



DEPARTMENT OF JUSTICE
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Consumer Protection Unit

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PAYDAY, TITLE AND OTHER 'EASY' CASH LOANS

Check cashers, finance companies and other businesses make short-term, high-rate loans under a variety of names including payday loans, title loans, cash advance or check advance loans. Usually, the borrower writes a personal check, or posts a car title to the lender for the amount he or she wishes to borrow plus a fee. The lender gives the borrower the loan, minus the money charged as fees. Fees for these loans are usually a percentage of the face value of the check or the amount borrowed. If the borrower extends or 'rolls-over' the loan for an additional period of time, the borrower pays the fees for each extension.

If you receive a telephone call offering to make a loan and you are interested in hearing more about the loan, tell the caller to send all of the information to you by mail so that you can take your time to review all of the information in writing. Never give your personal information such as your Social Security number, credit card number or bank account information over the phone unless you initiated the phone call, you know you are talking to a legitimate company and you understand what you will get for your money.

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. If you write a personal check for \$115 to borrow \$100 for up to 14 days, the check casher or payday lender will agree to hold the check until your next payday. At that time, depending on the particular plan, the lender will deposit the check, you will redeem your check by paying the \$115 in cash, or you will 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 which is a 391 percent APR. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow \$100.

As you can see this is not a cheap way to borrow money – it is one of the most expensive ways to get credit.

There are many alternatives to Payday Loans – check them out 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 so find out the terms before you decide. Local community-based organizations 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 as even small daily items add up. Build up some savings, even small deposits can help, so that you can avoid borrowing for emergencies, unexpected expenses or other items. IF you deposit the same amount you would pay as a fee on a typical \$300 payday loan in a savings account for six months, you'll have extra money available that can help you when financial emergencies hit.

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 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.

If you believe a lender has violated the Truth in Lending Act, 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 at [.ftc.](http://www.ftc.gov). The complaint is available online. Although the FTC 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 for Best Sellers, Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580; call toll-free 1-877-FTC-HELP (382-4357), TDD 202-326-2502; or go to the website at www.ftc.gov.