

Cash Crisis – Money Traps That Keep You Broke



Solve the Money Mystery

1. Payday Loans

Payday lenders have been banned from Arkansas, but the service is still available online and in some other states. With a payday loan, you borrow money against your next paycheck. The full amount plus interest and fees are due your next pay period. Additional fees and interest are added to the loan each time the loan is not paid in full. Fees and interest can add up to more than 300 percent.

2. Pawnshop Loans

Jewelry, guns, cameras or other items of value can be loaned for money at pawnshops. The broker decides the value of the item, the amount of the loan and the amount you must pay to redeem your item. You must repay the specified amount by the end of the time period (usually 30 days), or your item is offered for sale.

3. Tax Refund Anticipation Loans

If you qualify for a tax refund, the tax preparer may agree to give you a refund anticipation loan. Fees and charges will come out of your tax refund. The fees charged for refund anticipation loans can be comparable to interest rates ranging from 50 to 500 percent of the loan amount. Instead, file electronically.

You can have your refund in as little as 10 days. Free tax preparation is available for qualified tax filers through programs such as Free File, Volunteer In-come Tax Assistance (VITA), Tax Counseling for the Elderly (TCE) and Armed Forces Tax Counsel (AFTC).

Life happens – cars break down, kids get sick, people lose jobs. Someday you may have a cash crisis. You may be tempted by quick and easy loans. However, fee and interest charges can make it even more difficult to pay your regular bills the next month. Beware of those who are willing to lend with no questions asked. Here are 10 potential money traps that can snare consumers.

4. Car Title Loans

Car title lending is no longer allowed in Arkansas but is available online and in nearby states. The amount of the loan is usually much less than the value of the car. Interest rates and fees are high. If the money is not repaid on time, the title company will sell your car. Consumers who use car title loans risk losing a valuable asset.

5. Layaway Plans

Layaway items are left at the store until paid in full. Service charges and late payment fees can add to the cost. Be sure to keep good records of your payments. If you miss payments, the store may cancel your layaway. You could lose both the item and money you paid.

6. Check Cashing Charges and Money Orders

Without a checking account, the costs of cashing paychecks and money orders can add up. If you pay \$5 to cash a weekly paycheck, you would be paying \$260 by the end of the year. Four money orders per month, at an average cost of \$3 each, would total \$144 a year. Compare services in your area to find the lowest fees, or open a bank or credit union account.

7. Overdraft and Late Payments

Careless bill paying habits can be expensive. Both the merchant and the bank can charge for each bounced check. Many lenders charge a fee for late payments. Keep a careful eye on due dates. Know your account balance.

8. Rent-to-own Plans

You will own the item only after you make all of the payments stated in the contract. Rent-to-own plans cost three to four times as much as paying cash and twice as much as using regular credit. Also, if you miss a payment, the store can come and take the items, and you will have nothing to show for the payments made.

9. Advance-fee Loan Scam

Con artists place ads in the newspaper or online. They may call on the phone. They promise a loan, but you have to pay a service fee in advance. In the end, you don't receive a loan and you're out the cost of the service fee. Don't get loans this way.

10. High-interest Credit Cards

Using high-interest credit is risky. It's easy to charge but often hard to come up with more than the minimum payment. Assume you have a balance of \$1,000 with an annual percentage rate (APR) of 25% and pay only \$40 a month. It will take you 36 months – 3 years – to pay off the debt, and you will pay \$431.25 in interest. Look for low-interest credit cards instead and pay more than the minimum when you can.

What can I do?

Avoid money traps by being prepared to deal with a crisis. Spend carefully. Shop wisely. Save for the future. You never know when the next money crisis will come up. It helps to have funds set aside for emergencies. Below is a handy checklist of tips and tricks that you can use to help avoid money traps and save for a rainy day.

Money Management Checklist to Help Avoid Money Traps

MONEY MANAGEMENT TOOL	CURRENTLY DOING THIS	DATE TO MAKE THIS CHANGE
Have an emergency fund to help avoid taking out a quick loan.		
Save sick days at work to be used for emergencies.		
Use part of raises to build a savings fund.		
Trim expenses by comparison shopping, using coupons and buying second-hand.		
Trim unnecessary expenses to have more money for necessities.		
Maintain a good credit score to qualify for credit and loans with the lowest rates.		
Save up and pay in full instead of paying fees and interest for rent-to-own, layaway or credit.		
Pay bills on time to avoid late fees.		
Watch account balance to avoid overdraft fees.		
Use a bank to avoid check cashing and money order fees.		
File taxes electronically and/or use a free tax service to avoid refund anticipation loan fees.		

Contributors

FCS Agents who assisted with the previous Money Talks series and The Great Money Mystery series; Megan Wells, M.S., Program Associate University of Arkansas System Division of Agriculture Cooperative Extension Service.

Author

Laura Hendrix, Ph.D., Accredited Financial Counselor®, Associate Professor – Personal Finance, University of Arkansas System Division of Agriculture Cooperative Extension Service.