



## **Payday Loans = Costly Cash**

The ads are on the radio, television, the Internet, and 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 loans, 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, for example every \$50 or \$100 loaned. And if you extend or "roll-over" the loan, you will pay the fees for each extension.

Under the Truth in 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 a 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 your 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 offers. Look for the credit offer with the lowest APR - consider a small loan from your credit union or small loan company, an advance on pay from your employer, or a loan from family or friends. A cash advance on a credit card also may be a possibility, but it may have a higher interest rate than your 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 management 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 consumers. These services are available at little or no 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

If you believe a lender has violated the Truth in Lending Act, file a complaint with the FTC.

You can file a complaint with the FTC by contacting the Consumer Response Center by phone: toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580; or through the Internet, using the [online complaint form](#). Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.

The FTC publishes free brochures on many consumer issues. For a [complete list of publications](#), write to **Best Sellers**, Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580; or call toll-free 1-877-FTC-HELP (382-4357), TDD 202-326-2502