

BREAKING NEWS!

Housing Starts Drop 6% to 817, 000 in September

Home / Personal Finance / On Topic / Debt

FOX TRANSLATOR ▼

Monday, October 13, 2008

Top 10 Dumbest Ways to Go into Debt

Recommend (62)

[Email this Story](#) | [Respond to Editor](#) | [Print](#)

Kathryn Tuggle

FOXBusiness

[Digg It](#) [StumbleUpon](#) [Reddit](#)

When it comes to getting into debt, there are always a few expenses that can't be avoided. Whether it's the mortgage on your home or student loans from graduate school, a certain amount of debt is a part of most people's lives. However, there are some forms of debt that are totally avoidable.

Here are the top 10 dumbest ways to get in over your head with debt, and the best ways to avoid them.

1.) Cash advances on credit cards

Most credit card cash advances carry an upfront fee and a higher interest rate than other charges on your credit card, according to Dan Wegner, a certified credit counselor in Phoenix, Ariz.

Interest starts accumulating from the second you borrow the money, Wegner said, and most credit card companies require that customers pay down the balance on their credit card purchases before they're even allowed to pay off the cash advances.

The solution: Use a credit card or an ATM. Credit card interest won't accumulate for a month, and an ATM is free. If you're not near your bank's ATM, it's better to use a renegade ATM and pay a usage fee than to use your credit card to get cash.

2.) Giving family and friends a loan or co-signing for a loan

Offering loans to friends and family can get messy unless expectations are established in the beginning, according to Sanyika Calloway Boyce, founder of [FinancialFitnessCoach.com](#).

Too often, the party loaning the money does not specify when the loan should be returned and whether or not they want interest. This can lead to ruined, or at least strained, relationships.

The solution: If you are in a position to give, consider it a gift, Boyce said. It's also easy to go online and make up a promissory note that both parties can fill out to establish details.

3.) Playing the lottery or gambling

"You have higher odds of contracting a flesh-eating bacterial virus than winning the lottery," said Dara Duguay, Director of Citi's Office of Financial Education and author of *Don't Spend Your Raise* and *The Citi Commonsense Money Guide for Real People*.

Gambling has allure, but the odds of winning are very low.

The solution: Your betting instincts are best spent in the world's largest casino: the stock market. Better yet, take your chances on enjoying an exotic vacation spot you've never been.

4.) Payday loans and refund anticipation loans

Frequently pitched as a quick way to get access to your tax refund, refund anticipation loans have become a major profit driver for tax preparation firms. But they are roughly equivalent to a payday loan in terms of interest rates, according to Paul Herman, CEO and founder of [HIPinvestor.com](#), a consultancy for eco-conscious and humanitarian investors.

Payday loans often carry up-front fees, hidden fees and administration fees, and can carry an APR of up to 200%, according to Wegner.

The solution: Patience! Waiting a few days to get your money will save you a ton over the long haul. If you absolutely have to have money, it's better to use a credit card.

5.) Rent-to-own, Furniture and Appliances

"Rent-to-own is simply one of the worst decisions you can make," according to Scott Crawford, CEO of [DebtGoal.com](#), an online educational service that teaches people how to break down and pay off debt.

Rent-to-own customers will end up paying two to five times the department store cost of the item with an annual APR for 100% to 300%, according to Crawford.

"People will see that a couch is only \$49 a month," Crawford said, "But they are not doing the math!"

The solution: Save up money and purchase the item outright from a store. To get better deals, buy used furniture that can be found easily via the Internet on Web sites like Craigslist.

6.) Financing for cosmetic procedures

Financing for cosmetic medical procedures like Botox, liposuction and face lifts is more common than you'd think, according to Crawford. Most strip-mall cosmetic shops offer in-house credit to customers who can't pay cash, he said.



RELATED CONTENT

- [More Ways to Keep Track of Your Finances](#)
- [Five Ways to Lend to Your Kids Without Keeping Them in Your Debt](#)

ADVERTISEMENT

Refinance Now 5.6% Fixed!

Home Refinance: 160,000 mortgage for \$633/mo. No SSN req. FREE quotes!

Trader Makes \$18 Billion

California trader makes \$18 Billion in a single year! Find out How

[BUY A LINK HERE](#)

"You have to question whether going into debt for elective surgery is a smart purchase, but financing through the on-site financing will reflect negatively on your credit report, pushing up future borrowing costs," Crawford said.

