

# The Biting Price Of Payday Loans

## Consumer Alert!

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Credit Counseling

### Hard up for cash?

How much are you willing to pay for a \$100 loan?

- A. 5 dollars?
- B. 15 dollars?
- C. 30 dollars?
- D. 400 dollars or more?

If you're willing to get a payday loan, then you may as well choose answer D.

They go by many names: payday loans, cash advance loans, check advance loans, post-dated check loans or deferred deposit loans. Their ads are everywhere – there are more payday stores in America today than there are McDonalds. Even where they are outlawed, they seem to flourish. Now a \$40 billion-dollar-a-year industry, it's no wonder they are among the fastest growing financial services in the country. (Source: *Paying More For Payday Loans*.)

### What Is A Payday Loan?

A *payday loan* is a small, short-term loan with an extremely high cost. The amount of the loan is typically less than \$500 and the full amount is due in about two weeks. The loan is given in exchange for two things: 1) a personal check, or an authorization for an automatic draft on a bank account, and 2) a fee - usually between 15 and 30% of the loan amount. If you do not have the funds available in two weeks, you may be able to get a two week extension - if you pay an additional fee. This extension/renewal process

**Alliance Tip** - Under the federal Truth In Lending Act, the cost of any loan or credit must be made known to you in writing. You must be shown the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of the credit on an annual basis). (Source: *Payday Loans = Costly Cash*) If any lender will not give you this in writing, walk away.



may be repeated any number of times and therein lies the greatest danger. Many borrowers can't repay the loan in two weeks and find themselves caught in a cycle of debt. The Center For Responsible Lending reports that 99% of payday loans to go repeat borrowers and the average loan is flipped 8 times.

### What Is The Real Cost?

Let's say you wanted to borrow \$100. You would give the company a check for that amount plus their fee – let's say \$115. You walk out with \$100 but \$115 is due in two weeks. The true cost of the loan (\$15 dollars on \$100 for two weeks) is equal to an annual percentage rate of 390%! If you had to extend the loan for more than two months in order to repay it, you would pay more in fees than you borrowed!

In fact, you could pay much more than 390 percent. The Consumer Federation of America conducted a survey of Internet payday loan sites. It reported that "Internet payday lenders bypass state usury laws and consumer protections by locating in lax regulatory states" and the survey found finance charges in the 650 to 780% APR range ([www.consumerfed.org](http://www.consumerfed.org)). North Carolina Attorney General Roy Cooper says "**When you are talking about an interest rate of 450 percent... that's definitely loan sharking.**" (*Paying More For Payday Loans*.)

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## Why People Get Hooked

Desperation and/or ignorance are the most common reasons people bite the payday loan hook. Typically, all you need is a job, some identification, and a checking account; so it's quick and easy to get a payday loan. The idea of quick cash is tempting for someone who doesn't realize how much it will cost them or for someone who thinks they have no other choice.

## Better Options

In fact, even if you're financially strapped, there are better choices. Jim Blaine, chief executive of the non-profit North Carolina State Employees' Credit Union, says "A loan shark only charges about 150 percent. Why would you go pay 400 percent? Any other choice on the planet is better." (Source: *Paying More For Payday Loans*). The Federal Trade Commission (FTC) and several financial experts point out the following options:

1. **Ask your creditors for more time to pay your bills.** Ask to speak with a manager, briefly explain your situation and state what you can pay now or how much more time you need. If no assistance is offered, find out what the late or penalty charges would be – that still may cost less than 390% APR.
2. **Ask for a payroll advance from your employer.** Because this is not a loan, there is no interest.
3. **Ask family or friends for a small private loan.** If they have the funds in a savings account and you offer them a higher interest rate, it can be a win/win situation. Remember to put all the terms in writing.

4. **Look into a small loan from a credit union or small loan company.**
5. **Look into a cash advance on a credit card.**
6. **Look into overdraft protection on your checking account.**
7. **Make a realistic budget or spending plan.** This can help you free up money by dropping expenses that are not absolutely necessary or making other adjustments to your current spending. It can also help you build some savings so that you will be better prepared for financial emergencies.
8. **Look into emergency assistance programs.** Many faith-based groups and community organizations will provide emergency assistance directly or through social service programs.
9. **Consult your local credit counseling service.** There are non-profit organizations in every state that offer credit education and debt management programs. These services are available at little or no cost.

**With these or any other options, the critical point is to compare the cost of each solution.**

Compare the Annual Percentage Rate (APR), including all finance charges and all fees, to find the lowest total cost.

## If You Have Taken A Bite

If you have a payday loan and now find yourself unable to pay it off, there are actions to consider.

- Get the facts. The Consumer Federation of America has created an online resource of information regarding payday

lending. Here you can find specific information for your state about the legal status of payday loans, loan terms, collection limits, complaint instructions, and more: [www.paydayloaninfo.org](http://www.paydayloaninfo.org).

- Contact the payday loan company. Explain your situation to a manager and try to negotiate a reasonable payment arrangement. Also, carefully re-read the terms of the agreement you signed. Are there arbitration terms? Calculate how much it will cost if the check bounces (the bank NSF charge, the NSF charge or other penalty charges or interest from the loan company). In the long run, these costs might actually be less than the cost of months of renewal/extension fees.
- Look over the list of "Better Options" (on this page) to see if using one or more of those solutions could help you pay back the payday loan.
- File appropriate complaints. If you believe a lender violated the Truth In Lending Act, contact the FTC. If you believe you were misled or wronged, contact your state attorney general.

Finally, be proactive. Support legislation for a national usury law (In 2007, federal law was enacted to cap APR on these loans at 36% for active duty service members). Warn others. You wouldn't want a friend to swim in shark infested waters.



NOT LEGAL ADVICE: Alliance provides general information, but does not provide legal advice. If legal advice is needed, seek assistance from a competent attorney.

## To Find Out More



- Payday Loans Equal Very Costly Cash (FTC): [www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt060.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt060.shtm).
- Predatory Payday Lending (CRL): [www.responsiblelending.org/issues/payday/](http://www.responsiblelending.org/issues/payday/).
- 391 Percent Payday Loan: [www.consumer-action.org/press/articles/391\\_percent\\_payday\\_loan/](http://www.consumer-action.org/press/articles/391_percent_payday_loan/).
- Paying More For Payday Loans (60 Minutes): [www.cbsnews.com/stories/2005/05/16/60II/main695461.shtml](http://www.cbsnews.com/stories/2005/05/16/60II/main695461.shtml).
- The Spending Plan (Alliance): [www.knowdebt.org/education.php](http://www.knowdebt.org/education.php).