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What Is a Money Order?

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Reviewed by SOMER ANDERSON

What Is a Money Order?

A money order is a certificate, usually issued by a government or banking institution, that allows the stated payee to receive cash on demand. A money order functions much like a check, in that the person who purchased the money order may stop payment.

Money orders are readily accepted and converted to cash and are often used by people without access to a standard checking account. These instruments are an acceptable form of payment for small debts, both personal and business, and can be purchased for a small service fee from most institutions.

Money orders were first issued by American Express in 1882 and later became popularized as traveler's checks. [1]

KEY TAKEAWAYS

- When you purchase a money order, you may have to pay a small fee.
- You can purchase money orders at banks and credit unions, and also at a variety of locations like big box stores, post offices, and even some gas stations.
- Money orders are a safe alternative to using cash or checks.
- If you lose a money order, it can usually be replaced for a fee.
- International money orders can be an inexpensive way to send across the border and overseas quickly.

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A person who buys a money order will have to fill out the name of the recipient on a form and the amount that the recipient should receive. Most money orders have a maximum limit of $1,000. Therefore, a buyer would need to purchase multiple orders if he needs more than the stipulated limit. Be sure to fill out the money order carefully; it's a one-off purchase and you need to keep good records of it.

The financial institution or authorized body that issues the money order to the payer will have the payee's name, the issuer's name, and the amount of money that can be cashed. This dollar value does not include the fees charged to the payee. Factor in all costs when purchasing money orders. A bank or credit union will normally charge more than a convenience store to issue money orders.

> **Warning:** A money order is not a check, and it's harder to trace one; keep your receipt until you are sure the order has been received and cashed.

When a purchaser pays for a money order, it comes with a receipt that includes the serial number of the money order. This information should always be kept until the purchaser is certain the money order has cleared. Without a receipt, tracing a money order can be difficult or even impossible.

Advantages and Disadvantages of Money Orders

In some situations, paying with a money order can be safer than paying with a personal check. Since personal checks include the account holder's routing number and bank account number printed on the bottom this private information can be stolen and used to create and sign fraudulent checks. In contrast, money orders do not include personal information about the purchaser.

On the downside, money orders can be more difficult to track than a personal check. To determine whether a personal check has cleared, check writers only need to visit their bank or look at their online account for information about its status.

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process for researching the status of a money order can take weeks. The USPS offers an online money order inquiry service that allows buyers to input the money order number and get an update on its status.

In addition to checks and money orders, other financial instruments that can be used to send guaranteed funds to an individual or business include traveler's checks, wire transfers, bank drafts, and cashier's checks.

Pros

- Money orders do not include personal information, such as your bank's routing number and your bank account number.
- The recipient can cash the order at a local bank or credit union—there's no requirement to go to the issuer to have it cashed.
- Money orders can also be deposited into a bank account, for no fee.
- The money order can be issued in one country and be cashed in another country.

Cons

- Money orders can be more difficult to track than a personal check—to find out whether the money order has been cashed, for example, can require forms and take weeks.
- Cashing the money order can incur a fee.
- There may be a delay in getting the funds if they are cashed at a bank other than the issuer.
- Money orders can be fraudulent; be wary about receiving them from people you don't know and don't spend money orders you deposit in the bank until you know the bank was able to cash them.

Special Considerations

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local bank or credit union, but may not receive the funds all at once, depending on the institution's policy. If the payee has no account, cashing the money order at the issuer's office is a great option.

However, a payee does not have to cash the money order right away. They can deposit it into a bank account, much as you would do a check. Depositing money orders is a good option for payees who are concerned about the fees charged to cash the certificates at multiple locations.

Since the fees are certain to reduce the amount of money that will be received, depositing it with no additional charges at a bank will ensure that the account holder keeps all the money paid to them.

