

Three Money Traps to Avoid

Overview

Three money traps that lure people short of cash into loans and rent arrangements that are often very expensive over time.

- Payday loans
- Title loans
- Rent-to-own

People short of cash are often tempted by the easy terms of payday loans or car title loans without realizing how expensive these quick loans really are. And people without savings are the main target of rent-to-own businesses, which offer furniture and appliances now for what can be costly payments over time. All three are money traps to avoid.

Payday loans

A way to get quick cash when you run low before payday, these loans often carry outrageously high interest rates and fees. For a two-week loan of \$100, it's not unusual for a lender to charge a \$15 "processing fee," in addition to interest. What can seem like an easy way to get cash a week or two before your paycheck can get you in the hole faster than almost any other type of debt.

A payday loan is usually marketed as a one-time "fix" for a temporary situation. The reality is far different -- over 90 percent of those who take out payday loans do so many times per year, often borrowing from one payday lender to pay another.

Getting money through payday loans is like agreeing to an instant, deep pay cut. If you take more than a week or two to repay, or if you borrow money this way more than once or twice a year, you are probably setting yourself on course for a downward debt spiral that will be almost impossible to turn around. If your cash didn't get you from one paycheck to the next when you needed the payday loan, it's going to be that much tougher the next time, with the added expense of a super-high-interest loan.

Payday loans are worse than a last resort. They're *never* a smart option. If you have a payday loan, cut expenses or raise money some other way to pay back the loan as quickly as you can. If you don't have one, don't even consider one. (Other names for payday loans include cash advance loans, check advance loans, post-dated check loans, and deferred-deposit check loans.)

Title loans

Like payday loans, title loans are short-term loans that carry extremely high interest rates. And like payday loans, they are traps for people without much money.

In a title loan, you give the title to your car and a copy of your keys to a lender as security for a loan. If you don't repay the loan, or if you fall behind in your

2 • Three Money Traps to Avoid

payments, the lender simply takes your car, sells it, and pockets the money that's owed.

The fee for a title loan can be more than 20 percent a month. So a \$1,000 title loan can cost more than \$200 a month in interest fees. If it takes you a year to repay, that \$1,000 loan will cost you more than \$3,800. A title loan is not the way to get back on your feet if you're having financial problems. It's a trap that's likely to suck you deeper into debt.

Rent-to-own

Rent-to-own businesses offer customers furniture, appliances, and electronic equipment for a monthly rental fee. The rental fee is applied toward the purchase of the merchandise over a period of time, generally one or two years. The customer can end the arrangement at any time by returning the merchandise. And the lender can end it, if the customer doesn't keep up with the rental payments, by taking the merchandise back.

The problem with rent-to-own arrangements is that they are expensive. When you account for a rental fee that's the equivalent of a super-high-interest rate, the cost of rent-to-own merchandise is generally higher than prices you'd find in stores for the very same items -- sometimes as much as three times the retail price. In one state, a \$200 television was found to cost as much as \$700 at a rent-to-own business, after interest.

Before entering into a rent-to-own agreement, ask for a written statement showing the total amount you'll pay to own the merchandise. Then take a few days and shop around. Compare the rent-to-own total to the cost of a similar item in a store or at an online seller. Think about other ways you might be able to buy the item. You might be able to get a loan from a bank. Or, you might be able to wait and save the money to pay for it with cash or a check.

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