

## The Perils Of Alternative Financial Services

### There's A Lot Of Different Alternatives

Alternative financial services are a broad range of products and practices that provide access to capital, credit, insurance and other services to those who may not be able to access traditional financial services. These include such services as payday loans, pawn shops, title lenders, check cashing stores, installment loans, prepaid cards and more.

- Payday loans are short-term unsecured cash advances that are typically granted for two weeks or less and can carry high interest rates. Generally, the borrower writes a postdated check with the amount they wish to borrow plus any applicable fees. The lender holds onto the check until the loan is due when it will be deposited into their bank account.
- Pawn shops offer short-term loans secured against personal items used as collateral. The terms of these transactions vary depending on state law but generally last 30 days with an option for renewal. The customer must repay the full amount due within that time frame or risk losing the item if it is sold by the shop owner in order to recoup their investment.
- Title lenders offer short-term loans typically secured by an individual's vehicle title. As with pawn shops these transactions require immediate repayment within a set period of time or risk forfeiture of collateral in case of nonpayment. They carry high interest rates and fees which make them quite expensive compared to traditional loans from banks or credit unions.
- Check cashing stores provide consumers with quick access to their funds without having to wait for checks to clear traditional banking systems. In addition they may also offer small loans against future payroll deposits at relatively low rates making them an appealing option for many unbanked individuals who may lack access to more conventional sources of credit such as banks or credit unions.
- Installment loans are structured around fixed payment amounts over specific periods of time so that borrowers can gradually pay down their debt rather than paying one lump sum after taking out a loan from a bank or other conventional lender. These types of loans may offer better terms than those available from payday lenders but can still carry very high interest rates if used incorrectly or for too long a period of time without proper regulation or oversight from governing bodies such as state governments.
- Prepaid cards are essentially stored value cards where users make deposits in advance which can then be used like debit cards at ATMs and point-of-sale terminals instead of using cash or checks from traditional bank accounts. Many prepaid cards come with additional features such as rewards programs, spending alerts and other benefits not found on standard debit cards offered through banking institutions which may appeal more strongly to certain demographics including unbanked individuals who have no access to traditional banking services due to poor credit history or lack of identification documents required by banks in some countries

### **Stay Away From Payday Loans**

When considering the costs and benefits of alternative financial services relative to traditional banking, it is important to weigh a variety of factors. While alternative financial services such as payday loans may have the initial benefit of providing quick access to funds, they may also carry higher fees and interest rates than those offered by traditional banks.

This means that borrowers are more likely to find themselves in a cycle of debt due to these higher fees. Payday loans can be particularly dangerous when used for long term financing or emergency situations as the high interest rates involved can quickly add up and create an unmanageable debt burden.

The convenience factor associated with alternative financial services is often cited as one of their main advantages; however, this can be offset by the fact that many companies offering such services do not provide adequate consumer protection measures. Additionally, some lenders may use aggressive tactics to pressure customers into taking on debt that they are unable to handle or cannot repay. This could potentially lead to issues with credit scores and further difficulty obtaining credit from legitimate sources in the future.

### **The Good Outweighs The Bad**

While there are certainly some benefits associated with using payday loan services, it is important for potential borrowers to recognize the risks involved before making any decisions. Borrowers should take the time to research repayment terms and conditions in order to make sure that they understand any fees or penalties associated with missing payments or defaulting on their loans.

It is also recommended that individuals use alternative financial services only in a responsible manner, sticking exclusively with short-term financing solutions and avoiding them entirely if possible when dealing with longer-term needs.

Overall, while payday loans have their place in certain circumstances, it is always important for individuals considering using them to take the time necessary to ensure they understand all costs and risks involved beforehand – particularly how using these sorts of products can lead to a potentially endless cycle of debt. By being aware of these issues beforehand, individuals will be better equipped to make informed decisions about their financial futures going forward.

**STANDARDS:** 5.12.13a, 5.12.13b, 5.12.13c