Loans to Avoid

Car Title Loans

Car title loans offer you quick cash of up to $10,000 in exchange for your vehicle's title as collateral. Interest rates top 260% per year.

A borrower goes to a lender with the car and its title. The lender assesses the car's value and offers a loan based on a percentage of that amount. A borrower leave with the money in less than an hour, but the lender holds on to their title as collateral until the loan is repaid.

There are two kinds of car title loans:

1. Single-payment loans require borrowers to repay in one lump sum, usually 30 days later, and have an average interest rate of 300%.
2. Installment loans let borrowers make multiple payments, usually over three to six months, and have an average interest rate of 259%.

If you can't pay as agreed, you might lose your vehicle and car title loans DO NOT build your credit.

1. To get a car title loan, you need to own your car or have equity in it.
2. Car title loans have high fees and interest rates.
3. If you can't repay a car title loan, you could lose your car.

If you have a credit card with an available balance, taking a cash advance may be an alternate way to borrow money with a lower APR than a car title loan.

Sean Pyles, "Car Title Loans: Risks and Alternatives", Nerd Wallet, September 3, 2020, https://www.nerdwallet.com/article/loans/personal-loans/car-title-loans

Marci Geffner, "Car title loans: 3 things to know before getting one", Credit Karma, July 16, 2020 https://www.creditkarma.com/personal-loans/i/car-title-loans

Payday Loans

Here's how they work: A borrower writes a personal check payable to the lender for the amount the person wants to borrow, plus the fee they must pay for borrowing. The company gives the borrower the amount of the check less the fee and agrees to hold the check until the loan is due, usually on the borrower's next payday. Or with the borrower's permission, the company deposits the amount borrowed — less the fee — into the borrower's checking account electronically.

A payday loan — that is, a cash advance secured by a personal check or paid by electronic transfer, is very expensive credit! How expensive? Say you need to borrow $100 for two weeks. You write a personal check for $115, with $15 the fee to borrow the money.

Howard Dayton says payday loans are a legal way to charge needy people interest rates of up to 400%. Somebody gets cash based on a paycheck they expect to receive plus 15% or $15 for every $100 dollars for a two-week loan.   Most loans are renewed about 10 times, resulting in the borrower paying about $800 for a $300 loan. Proverbs 22:7 is so true, "the borrower is servant to the lender."

Other options are a short-term loan from a credit union or an advance directly from your employer. Avoid the payday loan at all costs!

Payday Loans, Federal Trade Commission, March 2008
https://www.consumer.ftc.gov/articles/0097-payday-loans

Rob West with Steve Moore, "PAYDAY LOAN ALTERNATIVES", MoneyWise Radio, February 11, 2020, https://moneywise.org/episodes/payday-loan-alternatives-3