

case study

check the small print

All Youth Service Youth Payment and Young Parent Payment clients, and Young Partners have an obligation to complete a budgeting programme that meets minimum standards.

The case study below shows how one Youth Service provider runs an activity to help taiohi to look out for “hooks” and “catches” in advertising.

Participants use a clipping from an ad in a local paper that’s offering a 30-month interest-free period on purchases \$499 and over. It’s an offer that a lot of companies use and sounds pretty good! But they’re really designed to increase the chance that the lending company make profit (in interest).

about the Youth Service provider

A Work and Income in-house team delivers Youth Service in Wellington. The team supports up to 170 youth payment clients, young parents, and NEET clients. One youth coach in the team is responsible for delivering both the budgeting and parenting programmes, which they run in-house.

Their budgeting programme of seven modules is usually delivered in a single day with a small group of four participants. This allows for plenty of time for discussion and participation.

Participants are handed out a large A3 printout of a Noel Leeming advert from the local paper or shown the ad on a projector screen. They’re asked questions about the offer and use the Sorted debt calculator to decide it’s as good a deal as it sounds.

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- interest, credit, and fees
- loans and finance
- minimum payments
- terms and conditions

resources needed

- laptop or PC, projector, and screen
- or ad printouts or clippings

about the activity

Rosie, a youth coach and programme leader in the Wellington Work and Income in-house Youth Service team, wanted taiohi to identify some of the marketing tactics that companies use to catch people out.

She found an advert in the local paper offering 30-months interest free on purchased \$499 and over. The offer sounds too good to be true, so she created an activity to explore the “real costs” of an interest-free offer.

setting up the activity

Rosie gives each taiohi a copy of the ad and asks them to scan the fine print at the bottom to find the ‘minimum repayment’ amount.

The group then work through the example of the laptop that costs \$1049.

You can take it home without paying a cent and have 30 months to pay it back, interest free. Sounds great! You sign up to the repayment plan they offer you, which you can JUST afford – it’s 3% of the outstanding balance (the amount you have left to pay) or \$20, whichever is greater- which works out to \$31.47 for the first payment.

so, what’s the catch?

Rosie asks the taiohi if they think the loan will be paid off within the interest-free period. Then explains:

“With this plan, the payments decrease (as its a percentage of total owing) until they get to \$20 per month, so you will have only paid off \$684.70 by the time the interest-free period is over. Leaving you with \$364.30 to still pay off.”

why did they offer me this payment plan if it doesn’t even pay it off in time?

Rosie takes the group through the fine print: It’s the minimum repayment plan the finance company offers. Many stores/companies will offer you this first or make it look like the most attractive offer, but this is how they make their money on the loan.

what’s the interest rate once the interest free period is over?

Rosie asks them to find this in the fine print: 22.9 % p.a.

how much interest would they end up paying on this laptop with this repayment rate?

Using the [debt calculator](#) on the Sorted website, the group is asked to input the amount still owing on laptop once the interest-free period has ended (\$364.30) at repayment rate of \$20 per month, with 22.9% interest rate.

any other catches I should be looking for here?

Ask the group to find any extra fees in the fine print: \$55 establishment fee and \$55 annual fee.

- Recalculate the remaining amount owing include these fees:
364.30 + establishment fee (55)
+ annual fees (55 x 2.5)
- Input this new total into the debt calculator, and choose option to include fees (\$55 annually). Discuss outcome (length of time to pay off, amount of interest).

extension activity

- Do a search online for the phrase "months interest free" and have a look at some of the terms and conditions for the offer. Do the participants know any similar offers from other companies?
- Work out how much you should pay per month if you want to take advantage of the offer. Discuss what the risks are if you decide to take up the interest-free offer.
- Have a look on the Consumer Protection website page on [misleading prices or advertising](#). Do these ads fit into any of the categories listed? If not, why not?

Rosie says about the activity that: "Taiohi are always really surprised at how much extra they would have to pay on the item using the minimum repayment plan. The wow factor helps to embed it in their memory"

tips for others wanting to run a similar activity

- Photocopy the ad you use and print in A3 so the taiohi can read the fine print!
- Look out for ads online or sales adverts that get dropped in your letterbox.
- Get taiohi to take turns inputting the info into the debt calculator—they'll remember better by doing.

Taiohi talking about the activity said: "I have to buy a laptop for course this year so I'm definitely gonna watch out for those tricks—its better just to save up and buy stuff in full if you can"