



## Enjoy Summer Now— But Don't Pay for It Later

Here we are in the middle of great weather with so many options for enjoying it. It can get pretty tempting to take a drive to the nearest payday loan center for some extra cash to spend. It's even easier to apply for a payday loan online, and thousands of people are doing it. Some have called the rate of growth in this business "explosive." Unfortunately, many of the people taking these loans will find their enjoyment of summer diminishing instead of increasing. Here are just some of the reasons why:

- Fees for a payday loan are charged per \$100 borrowed. For a loan of \$400 at a \$15 fee, your actual repayment amount is \$460.

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## Enjoy Your Summer without Going into Debt

There are ways you can have a great summer without having to put your financial well-being at risk. Check your local town or city website or visitor's bureau for ideas. Many of us don't know about all there is to see and do right where we live.

If you have children, a summer vacation can be a real test. Many kids like to go camping and while there is plenty of expensive camping equipment on the market, it's not necessary for a great camping adventure. Check your local thrift shop or want ads for great bargains on basic camping necessities. You can even camp right in your own backyard and use it to see how the kids would do on a bigger venture. You'll can get an idea of what problems, such as noises, darkness, bugs, fear of the tent collapsing, and so on, you will need to help your child overcome.

Have the kids help you pack, set up the tent, prepare the food, and make up games you can play outdoors. Let each one pick a favorite meal they want to have while you're camping. If you're not going to go far away, let the kids pack their packs partly full with toys or games they want to take with them. Maybe a favorite stuffed animal will go along. A little practice beforehand will make your camping trip an enjoyable adventure the whole family will remember for a long time.

You can collect leaves, rocks, or shells, watch birds or small animals and look for their tracks, draw pictures of the cloud formations, play "I Spy", take photographs. The cost of a vacation is not necessarily in proportion to how much you enjoy it. You can have a quality vacation on a small budget. It just takes a little planning.

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# ARTICLES

## Enjoy Summer Now

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- The term on a payday loan is a few days to three weeks—your next payday. If you can't repay the full amount of the loan, you will be charged the fees again. For a loan of \$400, you will now have to repay \$520, and you've only borrowed the money for a month! Some loan companies will let you continue this up to six times. At that point, you will owe \$760 for a \$400 loan. If you get paid every two weeks, you will pay \$360 to borrow the money for three months. Don't be tricked into thinking this is less than the interest on a bank loan.
- If you default on a payday loan and can't pay the money you originally borrowed in the maximum time period, plus the accumulated fees, things can really get ugly. You will be charged overdraft or NSF fees by your bank when the payday loan company attempts to withdraw the money you owe from your account. The payday loan company will send your account to a collections agency and the collection will go against your credit score. It's very possible you will eventually end up in court, making the loan even costlier.

- Many people like to apply for a payday loan online so they can keep their financial situation more private. But just how private is it? To apply online, you will have

to provide your name, address, and employment information; your Social Security number and driver's license number; your checking account

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"In their survey of Internet payday loan sites, Consumer Federation of America found that [payday] loans of \$200 to \$2,500 were available, but \$500 was the most frequently offered. Finance charges ranged from \$10 per \$100 up to \$30 per \$100 borrowed. The most common rate of \$25 per \$100 translates into an annual percentage rate of approximately 650 percent if the loan is repaid in two weeks."—Bankrate.com

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number and bank routing number; and the list goes on. Some will also require that you fax your latest pay stub, most recent bank statement, and a voided check. Are you sure you know these people well enough to trust them with all that information? ■

## Caution! Stick to Your Budget

Overdraft fees on checking accounts are becoming very costly. Banks and credit unions have developed new methods for tracking customers who carry a very low balance (customers who do not leave enough money in their account to create a profit for the financial institution) and have found a new way to make money from these customers.

If you write checks close to payday and hope that your creditors will not deposit your payments before your paycheck is in your bank account, you might want to start changing your ways. You will not only be charged a significant overdraft fee, as much as \$35, but you'll also find that your bank will process the largest checks first. For example, if you pay your rent for \$380 and your utilities for \$35, \$20, and \$65, and they all arrive at your bank on the same day, the bank will process the \$380 first. If your account balance is \$380 when the checks are processed, this means you will pay an overdraft on each of the three small checks rather than just the one large check.

Creditors are also beginning to have the capability to process your payment immediately. You are probably already familiar with retail establishments that process your check electronically the moment you write it—just as though you used a debit card. This will soon become standard practice. In addition to this, online payments you make will be deducted from your bank account immediately instead of posting to your creditor account and then being deducted from your checking account a few days later. Citibank and Sprint are just two examples of companies already making use of this ability. ■



### **1. Decide where you would like to go.**

There are many different and fun places to go on summer vacation. Some ideas include: amusement parks, national parks or other scenic locations, historical places, museums, zoos, beach, big city activities, family vacation homes.

### **2. Make a budget.**

Creating a budget will help you find the hidden costs of a trip and give you an idea before hand just how much money you will need. Include as many details as you can think of. Some items to include are: gas/car maintenance/airfare, motels/lodging, entrance fees, meals and treats, souvenirs.

### **3. Look for Deals.**

Look for coupons; lots of banks and credit unions offer coupons for their customers. Choose to drink water at restaurants. Eat your biggest meal at lunch when restaurant prices are cheaper. Buy small, inexpensive souvenirs. Have family members earn their own souvenir money before you go. Look for fun that is free: swim in the hotel pool, walk around a mall, picnic in a park, watch the sunset.

