



Payday Loans = Costly Cash

Payday lenders lure consumers with messages like “Get cash until payday! \$100 or more...fast!” These ads are on the radio, television, the Internet and even in the mail. These types of loans go by a variety of names: payday loans, cash advance loans, check advance loans, post-dated check loans or deferred deposit check loans – and they come at a very high price.

How payday loans work

- 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 or \$100 loaned.
- If you extend or "roll-over" the loan - say for another two weeks - you will pay the fees for each extension.
- Payday lenders create a cycle of debt, encourage chronic borrowing and hold annual interest rates as high as 400%.
- 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).
- 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.

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Alternative options to payday loans

- Compare your possibilities and look for the credit offer with the lowest APR and the finance charge - 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.
- 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, before you take out a payday loan to pay these bills.
- 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 give you a buffer against financial emergencies.
- Find out if you have, or can get, overdraft protection on your checking account. Overdraft protection can help protect you from further credit problems by helping you avoid costly fees. 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.
- 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.



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