

Money Traps That Keep You Broke

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Life happens – cars break down, kids get sick and 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:



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 Loan

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 your taxes 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 Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE) and Armed Forces Tax Counsel (AFTC).

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

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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 \$3 to cash a weekly paycheck, you would be paying \$156 by the end of the year. Four money orders per month, at an average cost of \$4 each, would total \$192 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 item(s) may be repossessed and returned to the store, 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 20 percent and pay only a minimum payment of \$40. It will take you 75 months – or over six years – to pay off the debt, and you will pay \$560.53 in interest. Look for low-interest credit cards instead and pay more than the minimum when you can.

Tools to Try

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 cash crisis will come up. Use the following tools to avoid money traps and save for a rainy day.

Tool 1 – Think before spending.

Think about what can happen if you overspend. Before you spend or enter into a loan agreement, ask yourself:

- Will I have enough money to pay my regular bills and buy food?
- How will I pay back the loan?
- How will I deal with sickness, car trouble or some other emergency?
- Will poor credit keep me from getting a job or cause me to lose my job?

Tool 2 – Plan ahead.

Prepare ahead for your next cash crisis:

- Hide some money for emergencies.
- Keep two wallets. Use one wallet for shopping and the other for saving.
- Freeze some money in an ice cube tray for emergencies. You'll have to thaw it to spend it. That will give you time to carefully consider your decision.
- When you get a raise, bonus or tax refund, save part of it in a bank or credit union savings account.

Tool 3 – Cut expenses

Reducing expenses can help you deal with a cash crisis or build your emergency savings fund. Here are a few ideas to cut expenses and save money:

- Use coupons, shop sales, take advantage of discounts, comparison shop, buy second-hand, bargain hunt.
- Take your lunch or cook at home instead of eating out.
- Change your thermostat – lower your heat setting or raise your cooling temperature.
- Find other ways to reduce home energy expenses.
- Eliminate unnecessary features and services like call waiting or extra television channels.

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