

## Borrowing Money

Would you pay more than 500% APR (Annualized Percentage Rate) to borrow money? Some people do when they borrow money through one of the payday loan outlets. This is very expensive way to get cash!

Traditional banks and credit unions loan money in the 8 – 15% APR range depending on the type of loan and your credit worthiness. Credit cards may change any where from 9 – 29% again depending upon your credit history. Always find out the APR before borrowing money from anyone. It is the way you can compare options.

If you need money, there maybe several ways to satisfy your needs. If your utility bill is due, check with the utility to see about emergency assistance. Ask other creditors for more time. Be sure to find out what they charge for late fees. Social agencies have food and other types of support available, also.

By planning your spending, you may avoid the need for payday loans. Carefully track every penny you spend so you know where your money is going. Then make choices as you plan your spending. Check your spending against your plan every few days to see if you are on track. If you are not on track, make adjustments. Increase income or decrease expenses. This may help avoid surprises in the future.

## Pitfalls

### Payday Loans

This is writing a post dated check to receive cash. Some advertise a 10% interest rate on the window but don't fully explain that the advertised interest rate is for two weeks rather than for a year. The actual annual percentage rate can be in the 391 - 443% range.

A second concern is what happens when the borrower is unable to pay at the end of two weeks? Often they renew the loan and are charged another fee to hold the check for the next two weeks.

The lender could also deposit the check and then the consumer would be bouncing a check if they do not have sufficient funds.

### Title Loan

The car title is the collateral for the loan. Normally the loan will be for up to 50% of the value of the automobile.

This type of loan might be set up with monthly or weekly payments, which may be difficult for a person who is struggling to pay bills on time.

It doesn't make any difference you only owe one more payment, if a payment is missed, they can take the car.

### Rent-To-Own

A typical rent-to-own contract is for two years with 104 **weekly** payments. One of the ways that rent-to-own is marketed is that there is not a credit check. The companies also may provide a warranty as a selling point. An example from an advertisement shows an **\$800 computer** for which the renter pays **\$32.99 per week** for the next two years . . . which is an **actual cost of \$3,430.96**. If a person is unable to make a payment, the computer is picked up and a person has to start all over again if they want to rent-to-own the computer again.

To put this in perspective, if the same computer was purchased with a credit card, what would the total cost be? Using a credit card with an interest rate of 18% and the same payment of \$131.96 per **month** ( $\$32.99 \times 4 = \$131.96$ ) the computer would be paid for in 7 months at a total cost of **\$845.25**.

These are types of predatory lending that if at all possible should be avoided. Predatory lenders exist, because when individuals are stressed out about financial situations they can make poor choices.

Please make yourself aware of these pitfalls and for more education about this issue go to:

<http://www.responsiblelending.org/consumers/index.cfm>