

Money Traps that Can Keep You Broke



Sheesn Trouble works at a local factory. Sheesn can't get ahead because she has too many bills. Sheesn envies her coworkers who have nice TVs, cars, and jewelry. One creditor threatened to come get her new TV because she was two months behind with her payments. In her town, there are places where she can borrow money. Taking that first step frightens Sheesn. 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 friendly people 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, beware. You will have to find the money to pay this month's bill plus interest or finance charges, and next month's bill.

This publication discusses 10 cash crisis traps that await unwary consumers:

1. Payday loans
2. Pawn shop loans
3. Tax refund loans
4. Car title loans

5. Layaway plans
6. Check-cashing charges and money orders
7. Hot checks and late payment fees
8. Rent-to-own purchases
9. Telephone advanced-fee loans
10. High-interest credit cards

The following sections give several suggestions for less costly ways to solve your current cash crisis and avoid another budget crunch next month.

Trap 1 — Payday Loans

With a payday loan, you borrow against your next paycheck to get a cash advance. Before the end of your next pay period, you must repay the loan with interest.

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.

Lenders or people who make paycheck loans may charge over 500 percent interest for a small loan.

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 broker 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 — Tax Refund Loans

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 the services required.

Most taxpayers don't realize they can get their tax refunds directly deposited into their bank accounts within 2 weeks. Plus, if you use the free services of a Volunteer Income Tax Assistance (VITA) representative, you can keep all of your tax refund. Since many VITA sites offer free electronic filing, the wait is short—usually 14 days from the time the return is transmitted and accepted. To reduce delays, bring all information your tax preparer needs, including W-2 forms, the children's Social Security numbers, 1099 forms for savings account interest, and bank account numbers so your refund can be direct-deposited.

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 personal information, the title company often lends up to one-third the wholesale value of your automobile. For example, to borrow \$700, Sheesn Trouble gives the title company her clear 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.

With a title loan, there is no credit check and no questions are asked. Sheesn keeps her car. She doesn't wait for the money. 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, think 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, and your home and work addresses, it's easy to repossess the car and drive it to a sale auction.

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 as 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 your payments. In that case, if you have a refund coming, you will not get all your money back.

What many consumers don't realize is they may lose the item or their money if the store is in financial trouble and goes out of business. The store may not be required to give you the partially paid-for 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 spend \$2 to cash your weekly paycheck, by the end of the year you pay \$104. If you also buy four money orders each month at an average monthly cost of \$4 to pay out-of-town bills, that adds up to a yearly expense of \$48. Combine those two amounts and you spend a total of \$152.

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. 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 work to your advantage when the time comes to apply for a car or home loan.

Trap 7 — Hot Checks and Late Payment Fees

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 \$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 \$15 each, \$75 of her paycheck went for late payments!

Trap 8 — Rent-to-Own Purchases

With a rent-to-own plan, you 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 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

credit 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 — Telephone Advanced-Fee Loans

Some people are so desperate for cash, they try the first idea they see. For example, they borrow money over the telephone. The con artist advertises a guaranteed loan for only \$100. All you have to do is place a long-distance call to find out where to send the money. The con artist takes your money and disappears. 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 operators 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 you have not talked with, let alone met. Don't borrow money unless you see the terms in writing. If you don't understand the terms, ask questions.

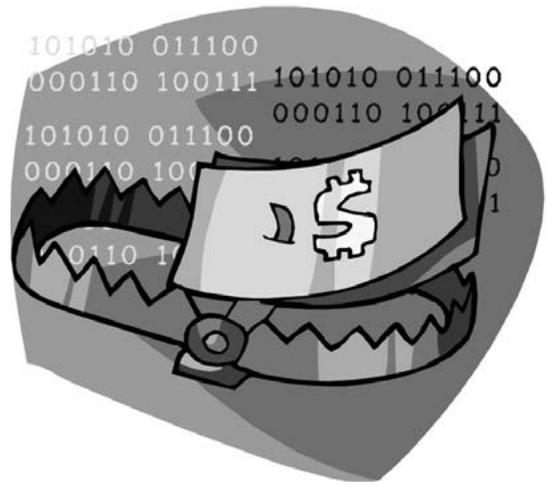
Don't give personal information, such as your Social Security number, over the telephone. Finally, if you suspect fraud, call the Mississippi Attorney General at 1-800-281-4418.

Trap 10 — High-Interest Credit Cards

Financing your lifestyle with high-interest credit cards is a trap. It is easy to charge and often hard to come up with more than the minimum monthly payment to reduce or 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 annual percentage rate (APR) is 24 percent and your credit card balance is \$650, your minimum payment is \$26. If you never charge another item on your credit card and only make minimum monthly payments, it still takes you 6 years and 10 months to pay off your balance, for a total cost of \$1,150.11.

Those items you charged that were reduced 50 percent cost you twice as much when you pay for them with a credit card.



Ideas for Changes in Spending Habits

You may find you can't always pay your bills. It's not always possible to save money from one check to the next. When this happens, you'll need to look for ways to spend less.

1. **Find the best buy.** Look in several places—catalogs, newspapers, retail or secondhand stores, and garage sales. Spend time looking before you spend your money.
2. **Use wisely.** Make the things you buy last longer by taking proper care of them. See if you can find ways to make the clothes you buy last longer and the foods you buy stay fresh.
3. **Substitute.** When you intend to buy something, ask yourself if a lower-priced item will do the job just as well. Use store brands and generics instead of name brands. Rent a DVD rather than spend additional cash going to a movie theater.
4. **Share.** Stretch resources by sharing with neighbors and friends. Chip in to buy larger amounts at lower unit prices (for example, a bushel of apples shared with four families). Join car pools.
5. **Go free.** Some items are available for free. Use public parks and playgrounds instead of expensive health clubs for exercise.
6. **Rent or borrow.** When you need something for a short time, it may be cheaper to rent than buy. Rented or borrowed items must be returned in good condition. Borrow books, records, and DVDs from a library rather than buying them.

7. **Trade or swap.** Do you have things at home you no longer use? Can you trade them for things you need? Do you have talents or skills you could trade with your neighbors? Can you trade time babysitting for help with home repairs?
8. **Do-it-yourself.** Sometimes it's less expensive to make something than to buy it, but you must use your time and skills. Make sure the cost of materials is lower than buying the finished product.
9. **Watch "phantom" money.** Keep track of money in your wallet. Reduce or cut out spending on snacks, phone calls, movies, magazines, eating out, and memberships in clubs.
10. **Don't buy.** Ask yourself if you really need this item or if there is something else you would rather have. Learn to say no to yourself, to your children, to salespeople, and to things you feel pressured into buying. Doing without sometimes can help you get something you really want.

Publication 2432 (POD-03-19)

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Produced by Agricultural Communications.

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Extension Service of Mississippi State University, cooperating with U.S. Department of Agriculture. Published in furtherance of Acts of Congress, May 8 and June 30, 1914. GARY B. JACKSON, Director