The solution: If you must go under the knife, at least do it debt-free. Try selling some of your "fat clothes" to make the money.

7.) Buying a new car

By buying a new car instead of used, customers are essentially paying twice for the asset: they'll pay interest and they'll pay depreciation when they sell, Crawford said.

Further, new car owners will pay more in insurance and licensing fees. Most consumers will find it 50% to 60% less expensive to buy a car that's three to four years old, according to Crawford.

The solution: Buy a used car. The market for used cars is improving, and with vehicle history reports, you'll know exactly what the car has been through before you buy it.

8.) Student Loans

Students should not take out loans to attend nonaccredited schools with poor job placement records, and should look for federally subsidized debt rather than private lender loans at higher rates, according to Crawford.

Some students make the mistake of taking out a loan that is more than they actually need, according to Duguay, and then spend the extra money on things like midnight pizza.

The Solution: Students should find out what financial aid and grants they qualify for first. Students should use loans to fill in the income gaps for what they cannot afford, not to finance the entirety of their education and college fun.

9.) Using your credit card for insignificant purchases like fast food or soda

Don't use your card for tiny purchases when you could easily pay cash instead, said Herman.

"Cash is the best option unless you're interested in paying 25% interest on your Big Mac," he said.

Individuals using a credit card for food will spend an average of 33% more than those using cash, according to Wegner. Using a credit card to buy small food items is bad for your wallet and your waistline, he said.

The solution: Cash! At the end of the month, you'll thank yourself for going a little out of the way to avoid using plastic.

10.) Taking out 401(k) loans or making early withdrawals

Loans taken against your 401(k) often carry high fees. Also, when a loan is taken against a retirement account, the person taking the loan must have a definite plan to repay it, according to Crawford.

The solution: Keep enough cash liquid and in savings accounts so that you don't have to dip into a 401(k) before you're ready. If you must take out a loan, make sure it's for a home or property that will appreciate over time.

PEOPLE ALSO READ...

[Five Ways to Lend to Your Kids Without Keeping Them in Your Debt](#)

[Obama Unveils Economic Rescue Plan](#)

[Oil Futures Gain Ahead Of Data On Crude Inventories](#)

[Former Fed Chief: U.S. Now in Recession](#)

[Would You Fire Sarah Palin?](#)

ADVERTISEMENTS

Refinance Now 5.6% Fixed!

Home Refinance: 160,000 mortgage for \$633/mo. No SSN req. FREE quotes!
www.LendGo.com

Trader Makes \$18 Billion

California trader makes \$18 Billion in a single year! Find out How
www.VirtualInvestingClub.com

"Your Credit Score Stinks!"

A good credit score is 700+. View yours online instantly now, FREE.
www.CreditReportAmerica.com

AARP Auto Ins Quotes

Over 50? Save \$363 On Auto Ins With The Hartford. Free No Hassle Quote
AARP.TheHartford.com

[BUY A LINK HERE](#)

[HOME](#) | [VIDEO](#) | [MARKETS](#) | [PERSONAL FINANCE](#) | [MY MONEY](#) | [OUR TEAM](#) | [RSS FEEDS](#) | [MOBILE](#) | [CONTACT US](#) | [ABOUT US](#) | [FAQS](#)

Personal Finance - Investing - Financial News - Business News - Stock Market Quotes & News - Small Business

Advertise with us. Jobs at FOX Business Network.

Terms of use. Privacy Statement. For FOXBusiness.com technical issues write to foxbusinessonline@foxbusiness.com; for all other feedback, write to feedback@foxbusiness.com.

This material may not be published, broadcast, rewritten, or redistributed. 2008 FOX News Network, LLC. All rights reserved.

SmartMoney.com © 2008 SmartMoney. **SmartMoney** is a joint venture between **Dow Jones & Company, Inc.** and Hearst SM Partnership. All Rights Reserved. All quotes delayed by 20 minutes. Delayed quotes provided by **Interactive Data Managed Solutions**. Historical prices and fundamental data provided by **Hemscott, Inc.** Mutual fund data provided by **Lipper**. Mutual Fund NAVs are as of previous day's close. Earnings estimates provided by **Zacks Investment Research**. Insider trading data provided by **Thomson Financial**. Upgrades and downgrades provided by **Briefing.com**.