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Feature Article

### **“No Deposit” Financing - A Closer Look at the Hidden Costs and Consumer Impacts**

In today’s competitive marketplace, “No Deposit” offers are a common feature in the promotional arsenal of financial institutions, hire purchase retailers, and online lenders. Plastered across billboards, online ads, and store windows, phrases like “Zero Down Payment” or “Drive Away with No Deposit” are designed to lure consumers into financial commitments by eliminating the immediate need for upfront capital. While such schemes can be appealing, especially to lower-income households or financially stretched individuals, they often come with complex trade-offs.

This article takes a deep dive into what “No Deposit” really means, unpacks the underlying financial implications, and explores the hidden costs to consumers.

#### **What Does “No Deposit” Really Mean?**

At its core, a “No Deposit” offer means that the consumer can access a product or service—be it a car, home appliance, or personal loan—without making an initial upfront payment. Traditionally, a deposit (also known as a down payment) serves several purposes:

- It reduces the lender’s risk by demonstrating the borrower’s commitment and financial capacity.
- It lowers the loan principal, hence reducing interest over the repayment period.
- It provides a financial buffer in case of default or resale depreciation.

By eliminating the deposit, the borrower gains access without parting with any cash initially. However, the lender or merchant still needs to protect their risk exposure, which they typically do by adjusting the loan terms, pricing structure, or conditions.

#### **How Lenders and Retailers Offset the Absence of a Deposit**

To compensate for the absence of a down payment, financial institutions and hire purchase providers often:

1. **Increase the Interest Rate** – “No deposit” offers are typically coupled with higher annual percentage rates (APRs), effectively increasing the cost of borrowing.

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2. **Extend the Repayment Term** – To keep the monthly instalments affordable, the repayment term may be stretched, which cumulatively increases the interest paid.
3. **Add Hidden Fees** – Processing fees, insurance premiums, and documentation charges are often embedded within the total loan amount.
4. **Apply Strict Penalties for Late Payments** – Late fees and compound interest may be charged more aggressively in these schemes.
5. **Inflate Product Pricing** – Some retailers build the risk premium directly into the price of the goods, making the overall purchase costlier than if bought outright.

### **Pros of “No Deposit” Schemes**

#### **1. Immediate Access**

Consumers can access goods and services without saving up for an upfront lump sum. This can be crucial in emergencies, such as replacing a broken refrigerator or funding urgent transport needs.

#### **2. Cash Flow Flexibility**

It allows consumers to preserve their existing savings or use their funds for other pressing needs, which may be especially helpful for those with inconsistent income.

#### **3. Psychological Appeal**

From a behavioural economics standpoint, “no money down” feels like a “free” offer. The psychological distance from the financial burden can increase consumer confidence and purchasing motivation.

### **Cons and Consumer Costs**

#### **1. Higher Long-Term Cost**

While the consumer pays nothing at the start, they almost always end up paying more over the life of the agreement. For example, a refrigerator worth FJD 1,000 might cost FJD 1,500–FJD 2,000 under a no-deposit hire purchase plan due to interest and fees.

#### **2. Debt Trap Potential**

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By removing the barrier of an upfront cost, these schemes make it easier for financially vulnerable individuals to take on debt they may not afford. This leads to over-indebtedness, repayment stress, and in extreme cases, repossession or legal action.

### 3. Misleading Advertising

“No deposit” promotions often hide critical details in fine print. For example, consumers might not realize that insurance, delivery, or administrative fees are required upfront—undermining the concept of “no upfront cost.”

### 4. Increased Risk of Default

Consumers who cannot afford a deposit may also lack the means to sustain long-term repayments. This is a red flag in responsible lending frameworks, yet many lenders ignore it for the sake of volume-driven profit.

#### Comparative Analysis: No Deposit vs. Deposit-Based Purchases

Factor	No Deposit Scheme	Deposit-Based Purchase
<b>Upfront Cost</b>	FJD 0	Typically, 10–30% of the item/loan value
<b>Monthly Installments</b>	Higher (due to larger loan amount + interest)	Lower (smaller principal and interest)
<b>Total Cost Over Time</b>	Higher due to interest, fees, and longer terms	Lower due to reduced principal
<b>Ownership Risk</b>	Higher (more at risk of repossession)	Lower (greater equity from the outset)
<b>Credit Assessment Rigor</b>	Often lenient	May require stronger financial background
<b>Consumer Protection Risk</b>	Higher (especially with unregulated lenders)	Generally safer (with licensed institutions)

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### **Real-World Example**

Complaints registered with the Consumer Council have shown that “No Deposit” schemes—particularly from unlicensed credit providers and retail stores—have trapped consumers into paying up to 30% per annum in interest, with repayments consuming 70- 80% of monthly income in some cases. Many consumers later acknowledge they didn’t understand the full financial implications or were misled by the promotional language.

One case involved a woman in Suva who acquired household goods through a “no deposit” hire purchase scheme. With a monthly income of FJD 750, her repayments were FJD 500 for two years. She ended up paying more than twice the original value of the items. Worse, when she missed payments due to illness, the goods were repossessed—despite paying more than the item’s retail value.

### **Regulatory and Policy Considerations Internationally**

Governments and regulators have begun scrutinizing such practices. In some countries, laws now mandate:

- Full disclosure of effective interest rates and total cost of credit.
- Licensing and oversight of lenders and hire purchase operators.
- “Cooling-off periods” allowing consumers to withdraw without penalties.
- Financial literacy campaigns to educate consumers on their rights and risks.

The Consumer Council has called for stronger oversight of unlicensed credit institutions and a cap on exploitative interest rates, especially in schemes targeting low-income consumers with “no deposit” bait.

### **Conclusion**

All in all, while “No Deposit” schemes can offer temporary relief and widen access to goods and services, they are far from cost-free. They disproportionately affect financially vulnerable populations by encouraging immediate consumption at the cost of long-term financial health. For consumers, the golden rule remains: “If you can’t afford the deposit, you probably can’t afford the repayments.” And for regulators and consumer advocates, the challenge is to ensure that financial inclusion does not morph into financial exploitation. For queries or complaints,

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Mobile App

consumers can contact the Council via the toll-free number 155 or email [complaints@consumersfiji.org](mailto:complaints@consumersfiji.org). In order to seek financial advice or lodge financial related complaints, consumers can email [rdmo@consumersfiji.org](mailto:rdmo@consumersfiji.org)

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