

DOLLARS & SENSE

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Payday Loans, the Good, the Bad and the Ugly

Most of us know what it's like to sacrifice to get to the next payday — and to fill that gap enter the payday loan. Fast cash lending centers seem like a great idea when times get tough, but it's best to understand what you are getting into before you sign on the dotted line.

A payday loan is an unsecured, short-term loan that is meant to cover unexpected or urgent financial needs that have a short duration. They are not meant for long-term solutions because the interest rate and fees are exorbitantly higher than other financial solutions. Most payday loans are offered by non-banking institutions and, therefore, have more lenient requirements. Chances are, every person you ask will have a different opinion about payday loans. The truth is; the answer is unique to each situation. The only way to know if it will help or hurt your situation is to look at all the information.

Payday Pro's

Easy Qualification. Unlike traditional loans, payday loans are fast and easy. In most cases, there is no credit check, and there is not an overabundance of paperwork. Payday loans are much easier than traditional loans because the qualifications are more relaxed. Generally, they only require you be over 18 with a proven source of income.

Fast Money. The money is usually deposited into your account on the same day or next day, which means that the funds are available to you

very quickly. In situations where you have an urgent financial need, this can be very beneficial.

Convenient. In most cases, you can apply for a loan from the comfort of your home. Most payday loan companies that are brick and mortar also have an online presence, and some lenders are completely online companies with no physical office location. Online lending eliminates long lines and anxiety and is especially handy if you do not have access to convenient transportation. Online applications are simple and quick, and approval is immediate.

Repayment Is Easy. Payday loan payments are easy and convenient. Your loan payment is made on an agreed upon date, and the payment is automatically made by a borrower written check or an ACH withdrawal from your account on that agreed upon date.

There is no question about it. With its simple qualifications and fast availability, payday loans are convenient but that convenience is not without a price.

Payday Con's

Expensive. The most obvious and immediate downside to a payday loan is the expense. Most payday lenders will charge you \$13 to \$30 for every \$100 you borrow. When averaging your cost, your Annual Percentage Rate (APR) could be anywhere from 300% to 700%!! Considering that even the worst credit cards have an APR of 30%, you can see why a payday loan should strictly be used for a short-term solution, and only with great consideration.

Debt Trap. Payday loans can easily become a merry-go-round of debt.

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Many people find that once the loan is paid back, their paycheck again falls short of making their monthly expenses. This cycle leads them to extend their existing loan, or take out another loan. For people struggling financially, it becomes a debt trap that is hard to break. Because of high fees and interest rates, payday loans can quickly balloon into an amount that becomes unmanageable. When this happens, many people find that they cannot pay back the loan within the promised time frame.

Deceptively Easy. While ease of use can be seen as a positive asset, payday loans are designed that way for a purpose. Too often, people with financial hardship make quick decisions based on fear. When money is readily available, chances are borrowers have not considered the high cost or any alternatives. This immediate gratification response is why payday lenders strive to make it as easy as possible for you to access fast cash.

Illegal Companies. The online loan business is rife with illegal companies. Do your research before borrowing from an online lender with no brick and mortar store because you run a higher risk of borrowing from an illegal company. Illegal lenders often apply unscrupulous loan terms, such as withdrawing only the interest each payday, without paying any principle, thus extending the loan and inflating the cost. Illegal companies also do not adhere to legal collection practices and your life can quickly descend into a collection nightmare.

The good news is, all lenders are required to have a license to operate in your state. If you suspect that your lender is practicing in your state illegally, the loan may not be collectible or enforceable. Contact your state's department of financial institutions for assistance. Beware that sometimes lenders will put loopholes in the terms and conditions. It is important to read the fine print.

Brute Tactics. There is a good reason that state and federal laws have been created to protect you from predatory lending. While not all collectors fall into this category, you will, unfortunately, find a much higher rate of aggressive and often, illegal collection practices in unsecured, short-term lending companies than with traditional lenders. Some tactics include incessant calling, calling at inconvenient times (early or late), and even harassing your family and acquaintances.

The truth is, payday loans are geared towards people with few options. If you have bad credit and an urgent need for money, payday loans are often the only solution. It is vital to shop around for the right lender, and avoid being taken advantage of by thoroughly reading the terms and conditions before agreeing to the loan. Unfortunately, many people don't do their due diligence and get in over their heads. Which leads us to the next question.

Check the Lending Laws of Your State

Due to the amazing growth of payday lending companies in the United States in recent years both state and federal governments have started legislation to regulate the fast cash industry.

Payday lending in some form or another is legal in about 27 states, with nine others allowing some form of short term storefront lending with restrictions. Each of these states vary in the amount businesses are allowed to lend, what the lending terms can be, and in many cases the interest rates are capped to protect consumers from predatory lending. If you are thinking about using a payday loan service make sure to understand the laws in your state.

Just like other loans, this type of borrowing can result in reduced credit scores. If you default on your loan you could be subject to collection phone calls or lose your collateral, for instance, your car if you signed on a title loan. You can also be taken to court and have your wages garnished until the loan is paid in full.

In some states, consumers can be prosecuted immediately if their collateral check is returned for insufficient funds and can be subject to high fees and interest rates. Delaware, South Dakota, Nevada, and Utah have no caps on fees or interest rates. Missouri allows fees on payday loans to be as much as 75% of the principal.

As you can see, payday loans can be loaded with land mines and can be risky business for consumers.

