



NATIONAL FOUNDATION FOR
CREDIT COUNSELING

*Knowing the difference can
make all the difference.*

NFCC PRESS RELEASE

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CONSUMERS SHOULD USE CAUTION WHEN CONSIDERING SOME FORMS OF BORROWING OR PURCHASING

Interest and Fees Can Easily Outweigh the Benefits

Silver Spring, MD – Desperate times often call for desperate measures, but sometimes those tactics can leave you worse off than where you began. This can be the case with people struggling to find money for holiday purchases.

“When we’re desperate, we often resort to solutions that actually increase the problem. We anticipate an increasing number of consumers turning to payday loans, pawn shops and rent-to-own options as we get closer to Christmas,” said Gail Cunningham, spokesperson for the National Foundation for Credit Counseling (NFCC). “With limited available cash or a restricted access to credit, many Americans may turn to lending sources they wouldn’t consider during other times of the year.”

The NFCC wants to educate consumers regarding their borrowing options, and offers the following information on three areas they might want to avoid:

Payday Loans - On the surface, getting the cash you need may seem worth it at any cost. But it’s that cost that can become financially back-breaking. To obtain a payday loan, you write a post-dated check for the amount of the loan plus any fees the lender tacks on. You then receive the amount of money you initially needed to borrow, promising to pay back that amount plus the fees. The term of the typical payday loan is one to two weeks, at which point the lender cashes your post-dated check. Most payday lenders will charge a certain dollar amount per \$100 borrowed. For example, they may charge \$15 for every \$100 you borrow. Thus, if you needed \$300 for two weeks until your next paycheck came in; your post-dated check would be for \$345. What’s \$45 when you desperately need \$300? Here’s the catch...that \$45 represents an Annual Percentage Rate of 390 percent. You wouldn’t dream of taking out any other type of loan with triple-digit interest. And, if this isn’t bad enough, many consumers cannot repay the loan at term, and end up rolling it over, thus adding on more fees and interest.

Pawn Shops – People can do several things at pawn shops. They can borrow money by putting up something of value as collateral, they can sell their merchandise outright, or they can buy the merchandise that is for sale at the shop. There are bargains at pawn shops, but only for those

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buying the merchandise, not for the sellers. Typically, the person pawning the merchandise receives a sum of money (usually nowhere near the true value of the item) which he or she agrees to repay with interest. If the loan is repaid by the end of the term, the merchandise is returned to the owner. If the loan is not repaid, the consumer can renew the loan, or the merchandise is forfeited. What's the problem? Again, it's the interest and fees, with APRs typically in the triple-digit range once everything is added in. Further, some studies show that only 60 percent of pawners end up reclaiming their merchandise, thus they have essentially sold an item for cents on the dollar, something they wouldn't otherwise do.

Rent-to-Own – Everyone wants nice things, and if the family is coming over for the holidays, you may be tempted to spruce up your home. A quick trip to the furniture or electronics store could confirm that a new living room set or flat panel TV are out of your price range. Then you notice an ad for similar items with affordable monthly payments. It seems too good to be true, and it is. The problem once again lies in the interest and fees. For instance, if you bought a \$200 item and agreed to make weekly payments of \$15 for 78 weeks (basically one and one-half years), you'd end up paying \$1,170 for that \$200 item at an APR of 388 percent. Adding insult to injury, it is likely that you could have purchased the same item at a traditional store for a fraction of the overall cost.

“People wonder why anyone would agree to the terms imposed by payday loan companies, pawn shops and rent-to-own businesses. The answer is that consumers who utilize such concerns typically do not qualify for loans from banks or credit unions, and would not be approved for in-store lines of credit. Nonetheless, people need to understand that even though there is always a cost to credit, when that cost becomes unreasonable, the consumer is better off considering other options or doing without,” Cunningham continued.

For help finding money for holiday expenses, contact an NFCC Member Agency. To find the agency closest to you, dial toll-free (800) 388-2227, or go online to www.DebtAdvice.org. For assistance in Spanish, dial (800) 682-9832.

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The National Foundation for Credit Counseling (NFCC), founded in 1951, is the nation's largest and longest serving national nonprofit credit counseling organization. The NFCC's mission is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services. NFCC Members annually help more than three million consumers through close to 850 community-based offices nationwide. For free and affordable confidential advice through a reputable NFCC Member, call (800) 388-2227, (en Español (800) 682-9832) or visit www.nfcc.org.