



**Financial
Literacy**

Unit

4



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Installment Buying

Words to know:

- ✓ installment buying
- ✓ layaway
- ✓ rent-to-own

Do you need new clothes for work or school? Do you need a crib for your new baby? What if you need something that is on sale, but can't afford it right now?

Let's say you see something you'd really like to buy. Maybe it's a popular new product. Maybe it's something that is on sale this week only. Maybe your refrigerator just broke down and cannot be fixed. You want or need to make a purchase, but you just can't afford it right now. What can you do?

There are ways to buy things without paying for them all at once. A credit card is one way to do this. What if you don't have a credit card? Installment buying may be the answer. ***Installment buying*** means paying for something a little bit at a time. It is sometimes called "buying on time". Installment buying makes it easier to get the things you want or need.

Layaway plans are a form of installment buying. Some national chain stores offer layaway plans. They include Walmart, Kmart, Sears, and Toys R Us. A layaway plan lets you set aside the items you want at their current price. The store holds them for you. You pay for them in pieces or installments over time. When you have paid in full, the items are yours to take home.

Many people use layaway plans to buy Christmas gifts. Popular toys and electronics are often expensive. They also sell out quickly and become unavailable. You can put these items on layaway in September or October. You start paying for them then. By December, they are yours. You have taken them home. They are ready to give at Christmas.



Each store offers its own layaway plan. They are not all the same.

Comparison of Layaway Plans

	Kmart	Sears	Toys R Us	Walmart
Eligible Items	almost anything in the store or online	almost anything in the store; many items online	all toys in the store	toys, electronics, small appliances, floor care, refrigerators, jewelry (\$50 minimum)
Layaway Fee?	\$5	-\$5 for 8 weeks -\$10 for 12 wks.	\$5 + shipping charges	\$15
Down Payment*	\$15 or 10%, whichever is greater	\$20 or 20%, whichever is greater	at least 20% of the order plus tax	\$10 or 10%, whichever is greater
Duration of Plan	-8 weeks -12 weeks (for \$300 or more)	-8 weeks -12 weeks (for \$400 or more)	3 months or 90 days	12 weeks
Payment Due Dates	every two weeks (bi-weekly)	every two weeks (bi-weekly)	customer choice, but 50% must be paid within 45 days	customer choice
Cancellation fee?	\$10	\$15	\$10	--
Late Payment Penalties	-items will be returned to shelf 7 days after missed payment -no refund	-items will be returned to shelf 7 days after missed payment -no refund	-items will be returned to shelf if 50% is not paid within 45 days	-items will be returned to shelf if not picked up by end of plan

(*To figure out your down payment, change the percentage to a decimal. Multiply it by the amount of your layaway purchase.)

1. List three positive features of layaway plans.
 - a. _____
 - b. _____
 - c. _____

2. In your opinion, what are two negative features of layaway plans?
 - a. _____
 - b. _____

3. Refer to the chart. Which store would you use for layaway? Explain why.

Renting to Own

“**Rent-to-own**” stores allow people to rent furniture, electronics, appliances, and other items. Customers rent items that they do not have the money to buy. The money they pay in rent can count toward buying the item. The choice is theirs. The customer pays a weekly or monthly fee. There is no credit check or loan application. However, the customer must sign a legal contract. A rented item can be returned without paying a fee and without hurting the customer’s credit. Rent-to-own stores appeal to many people with poor credit or no credit card. They seem like a good thing.

However, there is a hidden truth about rent-to-own stores. The customer usually pays much more for items by “renting to own”. *Consumer Reports* is an organization that protects buyers in America. It studied rent-to-own stores. Its advice to people is: *Avoid rent-to-own. Using a credit card is a better option. Or wait until you can afford*

to pay for the item you want. These examples show why rent-to-own may not be such a good idea.

- A \$612 laptop computer is offered to rent for \$38.99/week for 48 weeks. The total cost will equal \$1872. That is three times the cost of the laptop.
- A \$1000 clothes washer and dryer will cost the renter \$2700 in total.
- An \$1890 television is offered to rent at \$39.99/week for 104 weeks. Its total price will be \$4159, when all the rent has been paid.

The interest rates of the above examples range from 92% to 311%! The average credit card interest rate is currently 16.89% (as of 9/30/2012). Average rates for personal bank loans vary by state and area. Most are under 15%.

The Positives of Rent-to-Own

“Rent-to-own” stores offer new items to rent. The payments seem easy to afford. People with bad or no credit can furnish their homes from these stores. Sometimes these stores offer free delivery. Some stores also offer service or repairs if anything should break.

The Negatives

The final cost of a rent-to-own item is usually much more than it is worth. You may pay other charges and fees in addition to rent. There are late payment fees. There are fees to re-start your payment program if you are too late in paying. Sometimes renters who pay late receive repeated phone calls and threats from their rent-to-own store.

Be Careful

Before you decide to rent an item, read the contract. Ask questions such as:

- How much, in total, will I be paying for this item?
- Is this something I really need or just want?
- Can I wait until I save the money to pay for it?
- Would it be better to use a credit card or get a personal bank loan?

Do not let the sales person talk you into renting items you do not need.

What do you think?

4. María’s refrigerator stopped working yesterday. The repairman said it could not be fixed. A new refrigerator costs around \$600. María only has about \$100 in her savings account. She can’t afford a new refrigerator. She went to a store that has appliances for rent. María can rent a refrigerator for \$60 a month. She signed a contract to rent it for 18 months. At the end of that time, she will own the refrigerator.

a. How much, in total, will María pay for the refrigerator? _____

b. Was this a good decision? Why or why not?

c. What else could María do to solve her problem?

5. Samuel loves to watch soccer on television. He went to a friend's house last week to watch a game. His friend has TV with a 72-inch screen. Now Samuel wants to watch every game on a big-screen TV. However, he doesn't have enough money to pay for one. Should he go to a "rent-to-own" store to rent a TV? Why or why not?

6. You rent a kitchen table and chairs at \$15 a week for 60 weeks. You also pay 15% interest. What will the total cost of the table and chairs be? _____

Notes:

☞ End of Unit 4 ☜