It doesn't require extravagance to have a good time. Visit your local library for books on traveling on a shoestring. Challenge yourself to plan the best vacation you've ever had with the smallest amount of money you've ever spent, and you'll be surprised how creative you can be.

### **Tips for Saving Money on Gas**

Yes, there are ways to cut down on the amount of money you are spending at the pump. A few actions here and there may help make that summer trip possible.

- Keep your engine tuned according to your owner's manual. This can improve your gas mileage by as much as 4%.
- Keep your tires properly inflated and aligned. Your gas mileage can increase up to 3%.
- Change your oil regularly to reduce wear and remove harmful substances out of the engine.
- Use the grade of motor oil recommended for your vehicle
- Replace the air filters regularly. This can improve your gas mileage up to 10%.
- Avoid sudden starts and stops by staying aware of traffic conditions. This can improve your gas mileage up to 5%.

- Drive within posted speed limits. Gas mileage per gallon decreases rapidly above 60 miles per hour.
- Avoid unnecessary idling. Turn the car off if you have to wait for awhile.
- Short trips can use twice as much fuel as one trip covering the same distance. Try to combine errands to reduce the number of trips you have to make.
- Overdrive gears and cruise control improve fuel economy when you're on the highway.
- An extra 100 pounds in the trunk can reduce a your car's fuel economy by up to 2%. Take heavy items out of the car when you don't need them.
- Loaded roof racks create wind resistance and can decrease fuel economy by 5%. Try to carry most of your baggage inside the car. ■

### **Car Title Loans—The Payday Alternative**

Many Americans, looking for some quick extra cash, are turning to car title loans, which could end up costing them their cars. This kind of loan requires the borrower to hand over not only the car title, but also a set of keys.

Lenders usually require that the title to the car is free and clear before they will give the loan, and the lender determines how much the consumer can borrow. Loans are rarely given for more than 33% of the car's value, which means the lender really comes out ahead if the borrower defaults.

The typical car title loan requires repayment within 30 days and usually charges an interest rate of about 25%. If the loan isn't paid at the end of 30 days, another 25% is charged, similar to the payday loan process. That's about 300% annually. Of course, the real danger is that if the borrower can't repay the loan within the contract terms, he or she loses the car. That's a pretty big loss for the sake of a few hundred dollars.

It's estimated there are more than 15,000 title loan shops in the U.S. with very few states having laws in place to regulate their practices, including reimbursing the borrower if the car is sold for more than what was owed. If you are considering this type of loan, don't! Please talk to your FFEF counselor for accurate information about the liabilities attached to these loans. If you don't have \$500 today, how will you have it 30 days from now? ■

### It's Not Your Neighborhood Merchant Anymore

While the idea of avoiding the public exposure of walking into a check cashing store by applying for a loan online can be tempting, consider what you might be sacrificing. You will be required to fill out an application that asks for your personal information, employment information, banking information, and references. The lenders usually require that you have had a job consistently for three months, you earn at least \$800 per month after taxes have been deducted, and you've had a valid checking account for at least three months.

If you are approved, you will be asked to sign a copy of the lender's contract stating that you agree to the fees and terms of the loan, and you will be asked to fax your pay stub, bank statement, and a voided personal check. So where does all this information go? That is often the big question.

Many online payday loan companies aren't lenders at all. They are simply looking for sales leads and connecting potential customers who need fast cash with lenders who have money to loan. That means your information is doing some traveling of its own.

Payday lenders must have a state license to operate. Some states will not issue a license to any company for the purpose of issuing payday loans. That doesn't mean that a company with a license in one state can't do business with a customer who lives in another state, but because the company is licensed in one state only, the laws of that state apply to any customer. If you choose to do business with a lender in another state, your state's laws won't protect you. Be sure you know what you're getting into.

Many of these online lenders are outside the United States, which means they may not even be subject to American laws. There are Internet payday lenders in Canada and on islands in the Caribbean that can be very difficult to find when you start having problems with the way they are handling your loan. If you do think about applying, be sure you can find someone to communicate with before you fill out anything.

Online lenders can renew your loan automatically by withdrawing the finance charge electronically from your

bank account every payday. If you don't have enough money in your account to cover both the finance charge and the amount borrowed, both the lender and the bank will charge you insufficient funds fees.



Does that mean all these businesses are suspect? No, it doesn't. What it does mean is you should find any alternative you can before heading down this road. If you can come up with \$45 a month in fees, you should be able to deposit that \$45 a month in savings so you don't have to borrow. ■

#### The Better Business Bureau offers these warnings:

- Watch out for "guaranteed" loans that require a fee in advance. Such loan scams are illegal. Legitimate lenders never guarantee you will get a loan before you apply.
- "Work at home" schemes, such as stuffing envelopes, medical billing or check processing, will entice you with promises of lucrative jobs and then may take your money. If you take work as a "check processing agent," you may end up being responsible for thousands of dollars in bad checks.
- Be suspicious of sweepstakes notices or prize offers. If you respond to a "you have won!" notice, you may be asked to pay a fee of some sort and/or provide personal information or bank account numbers. Some so-called sweepstakes send out counterfeit cashier's checks. The "winners" do not find out the checks are bogus until weeks later. ■

#### Family Financial Education Foundation

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724 Front Street, Suite 340

Evanston, WY 82930

(307) 789-2010, toll-free (888) 292-4333

[www.accesseducation.org](http://www.accesseducation.org)

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