

# MANAGING IN TOUGH TIMES

# FAMILY FINANCIAL MANAGEMENT

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## THIS MONTH'S TOPIC:

## Payday Loans and Rent-to-Own: How to be an Informed Consumer

Payday loans and rent-to-own options are very appealing. Payday loan lenders and rent-to-own storefronts are often able to offer you what you need quickly without much hassle. However, before entering into an agreement with either of these businesses, there are several important things that you should know.

### Payday Loans:

Payday loans offer consumers quick, convenient cash. The only requirements for obtaining a payday loan are that you have a job, bank account, and personal identification. A payday loan works the following way: the payday lender gives the borrower cash with a promise that the loan will be repaid within two pay periods when the borrower receives his or her paycheck. When the money is due, the borrower can choose to pay the lender in cash or to allow the lender to cash his check. Easy enough, right?

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While there are several advantages to getting a payday loan, including fast cash and no required credit check, there are also many drawbacks. Many of the people who obtain a payday loan are unable to pay back the lender in the agreed upon time frame. As a result, borrowers are often left with little choice but to take out more loans in order to pay back earlier ones, leading to a significant amount of debt.

Payday loans are typically borrowed in an amount between \$100 and \$500. The borrower is charged a fee for taking out the loan. In the state of Kentucky, a borrower may not be charged more than \$15 per \$100 in credit. Kentucky state law also restricts borrowers to no more than two loans at a time with a cumulative cap of \$500. In addition to these fees, borrowers also pay a five dollar fee to check a database displaying how many payday loans they currently have outstanding. So, what may start out as a \$100 loan will cost you much more when all fees and interest are calculated.

### Rent-to-Own Stores:

Rent-to-own stores allow consumers to rent a household item for a monthly cost that is usually much lower than what a monthly payment would be at a major retailer. These stores allow consumers to rent the item on a weekly or monthly rental. After completing payment over the term of the rental, the consumer then owns the item.

Rent-to-own stores often fail to inform consumers that the rental periods are generally longer and buyers will end up spending much more than they would have if they had obtained a conventional loan, or bought the item outright without any type of financing. Consumers often spend three to four times what the cash price would have been when all is said and done! Additionally, if a consumer were to choose to return the item before the rental agreement is completed, a fee is charged.

As an alternative to choosing the rent-to-own option, consider the following:

- Buy the item from a garage sale, consignment shop, or friend
- Borrow the item temporarily from a friend or family member
- Put aside money each month until you have saved enough to buy the item outright
- Look into layaway plans at major retailers

### Conclusion:

It is easy to understand why so many people choose to take out a payday loan or rent-to-own household items. However, it is also easy to recognize why you should be cautious when considering these options. In the long run, you will end up costing yourself a significant amount of money.

Keep in mind that payday lenders and rent-to-own stores are in business to make money off of you. These businesses thrive by providing the consumer with the least amount of information possible. Do your research and make an informed decision if you choose to take out a payday loan or rent-to-own a household item. Do not be afraid to ask these businesses to share their policies; request a copy of a contract and ask questions if something is not clear. After all, you are your own best advocate!

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