

Money Traps – Don't Get Caught



If money is tight right now, you may be considering using credit to pay for items. Don't get caught by one of these money traps!

1. Paycheck Loans – borrowing against your future paycheck using a personal check as collateral or security. State laws limit the fee that can be charged. If the consumer is unable to repay the loan on payday, he or she will have to pay for each extension of the loan. A loan for less than \$200 for two weeks could result in a 396% APR.
2. Tax-refund loans – short-term loan with a high interest rate. The tax preparer gives you part of your income tax refund on the day you file, and you turn over the total amount of the refund when it is processed by the government. If the consumer receives \$700 of a \$750 tax refund, the fee is \$50. If the loan is for one month, that equals an APR of 85%.
3. Car Title Loans – in exchange for giving up your car title and essential personal information, the car title loan company usually lends up to 1/3 the wholesale value of the auto. If the loan is not repaid on time, the auto is taken and sold. Some states have laws that limit the amount of interest charged. Car title loans are not permitted in Indiana.
4. Check-cashing charges and money orders – Indiana law limits the check-cashing fee to \$5 or 10 percent of the amount of the check. To cash weekly paychecks at \$5/week equals \$250/year. To buy four money orders each month at \$1/each equals \$50/year. A thrifty or economy

checking plan checking account may cost \$5 per month, plus \$.25 per check, for a total cost of about \$72.50/year.

5. Bounced checks and late payment fees – these fees can vary. Know what the bank and merchant charge. Know your bank's check-clearing policies.
6. Advanced-fee loans by telephone, mail, or on the Internet – often these are scams. Don't borrow money unless you see the terms in writing. Don't give personal information over the phone, especially your Social Security number. Find out how much the 900 number will cost you, it could be \$5/minute or more.
7. High-interest credit cards – making only the minimum monthly payments will double the total cost of the item financed.
8. Co-signing – signing a loan with a borrower, promising to repay if the borrower defaults. It will show up on your credit record if you co-sign for someone else who defaults on the loan, unless you pay it off.
9. Rent to own – consumers rent new or used items by the week or month. After renting for a stated time, you will own the item. This is a very expensive way to buy, and you may end up paying two to four times the amount it would cost to purchase the merchandise in other ways. Costs add up from delivery fees, late-payment fees, pick-up fees, a liability waiver (similar to insurance), sales tax, and sometimes contract reinstatement.

Deanna Franklin, M.S.
Purdue University Extension – Vigo County
November 14, 2008

PURDUE EXTENSION

It is the policy of the Purdue University Cooperative Extension Service that all persons have equal opportunity and access to its educational programs, services, activities, and facilities without regard to race, religion, color, sex, age, national origin or ancestry, marital status, parental status, sexual orientation, disability or status as a veteran.
Purdue University is an Affirmative Action institution. This material may be available in alternative formats.