PAYDAY LOANS

The Facts

ALABAMA ASSET
BUILDING COALITION

Prepared by
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Introduction

Many people have gotten payday loans. Payday lenders seem to be everywhere. Payday lenders used to be just in neighborhood stores. Now people can reach payday lenders with their computers. Alabamians can borrow from more than one thousand payday lenders located in the state.

Payday loans can provide quick cash to cover emergencies, but many folks do not like them. They say that the payback period is too short and the fees charged are too high. They believe that payday loans are not fair because they trap borrowers in debt. As a result, some folks want to pass a law that would cut down the high fees charged for these loans.

The information in this booklet will explain payday loans, and tell you about the dangers of getting one. It also will give you ideas about how to get cash without a payday loan.

We hope you will find this information useful, and that you join the fight against payday loans in Alabama.

What is a Payday Loan?

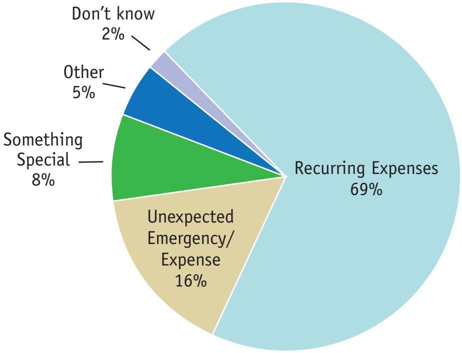
A payday loan is a small cash loan for a short period of time at extremely high interest rates. In Alabama, payday lenders charge $17.50 for every $100.00 borrowed. Although $117.50 might seem a reasonable payback to some on $100, there are many dangers associated with this product.

Some other names for a payday loan are:

- cash advance loan
- check advance loan
- post-dated check loan
- direct deposit advance
- checking account advance
- post-dated check loan

Payday Loan Usage

Research shows that twelve million adults borrowed from payday lenders in 2010. Many loans were used for emergencies; however, most were used for recurring expenses like rent, cell phone, car note, and electric bill.[1]



Note: This chart shows the percentage of borrowers who reported the reason for using their first payday loan (based on 451 interviews). Data are from December 2011 to March 2012.

Source: The Pew Charitable Trusts (2013), modified by authors. www.pewtrusts.org/small-loans

How Payday Loans work

(1) The **borrower** gives the payday lender a personal check equal to the amount borrowed plus the fee. Sometimes, the borrower signs a form to let the lender take the money out of his/her bank account.

(2) The **lender** gives the borrower the cash loan.

(3) On the **next payday**, the **borrower pays back the loan** and gets back the check. Sometimes the borrower lets the lender cash the check or withdraw the money from his/her bank account.

or

On the next payday, the borrower rolls over the loan to the following pay day. In this case, the borrower first pays the loan fee from before and then writes a new check for the loan amount plus a new fee.

(4) If the loan has been rolled over, on the **following payday**, the **borrower** either **repays the loan** and gets back the check, or lets the lender cash the check or withdraw the money from his/her bank account

or

(b) **extends the loan** and pays it back in four equal monthly payments.

Payday Loans versus Other Types of Loans

Payday loans are typically more expensive than bank and credit union loans, credit card cash advances, and most other types of personal loans.

The annual interest rate or fee (called the APR) on a payday loan in Alabama is about 456 percent, while the APR on a credit card, cash advance is about 25 percent. This means that you pay more to borrow from a payday lender than you do to get cash on your credit card.

Example:

$500 payday loan, rolled over in 2 weeks and paid off the next payday (total time borrowed approximately 30 days):

Total fee $ 175.00
Total amount repaid: $675.00

$500.00 credit card, cash advance, repaid in 30 days:

Total fee: $35.27
Total amount repaid: $535.27

Did You Know?

- The average payday borrower takes out eight loans a year of $375 each and pays fees of $520 for them.[2]
- The typical payday borrower is in payday loan debt 212 days a year.[3]
- Many payday loan borrowers get trapped in a never ending cycle of debt. By the time their payday loan comes due on the next payday, they cannot afford to repay it (plus the loan fee) on top of their other bills. The borrowers then get another loan for even more. (This is called a cycle of payday loan debt.)[4]

Dangers of Payday Loans

About half of all payday borrowers can't repay their loan, and face huge consequences. The payday lending trap (getting one payday loan to pay off another one or getting back-to-back loans) creates several problems for borrowers, including:

- Increased financial stress
- Legal problems for those who do not repay a loan
- Loss of the borrower's bank account because of overdrawing on the account
- Greater chances of filing for bankruptcy
- Increased chances of being late in paying other debts
- Risk of ruining credit rating
- Fraud and security risks for online borrowers from sharing personal information online.[5]

What to Do Other Than Getting a Payday Loan

To avoid using payday loans, here are some options to consider:

- Open a savings account with a local Federally insured credit union or bank. Many offer small dollar emergency loans to consumers.
- Cut back on your spending
- Borrow from your friends and family
- Sell something that you own (for example, jewelry, electronics, clothes)
- Ask your employer to pay you part of your next paycheck early
- If you qualify through a mainstream traditional lender, get a line of credit (that is, credit that you can use to get cash for various purposes)
- Seek help or advice from a trusted credit counseling service (see additional website resources on page 8)
- Set up payment arrangements with your creditors (for example, electric company, credit card company, mortgage company, bank, doctor, and telephone company)

Conclusion

Because of the high interest rates and unreasonable terms, we believe that payday loans do not fit the financial needs of our community and need to be eliminated; however, if they are to remain, we believe the following changes must be made to the product:

- Expand the term of the loan to a minimum of 90 days
- Reduce the number of loans one can receive in a year and monitor through a central statewide data base
- Set an interest rate maximum of 36%, the same maximum rate given to the U.S. military by Congress for payday loans.

Additionally, if your credit is not in the shape that you would like it to be, don't think that payday loans are your only option. Please make wise decisions and consider some of the alternatives mentioned in this booklet and others in meeting your borrowing needs.

Please join us in our advocacy efforts to change Alabama state policy on how these loans are made. Your financial future is counting on it!

Endnotes

[1] The Pew Charitable Trusts, Safe Small-Dollar Loans Research Project. "Payday Lending in America: Who Borrows, Where They Borrow, and Why." The Pew Charitable Trusts 28 May 2013. 10 July 2013. <www.pewtrusts.org/small-loans>.

[2] The Pew Charitable Trusts, Safe Small-Dollar Loans Research Project.

[3] Center for Responsible Lending. "Fast Facts—Payday Loans." Center for Responsible Lending Payday Lending. 4 September 2013. <http:www.responsiblelending.org/ payday-lending/tools-resources/ fast-facts.html>.

[4] Demott, Russell. "Payday Loans by Any Other Name: Still Not a Rose!" Bankruptcy Law Network 4 April 2013. 18 July 2013. <http://www.bankruptcylawnetwork.com/payday-loans-big-banks/>.

[5] Consumer Federation of America. "How Payday Loans Work." CFA Payday Loan Consumer Information. 9 March 2013. <http://www.paydayloaninfo.org/facts>.

Additional Resources

In Birmingham	http://www.gway.org/
In Huntsville	http://www.credithelptoday.org/
In Mobile	http://www.lifelinesmobile.org/services_credit.php
In Montgomery	https://budgethelp.com/main/main.html

HUD has certified Housing Counseling agencies that do an excellent job with basic credit counseling. There are over 40 certified housing counseling agencies in Alabama. http://HUD.gov

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