

Financial Pitfalls to Avoid

The holiday season can put a lot of stress on your budget. Some consumers get caught up in the season and make poor decisions that can affect their ability to buy cars, houses and meet their financial obligations in the future. Here are a few of those financial pitfalls and how you can avoid them.

PayDay Loans

These “cash advance” products are short-term unsecured loans for small amounts that consumers can get from a business, rather than an insured financial institution. They’re called “payday loans” because typical users borrow just enough to make it until their next payday, when they’re supposed to pay off the loan. However, the fees and very high interest rates charged on these loans often make it extremely difficult to pay them off on time. This type of loan often leads to a financial crisis where the borrower takes out one payday loan to pay off another, and it can spiral into tens of thousands of dollars of debt very quickly.

Rather than turning to payday loan companies if you’re in need of short-term funds, talk to your bank about obtaining a short-term personal loan. These products have much better interest rates and are much safer for the consumer.

Reloadable Prepaid Cards

A newer financial product on the market, reloadable prepaid cards are the result of large retailers pairing up with credit card companies. These cards are not necessarily FDIC-insured, which means any money stored on them could be lost if the card is stolen or the retailer goes out of business. Unlike reloadable gift cards (which can only be used at specific retailers), these products can be used anywhere

credit cards are accepted. However, unlike credit cards, reloadable prepaid cards do nothing to improve your credit score or help you build a credit history. If you’re considering using one of these products because you’re afraid of overspending with a credit card, consider getting a credit card with a low limit (ex: \$500). That will automatically limit your spending while still helping you build a good credit history.

Black Friday Frenzy

Black Friday, Cyber Monday, Gray Thursday... These are some of the biggest shopping days of the year, and many consumers overspend because they believe they’re getting great deals on items they need to buy anyway (like holiday gifts). However, before heading out to shop, make a plan for what you want to buy, and then research those items. Many times, retailers work with manufacturers to artificially inflate the original price for their goods, so when that sweater is 85 percent off, the retailer still makes a profit on it. Knowing what you want to buy and what it’s worth will help you spot true deals and avoid buying something simply because it’s on sale.



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