

My Money - Owing It

Money Traps

(published by the National Endowment for Financial Education) [Click here](#) for the online copy.

Check-cashing stores, money orders, payday loans, and pawnshops are quick, easy ways to get money, especially when you don't have a bank account or your credit isn't very good. That's the good news.

The bad news: You'll pay a price for the convenience. These services often charge a lot of money in fees and interest rates. That makes them much more expensive than using a bank.

Use these so-called "storefront financial services" very cautiously (or avoid them altogether). Read on to learn more.

- Check-cashing stores. Check-cashing stores may be easy to find and often have longer hours than banks, but they are expensive. These stores typically charge fees that range from 2.5 percent to 8 percent for every \$100 cashed. Here's an example: Let's say Tom cashes his \$300 paycheck each week at the local check-cashing store. The store charges him 4 percent or \$4 for every \$100? \$12 in all. In a year, Tom will spend \$624 in check-cashing fees (\$12 x 52). That's \$624 that Tom won't have to put into a savings account, take a trip, or sign up for a class at his community college.

If you have a bank account, you can go to the bank and get your paycheck cashed for free. Or, try to cash your check at a grocery store, which often will cash it for free if you have an identification card, such as a driver's license.

- Money orders. Money orders are sold at check-cashing stores, post offices, grocery stores, convenience stores, and elsewhere. They can be used like a check to pay bills.

If you use money orders, shop for the lowest price. For example, a grocery store usually charges less than a check-cashing store.

Also, compare the cost of buying money orders with a basic checking account at a bank. The checking account may cost less. In addition, it's safer than carrying cash with you to a store to buy money orders.

- Payday lenders. Payday loan stores make short-term loans to people who have a job and a checking account, and need extra money quickly to pay a bill. But these loans are very expensive. They can reach an annual interest rate of more than 400 percent in some states!

A credit card is a better deal than a payday loan. A short-term loan from a bank usually will cost even less, although you will have to take time to apply for the loan.

- Pawnshops. Pawnshops loan money for your personal items, such as jewelry, musical instruments, and electronics. The shop keeps the pawned item for at least 30 days. Most often, if the loan isn't repaid during that time, the item belongs to the store and will be put up for sale.

Loans from a pawnshop are usually less than half the value of the item being pawned. In other words, when you use a pawnshop, you accept a fairly small amount of money and risk losing a possession of much higher value. (For example, you might pawn your \$500 guitar and only get \$200 in cash.)

The best advice: Instead of using storefront financial services that siphon money out of your pocket, go to a bank, open a checking account, and start putting some money into a savings account every month. Work toward getting wealthier, not poorer.