Types of Alternative Financial Services

Rent-to-own
Rent-to-own services let you use an item for a period of time by making monthly or weekly payments. If you want to purchase the item, your rental payments will be partly credited toward the purchase price. The store will set up a plan for you to rent the item until you pay enough to own it. If you choose not to purchase, you would simply be renting the item to be returned at the end of the rental period.

The store is the legal owner of the item until you make the final payment. If you miss a payment, the store can take the item back. If this happens, you will not own the item, and you will not get your money back.

Rent-to-own agreements are technically not loans, so no interest is charged. However, the difference between the cash price (if you were to buy the item outright that day) and your total payment (the total of your rental payments over time) is like the interest you pay on a loan. Generally, using rent-to-own services is more expensive—sometimes much more expensive—than getting a consumer installment loan to buy the item.

Payday Loans
Payday loans (or cash advance loans) are short-term loans (usually up to two weeks).

- You write a check payable to the lender dated two weeks from now and receive cash that day. The loan service cashes the check on your payday to pay the loan in full.
- You can also go into the loan office and pay your loan with cash, at which point the lender returns your uncashed check to you.
- You must be careful of payday loans. They are usually made to people who need money right away and plan to pay it back with their next paycheck.

Payday loans can be much more costly than they appear at first glance. If you do not have the money to pay the loan within the agreed-upon time period, the lender will renew the loan and charge you additional fees. This will increase the total amount you owe. Let’s look at an example of how payday loan services work. Assume you go to a payday lender and borrow $200:

<table>
<thead>
<tr>
<th>Loan Term</th>
<th>Fee</th>
<th>You write a check for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 weeks</td>
<td>$30</td>
<td>$230</td>
</tr>
</tbody>
</table>
The payday lender holds the check until your next payday. When the money is due, you can repay the loan by letting the lender cash the check, or you can give the lender the full amount due in cash, and get your uncashed check back.

The APR for this transaction is 391 percent! An APR for a typical payday loan may vary and may be even higher than this example. Most payday lenders:
- Allow you to roll over, or renew your loan.
- Charge an additional fee for renewal; in this case, you would write another postdated check.
- Are usually not federally insured financial institutions or closely monitored by the Government as banks are.

Refund Anticipation Loans
Refund anticipation loans (RALs) are short-term loans secured by your income tax refund. Although the business preparing your income tax return will give you the money, you are actually receiving a loan from a bank or finance company. Because you do not have to pay any fees associated with obtaining a refund anticipation loan at the time you receive the money, you may not realize how much this loan is really costing you. For example:
- Your refund is $1,500.
- The fees associated with filing your income tax return with the tax preparation service and getting the refund anticipation loan equal $300.
- You will receive a check for $1,200.
- But you are actually paying $300 in fees to obtain your income tax refund.

It is important to remember that the paperwork you sign to receive a refund anticipation loan will legally obligate you to repay a $1,500 loan. The lender takes $300 of this up front and uses your actual $1,500 refund to pay for the $300 fee plus the $1,200 loan.

So, if your actual refund is only $800, you are responsible for repaying $700, plus interest to the lender that made the refund anticipation loan. And the higher the loan amount, the higher the refund anticipation loan fee will be.

Costs of a Refund Anticipation Loan
Here are some typical costs associated with getting a refund anticipation loan.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax preparation fee</td>
<td>$152</td>
</tr>
<tr>
<td>Refund anticipation fee</td>
<td>$75</td>
</tr>
<tr>
<td>Electronic filing fee</td>
<td>$40</td>
</tr>
<tr>
<td>Document preparation</td>
<td>$33</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>$300</strong></td>
</tr>
</tbody>
</table>
When you electronically file (e-file) your tax return and request direct deposit, your refund is often deposited in your bank account within one or two weeks. Sometimes refund anticipation loans take just as long, yet cost you substantially more money. Ask yourself why you want to pay a sizable fee to get a loan against your tax refund rather than waiting a short amount of time for the refund to be issued by IRS.

Many organizations host Volunteer Income Tax Assistance (VITA) sites. VITA is an IRS-coordinated program that provides free income tax assistance and e-filing. Income eligibility restrictions may apply. Contact the IRS for a location near you.