Redlining, bankruptcy load the dice

Credit game plan requires skill

By LYNN ORR

Playing the credit game requires know-how to beat the odds. Although most Americans use credit cards and revolving accounts and are familiar with credit unions and bank loans, few have the expertise to avoid potential pitfalls.

There are numerous lines of credits. Revolving credit, typified by the credit card, makes up about 15 per cent of total outstanding credit today, according to Dr. William C. Dunkelberg, associate professor of economics at Purdue University.

Farmington residents can walk into their local bank and apply for a checking account that starts automatic credit if a check is written for more than the account can cover. Affluent areas, like the suburbs, thrive on the credit business.

About half of the customers at the Danish Inn, a Farmington restaurant, and Harvi's, a retail women's clothing store located in the Farmington Plaza, use major credit cards in their transactions.

"It's more convenient for customers to charge," says Diane Goldberg, Harvi's bookkeeper. Harvi's also has it's own credit card account, which saves the collection fee charged by the major credit card companies; but the store wouldn't limit customers to it's own charge, Ms. Goldberg says.

"Too many people come in and want to use major cards," she says.

Val Guilmette, the Danish inn's bookkeeeper, says the restaurant has accepted all major cards for years.

For a restaurant, credit cards take a lot of the hassle out of bill. "House accounts have more problems," she says. The major credit card companies will collect from the customer and restaurants can't be stuck with an unpaid bill if it's been charged on a major card and proper procedures are followed. The merchant pays from two to five per cent for the credit card service.

GROCERIES can even be charged with plastic money—an extension of the corner market account but much easier on the merchant.

Credit has been extended for years on an assessment of character, capacity and collateral—the three Cs, according to Dunkelberg. But there's disagreement as to the availability of credit today.

Tony Flum, assistant administrative officer at National Bank of Detroit's metro-west regional office, which includes the Farmington area, believes it's easier than ever before to get a loan.

"You can no longer pre-judge an applicant," he explains. "You must take a credit application and process it, and there's a very small per cent that can be turned down. For the most part, people know what they can handle, but when they hear the answer is no, it's very upsetting. They keep trying, and with all the sources, they're bound to get it somewhere.

"When you summarize an application in your mind, you look at income, current debts, and ability to repay the loan. In some cases, people are overextended, but when you look at their credit history, everything is beautiful. You try turning that person down."

CREDIT CARD REDLINING, or the practice of discrimination on the basis of area of residence, however, is a new phenomenon in the business. Recently a Detroit couple with a combined income of more than $50,000 complained to city officials that they were denied a Mobil credit card because of where they live.

A credit scoring model, a statistical or computerized system in which characteristics are weighted differently, is supposed to treat consumers more selectively and individually than possible with human judgment, Dunkelberg says.

"The most disturbing characteristic of credit scoring models, and any other evaluative procedure used to date, is that in order to keep losses under control, a lot of good applicants must be turned down in order to insure that enough bad applicants are turned down," he explains.

For those who get by the evaluation, Dunkelberg has some advice.

Wise credit usage can benefit the consumer, he says. "This involves more than simply finding the cheapest loan," he adds. "Low monthly payments may be very valuable to the consumer, for example, but require higher rates."

He suggests the consumer look at the total cost of credit in a simplified ratio: the total cost of the loan as compared to the rate of interest or finance charge; the amount borrowed, the dollar value of an hour of time(time needed to secure a loan); cost per lender contacted; and number of lender contacts.

"For certain sizes of loans and for short term borrowing, the use of the credit card can indeed be the cheapest source of credit."

Jerry McTaggart, president of the American Association of Credit Counselors, has other warnings.

Although many persons use credit cards for convenience and pay the balance each month, thus avoiding the finance charge, others extend their payments. The price may be more than the consumer realizes, McTaggert points out.

The finance charge (or interest) on an unpaid balance starts from the day of purchase, not from the due date of the bill as many people assume.

It might be cheaper to shop around for a loan than buy a major purchase at a retail store and accept a fixed finance charge, he says.

Bankruptcy over a five-year period, often called a wage earner bankruptcy, is "the worst thing a person can do," McTaggart says.

Nearly half of the resulting debt can include administrative and court costs.

"The person can't enter into a contract for the entire period," he says.McTaggart believes schools need to do a better job of educating young people about the credit world, although he feels new state regulations have made credit obligations easier to fathom.

CASH CUSTOMERS, however, may be subsidizing the use of revolving credit, says Dunkelberg.

"Studies of retail operations in several states indicated that the cost of credit operations exceeded finance charge revenues by substantial amounts," he notes. "Since firms must earn a reasonable return on their total operation, these deficiencies my be made up from general revenues and are reflected in the prices of goods sold."

Since many observers feel that most of the cost savings have now been realized, firms will have to subsidize credit operations more extensively in the future.

One way the cash customer may save money is to ask for a discount when making a cash purchase. Several stores on the east coast offer this option to customers in light of rising costs in credit operations.

THE FUTURE may see the development of electronic funds transfer(EFT) which could lower costs and attract new customers, Dunkelberg says.

"The key to the success of the credit card is that it is used at the point of sale," Dunkelberg says. "The card may be used at the most convenient time, leaving the decision about financing (cash or credit) until the bill is received and eliminating the cost of searching for credit from independent grantors."

The plastic card may be the kingpin of the EFT system, where funds are transferred automatically.

Love and lobs debut at Founders Festival

Farmington Founder's Festival will include this year an open and novice tennis tournament sponsored by the Farmington Area Recreation Commission.

Players who work or live in the Farmington Area can participate in the tournament July 22, 23, 24 at Farmington area high school tennis courts.

Entries must be placed in person at the Farmington Area Recreation office, 31555 Eleven Mile, Farmington Hills. Phone or mail registrations are unacceptable. Entry deadline is July 15 and the fee for teen is $2.50, adults, $3 and doubles, $4 per team.

Players are considered novices if they have never competed in a tennis tournament; have not received a letter for tennis in high school or college and were not a member of a competitive team.

The open division is for players who hold amateur standing.

Teen division is divided to include, boys under 14, girls under 14, for singles. Boys and girls under 16 are the next teen division. Players under 18 make up the last section of the division.

Adult division includes men's singles, women's singles, men 30 and over for singles and women over 30 for singles.

Doubles include women, men, mixed and boys and girls under 18.

Awards will be given to the first and second place winners of each division. For further information call the Recreation Commission at 474-6115.

Farmington Observer

Published every Monday and Thursday by the Observer & Eccentric Newspapers, 36251 Schoolcraft Rd., Livonia, Michigan 48150. Second-class Postage paid at Livonia, Michigan 48151. Address all mail (subscription, change of address, Form 3579) to P.O. Box 2428, Livonia, Michigan 48151. Telephone 261-3800.

HOME DELIVERY SERVICE

Newsstand per copy 25¢

Carrier monthly $1.00