

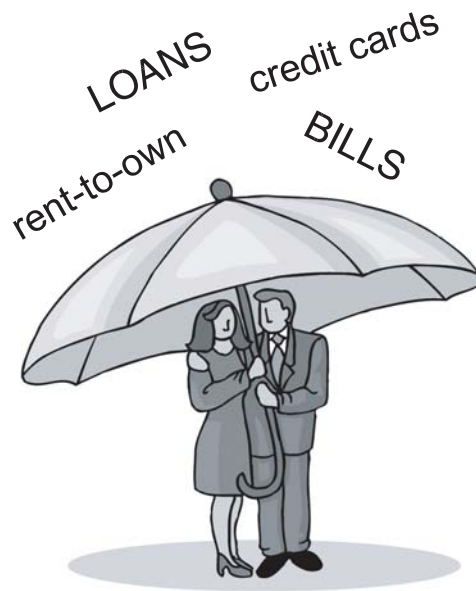
Cash Crisis: Money Traps That Keep You Broke

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Family and Consumer
Sciences Associate

*Sheesn
Trouble works at
a local factory.
Sheesn has so
many bills, she
just can't get
ahead. Sheesn
envies her fellow
workers who
have nice TVs,
cars and jewelry.
One creditor
threatened to
come and get her
new TV/VCR
because she was
two months
behind with her
payments. In her town, there are
places where she can borrow, but
taking that first step frightens
her, and she doesn't want her
family or friends to know she has
money troubles.*

Many families have similar problems when there is "too much month and not enough money." They face tough choices – find a way to make the monthly payment or lose the item.

If you face a cash crisis, you will find there are friendly persons and merchants willing to lend you cash – no questions asked. Paying someone an extra \$20 or \$25 so your heat and lights aren't turned off may not



sound like a lot of money when you can avoid expensive reconnect charges. But next month be aware. You will have to find the money to pay this month's bill plus interest or finance charges, and next month's bill.

This fact sheet discusses 10 cash crisis traps that await unwary consumers – paycheck loans, pawn shop loans, tax refund loans, title loans, layaway plans, money order and check cashing charges, hot check and late payment fees, rent-to-own purchases, loans by telephone and high interest credit cards. Suggestions are given for less costly ways to try to solve your current cash crisis and avoid another budget crunch next month.

Trap 1 – Payday Loans

With a payday or paycheck loan, you borrow money against your next paycheck. Before the end of your next pay period, you

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must repay the loan with interest. Also, keep in mind there will be fewer of your next paycheck dollars to spend because you used them to pay last month's bills. You can continue making interest payments, but the only way they will end is to pay back the original loan. Currently, lenders or persons who make paycheck loans can charge whatever you are willing to pay as they are not regulated.

Trap 2 – Pawn Shop Loans

If you own jewelry, guns, cameras or other items of value, a pawn shop broker will give you cash for the item after deciding what he or she thinks it is worth. He or she will also tell you how much cash you must pay at the end of the month to redeem the item. The pawn brokers must keep the item for at least 30 days. If you do not pay back the loan, after 30 days the pawn shop can offer the item for sale. No credit check is required.

Trap 3 – Quick Tax Refund

If you qualify for a tax refund and want it fast, even the day of your appointment with the tax preparer, he or she may agree to give you a quick loan. The tax preparer's fee and charges for a quick tax refund will come out of your tax refund. Usually charges start at \$25 and up, depending on services required.

Most taxpayers don't realize they can get their tax refund within two or three weeks when they use the *free* services of a VITA (Volunteer Income Tax Assistance) volunteer. By using VITA, you can keep all of your tax refund. And since many VITA sites offer free electronic filing, the wait is short – usually just three or four weeks. To reduce delays, gather all of the information your tax preparer needs, including W-2 forms, the children's Social Security numbers and 1099 forms, and take them with you.

Trap 4 – Car Title Loans

After a home, usually the most expensive item you own is an automobile. If you have a

LARGE cash crisis, a car title loan might look like a solution.

In exchange for possession of your car title and the following information about you, the title company often lends you up to one-third the wholesale value of your automobile.

To borrow \$700, *Sheesn Trouble* gives the *Title Company* her clear Arkansas title, a copy of her driver's license, the car registration, a copy of her latest paycheck stub, a piece of mail with her address and a set of car keys. Sheesn keeps her car. She doesn't wait for the money.

With a title loan there is no credit check. No questions are asked. But, the charges are high. Interest charges start at 23 percent for 30 days. No wonder most borrowers try to pay the loan in 30 days.

Before you get a title loan, ask yourself how you are going to raise the funds to pay back both the amount you borrowed and the interest charges by the end of the month. Since the title company has your car title, a set of your car keys, knows where you live and work, it's easy to repossess the car, drive it to the auction and sell it.

Trap 5 – Layaway Plans

A time-honored way to buy items you like when you don't have the money is to put them on layaway. Items are left in the store with your name on them saying you are the buyer. You make payments until you have paid for the item in full. Sometimes there is a charge for this service, especially if you don't make all of your payments. In that case, if you have a refund coming, you will not get all of your money back.

