment to *other* lenders, says Paul Richard, executive director of the nonprofit Institute of Consumer Financial Education. That's right -- you might be making payments on time for your card with the no-interest deal, but you could get penalized if you miss a payment on another credit card. "The fine print is critical," Richard says.

Say you bought a $2,500 plasma flat panel television using a store's no-interest-for-a-year offer rather than using a credit card with a 10% interest rate. You'd avoid $137 in interest if you paid off the purchase in a year.

To get that offer, though, you have to sign up for the store's credit card, which charges a 19% rate after the one-year no-interest period. If you made only the minimum monthly payment required (say 2.5% of balance), you would pay more than $2,500 in interest by the time it took you to pay off the balance. Remember you lose the break on interest if you don't pay off the balance by the end of the year. So in the end, you would be paying double what the television cost. This calculator can help you figure how much these "deals" can really cost you.

The majority of people who make purchases with these offers don't pay off the balances before the due date, Rhode says. But if you know you'll have the cash -- perhaps from a tax refund -- go for it.

Before making a purchase with one of these offers, Detweiler says you should ask yourself, "If I can't afford it now, will I be able to afford it later?" Signing up for these deals can also hurt your credit score. "If your credit ranking is shaky, adding a new account with a balance could ding your score," Detweiler says. A low credit rating could hurt your chances to secure future loans or get credit cards.

Also, if your credit is less than stellar, there's a good chance you won't qualify for these no-interest offers, Richard says.