There is a growing industry offering high cost loans of anywhere from $300 to $3,000 or more that you pay off in monthly installments over anywhere from six months to five years. These loans come in all kinds of shapes and sizes. Some are by licensed lenders in your state and charge interest rates in the 30% to 60% range. On top of that they may sell you overpriced credit insurance. The real risk with these loans is that very often these loans are rolled over into new loans when you have trouble paying them off with their high interest charges, meaning that your indebtedness grows to much more than you originally owed, and keeps growing each time you roll over the loan. Not to mention that your car or home might even be taken as collateral.

Other installment loans are sold over the internet and seek to avoid state regulation. Then the sky is the limit as to interest rates, which can be as high as several hundred percent. Make sure to look at the Annual Percentage Rate (APR). Avoid any loan with a high APR number—certainly any rate above 36%. Some high cost loans today are claiming to have a zero percent APR, but then charge high fees based on your outstanding balance. This is a sure sign of a predatory lender to be avoided at all costs.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/0709