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SAFE Finance Blog

Beware of Zero-Interest Consumer Credits

06/06/2017

Debt-financed consumption may lead to a “debt trap”



A new car, the next holidays, a flatscreen: An increasing number of consumers finance their consumption by debt. The volume of debt-financing in Germany raised by 12 percent up to 185 billion euros during the past ten years. In a podcast of the radio station HR-Info, Andreas Hackethal (<https://safe-frankfurt.de/de/forschung/wissenschaftler/details/showauthor/109-hackethal.html>), Professor of Finance at

Goethe University Frankfurt, warned to resist the temptation of consumer debt-financing: “If you cannot afford a vacation with your salary, you should well consider whether you burden yourself with installment payments for the next months or even years.”

In order to increase sales many retailers try to entice potential customers with zero-interest consumer credits. This offer grants an interest-free instalment loan for a fixed period. The loan agreement is usually conducted with a bank which cooperates with the retailer. Possibly the retailer pays a commission to the bank. Most customers are not aware of the fact that this fee is included in the price calculation of the product. Moreover, customers often face “additional conditions and extra services which are not needed,” Hackethal said.


In addition, consumers have to realize that even with zero-interest financing they will need to pay off the instalment rates. If their monthly salary is too small, consumers are likely to run into over-indebtedness. “Unfortunately, many people in Germany share this destiny,” Hackethal states. More than every tenth adult in this country is heavily indebted.

Keywords: Household Finance (https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=182&cHash=219248e328a909c6ab29dc8885f8d)
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