

repay the loan, or if you default on interest payments, the pawnshop can keep and sell your things.

Car title pawn

A twist on the pawnshop, these companies ask you to sign over the title to your car as security for a loan representing only a fraction of its value. Interest payments and fees quickly add up, making it hard or impossible to repay the debt. If you default, the company takes your car and sells it.

Debt consolidation

In return for giving you a loan to pay off a few of your creditors, these companies may charge very high interest rates and fees.

Home equity loans

Banks and other reputable companies allow you to borrow money against your home's equity (the estimated value of your house minus the amount you still owe). But there are unscrupulous lenders who might give you a loan they know you can't repay just so they can take your home. Your home's value is the guarantee that you will repay the loan. If you are unable to make the payments, you can lose your home.

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Consumer Action provides consumer advice, suggests appropriate complaint-handling agencies and distributes free consumer education publications. Leave a message and a counselor will call you back. Chinese, English and Spanish spoken. 415-777-9635 or 213-624-8327. Or send an e-mail to: hotline@consumer-action.org

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Managing Money
www.managing-money.org

**Watch where you
get credit**

*Not all credit is
good credit*



A project of Consumer Action

Credit is available from many sources. Most loans are legitimate, but some are designed to prolong the debt and make the most money off the borrower. Some loan offers are just scams — be especially cautious of any loan offer in which you are asked to pay money up front.

You sign a legal contract when you borrow money. Do not enter into any loan without reading all the fine print and asking what will happen if you can't pay the loan back as agreed.

Here are some sources of credit:

Banks

Banks make “secured” and “unsecured” loans. When you take out a secured loan, you must guarantee the loan by putting up some personal property (such as a car or your home). Unsecured loans — usually for smaller amounts of money — are made to people with excellent credit who sign a contract agreeing to repay the loan as promised.

Credit Unions

You must be a member of the credit union in order to get a loan. Credit unions offer secured and unsecured loans, and often have lower interest rates on loans than banks.

Credit Cards

These cards issued by banks and credit unions may be used to buy items, services or receive cash advances. Some credit cards have an annual fee. All cards have a credit limit—you can charge no more than this amount—and if you don't pay your card's balance off each month by the

due date, you will be charged interest. If you are late with a payment, you will be charged a hefty late fee of \$25 or more.

Charge Accounts

Some businesses allow you to buy goods on credit. The store then sends you a bill, which you must pay immediately. If you do not pay the bill in full, an interest charge is added to the next bill.

Finance Companies

Finance companies are a source of credit for people who are high credit risks because they have not handled credit well in the past. Many finance companies are in the business of offering auto and home equity loans. These rates tend to be much higher than banks.

Installment Plans

Many stores allow you to buy things on time, such as household appliances. You make a down payment and then pay the balance plus interest on a monthly basis. If you fail to make a payment the store can repossess the item.

Rent-to-Own Stores

These stores have new and used household items that you can rent by the week or month or that you own after making a set number of payments. You must sign a contract agreeing to make weekly payments for as long as you want the item. You also have the option to buy the product if you make all the required weekly payments, usually for a year or more. This is a very expensive way to buy things—for instance, a \$200 TV can end up costing well over \$1,000 when paid for in this way. If you

don't pay, the store will take the item back and you will lose any money you've paid toward owning it.

Illegal Lenders

Some lenders (“loan sharks”) operate outside the law. They charge very high interest rates. These lenders often take advantage of people.

Money shops

Many companies offer “quick money” to people in desperate circumstances. But some of those may be bad deals. Some of the loans offered by walk-in store-front lenders have interest rates above 20% and high late fees that can drastically increase the amount you owe if you miss even one payment.

Payday loans

Check cashers offer to make short-term loans or cash advances secured by post-dated personal checks or your next direct deposited benefits check or paycheck. The price of such loans is very high. Check cashers are making payday loans at effective annual interest rates of well above 250%.

Pawnshops

These companies accept personal property, such as jewelry, electronics, cameras, musical equipment or guns, as collateral for loans based on the value of the goods. Most pawnshops will lend you less than half an item's resale value. You have several months to repay the loan and are charged very high interest rates until you do so. Many pawnshops also charge storage costs and insurance fees. If you do not