

Directions: Read the two articles below about cash advances then answer the following questions.

1. Why do people find themselves using cash advances?
2. What are some of the dangers of cash advances?
3. What happens if you do not repay your cash advance loan?
4. How would a fully funded emergency fund help you to avoid using cash advances?
5. What do you think would happen to cash advance companies if everyone took Dave Ramsey's advice and had at least \$1000.00 in savings for emergencies?

Cash Advances

- Cash advances or payday loans are a type of short-term lending that involves borrowing against future earnings. With a cash advance, a lender gives you a certain amount of cash and then you pay it back, typically a few weeks later, with interest. To qualify for a cash advance, you typically have to have a job and regular income. Qualifying for this type of loan usually does not require you to have a solid credit history to qualify. You could also receive a cash advance by borrowing money from your credit card.

High Interest Rates

- One of the major issues of using a cash advance is that it comes with a very high interest rate. When compared to other types of lending, the interest rate of a cash advance is significantly higher. With a cash advance, it may not seem like you are paying that much, because it is for such a short term. In reality, the annual percentage rate of the debt could be higher than 400 percent. Since these loans are usually for relatively small sums of money, it may not seem like you are paying as much as you are.

Borrow More Than You Can Pay

- Another problem with cash advances is that you can borrow more than you can realistically afford to pay back. This is especially true when you use a credit card to get a cash advance. With a credit card, you can usually take it to an ATM and get cash out. In some cases, you can get thousands of dollars in cash from a credit card. When you do not have the money to pay it back, you could face severe penalties and credit damage.

Collection Actions

- If you cannot afford to repay the cash advance, the cash advance lender may come after you with several collection actions. The company may start out by calling you and trying to collect the balance. If that does not work, the lender may file a lawsuit against you to collect. After the lender wins the lawsuit, you could have your wages garnished or have a lien placed on your property under order of the court.

Dangers of Cash Advances

When you're faced with the need for some quick cash, taking a cash advance on your credit card or signing up for a short-term loan can seem like good solutions. While these options offer a quick fix to your financial dilemma, they don't come without a price. Relying on cash advance loans can lead to serious financial trouble.

Overly Convenient

Credit card companies make it easy to obtain a cash advance whenever you wish. By issuing a personal identification number, the company allows you to use your card just like a bank ATM card to withdraw funds on the go. Your card issuer may also send you blank cash advance checks to use to pay bills or make a purchase. While these methods offer convenience, you can also rack up a lot of debt in a short period of time if you're not careful.

Fees and Interest

Cash advances are not cheap. When you take a cash advance on a credit card, you are normally assessed a flat fee, usually around \$10 according to the Kiplinger website. Some companies charge a percentage of the total advance. In addition, you'll pay a higher interest rate on cash advances than when using your card to purchase goods or services. And unlike with purchases, there is no grace period before interest is charged on a cash advance, making it extremely difficult to minimize the damage.

Substitute for Saving

You may be under the assumption that because you have access to a cash advance whenever you need it, there's no need to set aside money for financial emergencies. A 2011 National Foundation for Credit Counseling Survey points out that 64 percent of Americans do not have the cash on hand to handle even a \$1,000 emergency expense. If you have to rely on a cash advance to cover an emergency, you can find yourself with a debt load that could lead to financial ruination.

Payday Loan Woes

Another common form of cash advance is the short-term payday loan that you've probably seen advertised on television. With a payday loan, you pay the lender an upfront fee and write a postdated check to cover the amount of the loan, which typically comes due in about two weeks. If you can't cover the check, the lender will assess additional fees and interest on the balance. Some lenders will let you roll over the balance for another two weeks, but that only leads to additional charges. Before you know it, you're in a debt trap from which it is difficult to escape.