What many consumers don't realize is if the store is in financial trouble and goes out of business before you get the item out of layaway, you are out of luck. The store may not be required to give you the partially paid item or your money back.

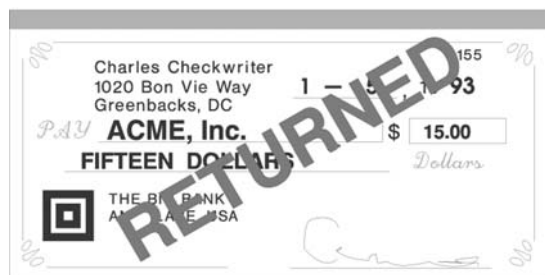
Trap 6 – Check Cashing Charges and Money Orders

Families without checking accounts fail to add up the costs of cashing paychecks and buying money orders. For example, if you pay \$3 to cash your weekly paycheck, by the end of the year it will cost you \$156. If you also had to buy four money orders each month to pay out-of-town bills at an average monthly cost of \$4, that adds up to a yearly expense of \$48 for a total of \$204.

In most towns, families can open a thrifty checking account, watch the number of checks they write each month and hold costs to \$100 or less. Some banks offer free accounts. The biggest benefit comes if you can manage your checking account and avoid overdrafts or bounced checks. Once you do, your good bill-paying record will be to your advantage when the time comes to apply for a car or home loan.

Trap 7 – Bounced Checks and Late Payments

Careless bill-paying habits are costly. One bounced check can set you back \$40 or more. Both the merchant and the bank are going to charge you \$20 or more for each mistake. And if your payment is already late, many stores will charge another \$20 fee. Don't be like one young woman with five late payments each month. At \$20 each, \$100 of her paycheck went for late payments!



Trap 8 – Rent-to-Own Plans

With a rent-to-own plan, you will own the item only after you make all of the payments stated in your contract. If you miss any

payments, the rent-to-own store will come, take the item and you will have nothing to show for all of the payments you made.

Rent-to-own plans cost three to four times as much as paying cash and more than twice as much as using regular payments. People use rent-to-own plans when they cannot get credit. Try to get by for a month or two and save enough to buy a used item or one with fewer features.

Trap 9 – Advanced-Fee Loan Scam

Some people are so desperate for cash, they will try the first idea they see. For example, they borrow money over the telephone. The con artist places an advertisement which says they will guarantee you a loan for only \$100. All you have to do is place a long-distance call to a 900 telephone number to find out where to send the money.

The con artist takes your money. You don't get the loan. Long-distance charges may be \$100 or more.

Don't borrow money if you have to pay fees up front. Legitimate lenders do not lend money without asking questions and checking your credit.

Don't borrow money if you don't know the lender. You are sending money to someone whom you have not talked to, let alone met.

Don't borrow money unless you see the terms in writing. If you don't understand the terms, ask questions.

Don't give personal information, such as your Social Security number, over the telephone.

Finally, call the Arkansas Attorney General, 1-800-482-8982, if you suspect fraud.

Trap 10 – High Interest Credit Cards

Financing your lifestyle with high interest credit cards is a trap. It is so easy to charge and often so hard to come up with more than the minimum monthly payment to pay down and pay off the balance you owe.

Most credit card companies require low minimum payments. This means you have a forever card, that is, one that will take forever to pay off. For example, if your APR (Annual Percentage Rate) is 18 percent and your credit card balance is \$650, your minimum payment will be \$13. If you never charged another item on your credit card and only made minimum monthly payments, it would still take you seven years and 10 months to pay off your balance for a total cost of \$1,210.49.

Those items you charged which were 50 percent off wound up costing you twice as much when you paid them out by credit card. And after eight years, how many are you still using?

Tools to Try Next Time

Think about the traps. They cost you. Instead, try these tools when you are tempted to overspend.

Tool 1. Think about what can happen to motivate you to keep you from overspending. Before you spend ask yourself –

- Will you have money or stamps for food?
- How will you pay back the loan?

- How will you deal with sickness or other emergencies?
- Will poor credit keep you from getting a job or cause you to lose your job?

**Tool 2. Find More Money?
Next time try these ideas.**

- Hide some money. Trick yourself. Use two wallets. Shop with the money in one wallet. Save the money in the other wallet for emergencies.
- Have a small MAD MONEY BUDGET for one small splurge each month. This will help you keep the rest of your spending under control.
- Freeze some money in an ice cube tray for late in the week or month between paychecks.
- When you get a raise, save part of it.

Tool 3. Cut Some Expenses. More ideas!

- Can you change your spending...?
 - Long distance charges – use a timer, a cheaper service or write letters
 - Telephone – cut out features such as call waiting, caller ID, unlisted numbers
 - Move the thermostat – lower your heat setting; raise your cooling temperature
- Share rides or bargains

Keep in mind as you try to make ends meet, bills must be paid. Cash crises are less likely to happen if you stop and ask yourself how you are going to make those payments.

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