

# Consumer Alert



DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

## Payday Loans = Costly Cash

*"I just need enough cash to tide me over until payday"*

**“GET CASH UNTIL ....\$100 OR MORE ....FAST.”**

**T**he ads are on the radio, television, the internet, even in the mail. They refer to payday loans – *which come at a very high price.*

Check cashers, finance companies and others are making small, short-term, high-rate loans that go by a variety of names: *payday loans, cash advance, check advance loans, post-dated check loans or deferred deposit check loans.*

Usually, a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed – say, for every \$50.00 or \$100.00 loaned. And, if you extend or “roll-over” the loan – say for another two weeks – you will pay the fee for each extension.

Under the Truth and Lending Act, the cost of payday loans – like other types of credit – must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of credit on a yearly basis).

A cash advance loan secured by personal check – such as a payday loan – is very expensive credit. Let’s say you write a personal check for \$115 to borrow \$100 for up to 14 days. The check casher or payday lender agrees to hold the check until the next payday. At that time, depending on the particular plan, the lender deposits the check, you redeem the check by paying the \$115 in cash, or you roll-over the check by paying a fee to extend the loan for another two weeks. In this example, the cost of the initial loan is a \$15 finance charge and 391 percent APR. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow \$100.

## **Alternatives to Payday Loans**

***There are other options. Consider the possibilities before choosing a payday loan:***

- ***When you need credit... shop carefully.*** Compare the APR –consider a small loan from your credit union or small loan company, an advance on pay from your employer, or a loan from a family or friends. A cash advance on a credit card also may be a possibility, but it may have a higher interest rate than you other sources of funds: find out the terms before you decide. Also, a local community-based organization may make small business loans to individuals.
- ***Compare the APR and the finance charge*** (which includes loan fees, interest and other types of credit costs) of credit offers to get the lowest cost.
- ***Ask your creditors for more time to pay your bills.*** Find out what they will charge for that service – as a late charge, an additional finance charge or a higher interest rate.
- ***Make a realistic budget, and figure your monthly and daily expenditures.*** Avoid unnecessary purchases – even small daily items. Their costs add up. Also, build some savings – even small deposits can help – to avoid borrowing for emergencies, unexpected expenses or other items. For example, by putting the amount of the fee that would be paid on a typical \$300 payday loan in a savings account for six months, you would have extra dollars available. This can give you a buffer against financial emergencies.
- ***Find out if you have, or can get, overdraft protection on your checking account.*** If you are regularly using most or all of the funds in your account and if you make a mistake in your checking (or savings) account ledger or records, overdraft protection can help protect you from further credit problems. Find out the terms of overdraft protection.
- ***If you need help working out a debt repayment plan with creditors or developing a budget, contact your local consumer credit counseling service.*** There are non-profit groups in every state that offer credit guidance to consumer. These services are available at little or not cost. Also, check with your employer, credit union or housing authority for no or low-cost credit counseling programs.
- ***If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.***

### **To Complain or For More Information**

*The Department of Insurance, Securities and Banking (DISB) works for consumers to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit: [www.disb.dc.gov](http://www.disb.dc.gov) or contact Evelyn Carmen of the Banking Bureau on 202-727-8000.*

*This information was made possible by the Federal Trade Commission, Bureau of Consumer Protection, and the Office of Consumer Business Education – February 2000*