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Brazil: Where Credit Grows on Trees

Consumers can pay for purchases in 17 installments, on any credit card and without interest rates

by [Myrna Domit, GlobalPost](#)



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SAO PAULO, Brazil — The global credit crunch has hit borrowers from Wall Street to London to Hong Kong. Then there's Brazil, where even the poor can pull out the plastic to cart home flat-screen TVs, stereos and cappuccino machines.

Credit is not only bountiful but virtually free and democratic. It's all thanks to interest-free payments — Brazil's version of an installment plan. Only this plan allows consumers to buy their products in up to 17 installments or more on any credit card and without interest rates.

These attractive payment plans aren't new. But in the past two years, with low inflation and a booming economy, cash-strapped Brazilians are more confident than ever before.

"Low-income consumers believe that their moment has finally arrived," said Marcelo Neri, an economist at the Getulio Vargas Foundation. "Brazilians are now making up for years of holding back on spending."

Riding the credit wave, Brazilians are borrowing their way into a better future. Inflation is hovering around 4.5 percent, which Brazilians

consider low compared with the whopping 2,500 percent inflation of 1993, a record year.

Banks guarantee payment to stores and take on all the risk in case consumers miss a payment. Yet, stores, consumers and banks have a common understanding: missing a payment's due date will lead to painful interest rates, especially because Brazil's interest rates are among the highest in the world. And consumers recognize they're not always getting the best bang for their buck — stores often charge more for products sold under installment plans.

With customers eager to buy more products on credit, retailers want to make sure they keep their clients happy by stretching the installment plans as far as they can.

In April 2010, consumer credit totaled \$267 billion, representing an 18.2 percent annual increase, according to Brazil's Central Bank.

Casas Bahia, a successful chain of shops selling home appliances and furniture on credit, has extended its payment plans from 10 installments to 17, and sometimes more, in the last year, said manager Marcilio Bonfim.

Maria da Conceicao, 58, has been spending her paychecks at Casas Bahia for the past 13 years and calls her home an extension of the department store.

"I work as a housekeeper and earn about \$600 a month and if I had to pay upfront, I would not have a bed to sleep on," said Maria as she paid for two blenders and a DVD player in 10 interest-free payments.

Like Conceicao, most low-income consumers in Brazil spend an entire year paying off their debt, allowing them to own goods that otherwise they could not afford.

"I prefer to pay in 10 or more installments, I am used to it and it allows me to own more stuff," said Ronaldo Rodrigues, 57, a janitor. "My entire house was bought at Casas Bahia: refrigerator, microwave and washing machine."

Consumers have remained faithful when paying their debts.

Default rates decreased by 6.7 percent from January to March compared to the same period in 2009, a record decrease in default rates since May 2000, according to Serasa Experian, Latin America's largest credit bureau. Serasa Experian does not release the absolute default rate, only year to year variations.

At ShoeBiz, a shoe store in the commercial center of Sao Paulo, posters scream at shoppers in capital letters: "Take a pair of shoes home in 10 INTEREST-FREE PAYMENTS."

With two daughters trying shoes on, hairdresser Nilma Lopes de Santos had her MasterCard in hand as she negotiated a payment plan of 10 installments with the salesman.

"I always pay in installments, I can't afford to buy my daughter shoes and pay upfront," said Lopes.



At Ponto Frio, another home appliances retail shop, salespeople advertise the installment price before mentioning an item's full price.

"Ninety percent of our clients buy in extended installments because they would not be able to afford a \$500 product upfront," said Edson Alves, 34, a manager at Ponto Frio.

Economists warn consumers against these striking payment plans, advising them to negotiate a lower price by offering to pay upfront.

"The population must wake up because stores hike up the price and hide that into these attractive payment plans," said Jose Dutra Oliveira Sobrinho, vice president of the Council of the Economists in Brazil. "If shoppers understood this, they would try to pressure the stores to sell them goods at a discounted price if paid upfront."

Still, for many Brazilians, that is not an option.

Even in a thriving economy, Brazil's growing middle class earns between \$600 and \$2,600 a month, not enough to afford an average refrigerator at \$300 and make ends meet.

"I know that they increase prices when offering extended payment plans, but I can't buy anything upfront and I need a TV to watch the World Cup," said Maria do Carmo, a hairdresser fishing for a TV at Casas Bahias.

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