



## Credit Activities to Avoid

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### ***Check-Cashing Stores***

These stores charge a 2.5 to 8 percent fee for cashing your checks. Open a checking account where it won't cost you anything to cash your checks.

### ***Pawnshops***

Pawnshops loan you money for an item (e.g. jewelry). If you don't repay your loan within 30 days, the item you pawned belongs to the pawnshop and will be sold. Also, the amount of money the pawnshop loans you is usually less than half what the item is worth. Finally, you risk losing an important possession.

### ***Rent-To-Own Companies***

Buying furniture or appliances from rent-to-own companies costs you too much money. Part of each payment goes to the monthly payment and some of your payment goes to a rental fee. In fact, most of your payment goes to the rental fee. Typically, by the time you finally pay your contract in full, you have paid 7-10 times more than you would have paid if you had bought the item at a retail store.

### ***Bouncing Checks***

Don't bounce checks! Your bank will immediately charge you hefty fees (as much as \$30 for each overdrawn check). The store you wrote the bad check to won't let you write any more checks to them. Also, your bank will report to the credit bureau that you bounced a check and this will lower your credit score.

### ***Payday Lenders***

Payday lenders charge very high rates like \$25 (or more) for every \$100 dollars you borrow. This is the fee or "rent" that you pay for using the payday lender's money. For example, you borrow \$100 by writing a postdated check for \$125 in exchange for the \$100. Postdating a check means that you write a check that has a future date on it. This date is usually your next payday. On that date, the payday lender cashes your check. If your paycheck is for \$250, you will only really have \$125 because the payday lender cashed your postdated check for the other \$125.

### ***Ignoring Creditors***

It is important to stay in contact with your creditors. You can do this by making monthly payments on time or by contacting them to make payment arrangements if you fall behind in making your payments. Avoiding your creditors never helps you, but only makes the situation worse. Creditors want to work with you to make payment arrangements.

### ***Inquiries***

Inquiries are records of companies that have reviewed your credit file over the last two- years. An inquiry is recorded on your credit bureau report each time you apply for credit and a creditor checks your credit report. Avoid applying for credit just for the sake of applying for credit because too many inquiries will lower your credit report score. In short, only apply for credit when you need to apply for credit.

### ***Title Loans***

Title loan and title pawn dealers often promise you a fast way to get a loan without a credit check by using a title loan. Typically, you will be offered up to 90% of what your car is worth. The problem is that you pledge your car as collateral and the interest and fees can be 200% or more on an annual basis. This means that a \$2000 loan will cost \$6000 or more to pay back each year that you have it. If you miss a payment, you will lose you car. The cost of the loan and the risk of losing your car are very high.

### ***Tax Refund Anticipation Loan***

If you choose to receive your income tax refund check directly from your tax preparer, you are getting a refund anticipation loan, which can be very expensive because of interest and fees. You can save \$100-200 by waiting ten days or so and having the IRS directly deposit your refund into your bank account. Find a preparer who will file electronically for you, and don't take the refund loan. You can save even more by filing yourself on a personal computer using a tax program or on-line at a tax preparation web-site.