As is often the case, a money order can be used as a vehicle to send money outside the country. An issuer with multiple branches in different countries can issue a money order in one country that can be cashed in another country. International money orders thus provide an inexpensive and swift way to send money across the border.

How to Buy a Money Order

You can buy a money order at any bank or credit union, as well as most grocery stores, convenience stores, and any store that offers check cashing or money services such as MoneyGram or Western Union. The U.S. Postal Service also offers money orders.

To order, you simply need to bring enough money to pay for the money order, either in cash or with a debit card. For transactions above $3,000, you may be asked to present your ID and fill out a special form. This information is used to prevent money laundering.

How Much Do Money Orders Cost?

Although there is an additional cost for issuing a money order, the fee is generally only a small fraction of the value of the order. For example, the USPS

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Money orders from commercial institutions may have different prices, but the fees will tend to be similar. However, international money orders may incur higher fees.

Money Orders vs. Cashier's Checks

A cashier's check is similar to a money order, in that both are sometimes used for payment in situations where cash or a personal check would be impractical. Neither can be bought with credit—you have to use cash.

But unlike a money order, a cashier's check is simply a check written by a financial institution against its own assets. This is considered more reliable than a personal check since there is no chance of the check bouncing.

For this reason, cashier's checks are frequently used to make large purchases, such as for a house or vehicle. Whereas banks might place a hold on a personal check for that much money, funds issued by a cashier's check should be available the next business day.

In contrast, money orders are typically used for smaller transfers, such as for rent or mortgage payments. Many institutions, such as the USPS, cap money orders at $1,000.

Alternatives to Money Orders

Money orders are frequently used for payment in situations where the payee is not set up for cash receipts. In some cases, a personal check, debit card, credit card, or even online payment apps might also be acceptable for payment.

However, money orders are slightly different from these alternatives. Unlike card or electronic payments, the recipient of a money order does not need any special technology to receive a money order. Moreover, unlike checks, a money order cannot bounce.

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When you buy a money order, you will need to include information about the purchaser (you) and the recipient. Write the name of the intended recipient in the "Pay to the Order" field, and your full legal name and address in the appropriate fields. Some money orders may not ask for your address. Finally, sign and date the money order, and keep the receipt. [3]

Where Can I Cash a Money Order?

You can cash a money order in the same places that issue money orders, such as a bank, credit union, Post Office, check-cashing store, or even some convenience and grocery stores. There may be a small fee for cashing the money order, which you can skip by depositing the money order into a bank account. [4]

How Long Is a Money Order Good For?

Money orders do not expire, but depending on the state and issuer, they may incur additional service charges if you cash them more than a year after they were issued. These terms will be described on the back of your money order. However, domestic money orders from the U.S. Postal Service will never expire or lose value. [5] [6]

The Bottom Line

A money order allows the recipient to receive immediate cash payment from a bank or other financial institution. For that reason, money orders are a popular way to make medium-size payments in circumstances where cash or personal checks are not practical. Unlike cash, lost money orders can be replaced, and they cannot bounce due to insufficient funds.

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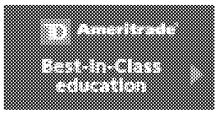

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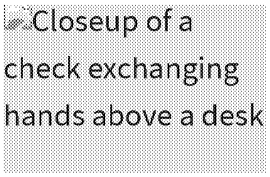

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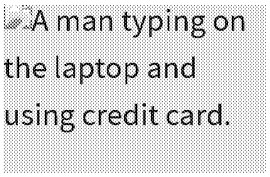

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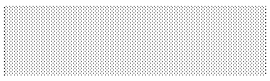

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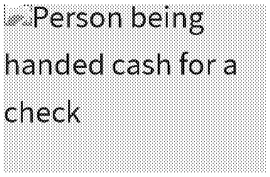

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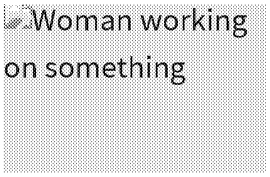

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