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Alternatives to Payday Loans

Before you make the decision to get into more debt, you should look into alternatives. If you find that a loan is your only solution, you should look into the best loan options available that will fit your situation. Below is a list of alternatives to consider.

- **Talk To Your Creditors.** Most creditors are happy to help because they would rather get paid than take you to collections. Creditors often have some form of deferred or equal payment plan available and may also be able to direct you to external financial hardship programs available.
- **Downsize.** Everybody has something around their home or garage that they no longer use or need. Items such as tools, jewelry, and kids furniture can earn you significant amounts. Online classifieds and sites like eBay, Craigslist, and even Facebook make it fast and easy to sell. If your not computer savvy, thrift shops, pawn shops and yard sales are always a good resource.
- **Increase Your Earnings.** While this is not an immediate fix, it will help your long-term financial health and prevent the need to rely on expensive, short-term lending. Picking up an extra shift at work, or a small side or weekend job could help push you into the black.
- **Ask For An Advance.** A little-known fact is that many employers offer a pay advance. Simply put, you are borrowing from your future paycheck, effectively cutting out the middle man. Usually, you will pay it out of your next paycheck or over an agreed upon time frame. Contact your HR or Payroll office for more information.
- **Take out a small loan from your bank or credit union.** Banks offer both secured and unsecured personal loans. A secured loan will

Average Interest Rates on Payday Loans

Two of the biggest issues with payday loans are the hidden fees and interest rates that companies charge to lend you 'easy' money. In just about every case, a payday loan is going to be much more expensive than other loans. In addition to the interest, there are often lending fees (called finance charges), late fees, service fees, and early repayment fees to watch out for. Because they are shorter-term loans, you often don't realize just how much you are paying. It can get expensive quick!

Average Annual Interest Rates on Common Loans:

Car Loan	2-8%
Home Loan	4-10%
Personal Loan	12-18%
Credit Cards	15-28%

★ **Payday Loans** 400-600%

give you lower fees and interest rate with better repayment terms. What you qualify for will depend on your credit score and any collateral you have to secure your loan. This option may not be as fast and convenient as a payday loan, but it will cost you less and actually help you build your credit.

- **Use your credit card.** Even high-interest credit cards have an APR that is far lower than a payday loan option.

There is a lot of information to consider when you are thinking of applying for a payday loan. Ultimately, payday loans should be considered a last resort when there are no other options, and even then very cautiously. It would benefit you to look at your budget

and analyze your cost of living. Non-essential things should be reduced or eliminated to help you live within your means.

Perhaps you can get by with a smaller cable tv package (or eliminate it all together). Cancel your magazine subscriptions and pass up the latest "Publishers Clearing House" deal. Eating takeaway meals and coffee is a quick way to lose control of a good budget, so try to eat at home as often as you can.

Anything you can do to ensure that you don't have to consider a payday loan in the future is a good idea. After all, without a good budget in place, chances are, if you are looking at a payday loan today, you will be looking for one again tomorrow (or your next payday). ■

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What Happens If You Can't Pay?

Most payday loans require a written check or approval to withdraw their payment from your bank account. So, it makes sense that the first thing that will happen when you cannot pay is that the company will try to deposit the check or make an ACH withdrawal. If the funds aren't in your account, you will accrue a fee both from your bank and the lender. A good way to avoid these fees is to contact your payday lender before they try to withdraw the funds.

Most lenders will work with you if it's a short-term inability to pay (think a couple days). However, they will likely charge a daily penalty. Payday loan institutions are restricted by what they can do according to your specific state laws. Some states allow them to roll your loan into another loan in order to extend the due date. Keep in mind that if this is an option, it will cost you more in interest and fees, but is much better than defaulting on your loan. If your inability to pay is going to be longer than several days, there are additional options.

If your lender is a member of CFSA (Community Financial Services Association

of America), they are required to give you an extended payment plan (EPP) at no additional cost. Payday loan companies join the CFSA in order to get representation in Washington and tax deductible benefits.

In order to get these benefits, they are required to give you an extended repayment plan option. You can only do this once per year (with the same lender), so don't make it a habit. To sign up for an EPP, simply tell your lender "I want to apply for an extended payment plan."

If you are certain your lender is a member of the CFSA and they refuse to comply, you should report them to cfsaa.com immediately. Some states have adopted statutory provisions on extended payment plans, if this is the case where you live, the state plan terms and conditions are offered, not the CFSA's. For additional help or to see the customer bill of rights, go to cfsaa.com

If your lender is not a member of the CFSA, you may still have some rights to an extended payment plan under your state law. Check your state department of financial institutions or attorney general website for more in-

formation on extended payment plans that may be available.

If you fail to make a payment and default on your loan, your lender will turn your debt over to the collections department or an outside collections agency. You will then likely receive calls and mail that will tell you that your debt is overdue and the possible consequences of your non-payment. If you make no attempt to communicate or pay, they may sue you and obtain a judgment against you. Once a judgment is entered; your lender can then garnish your wages or seize your bank accounts.

Sometimes Payday lenders can overstep their boundaries and be unscrupulous and aggressive in their collections efforts. If you are being intimidated, coerced or harassed, there are laws to protect you under the Fair Debt Collection Practices Act. Contact the Federal Trade Commission or go to <https://www.ftc.gov/> for more info.

Remember, when you can't pay, communication is key. Most lenders do not want to spend a lot of time and money to collect their payment, so there is a lot of motivation to work with you on repaying the debt. ■



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