

**PAYDAY LENDING / PREDATORY LENDING  
CURRICULUM**



**Prepared by**

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## WHAT IS IT?

According to Consumer Action:

**Payday and Tax Refund Loans.** With a typical payday loan, you might write a personal check for \$115 to borrow \$100 for two weeks, until payday. The annual percentage rate (APR) in this example is 390 percent! Payday loans are illegal in some states.

Another high cost way to borrow money is a tax refund loan. This type of credit lets you get an advance on a tax refund. APRs as high as 774% have been reported. If you are short of cash, avoid both of these loans by asking for more time to pay a bill or seeking a traditional loan. Even a cash advance on your credit card may cost less.

## PAYDAY LOANS = COSTLY CASH

You've probably heard or seen the ads for payday loans:

“Need Cash Until Payday?”  
“Fast Cash...Instant Approval!”  
“No Credit Checks!”

Sound appealing? Before you take action, make sure you know the facts about payday loans. Payday loans, also called cash advance loans, check advance loans, post-dated check loans or deferred deposit check loans, are short-term loans with very high interest rates.

For example, 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 which is equivalent to an annual percentage rate (APR) of 391 percent. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow \$100.

## PAYDAY LOANS EQUAL VERY COSTLY CASH

The ads are on the radio, television, the Internet, even in the mail. They refer to payday loans, cash advance loans, check advance loans, post-dated check loans, or deferred deposit loans. The Federal Trade Commission, the nation's consumer protection agency, says that regardless of their name, these small, short-term, high-rate loans by check cashers, finance companies and others all come at a very high price.

Here's how they work: A borrower writes a personal check payable to the lender for the amount the person wants to borrow, plus the fee they must pay for borrowing. The company gives the borrower the amount of the check less the fee, and agrees to hold the check until the loan is due, usually the borrower's next payday. Or, with the borrower's permission, the company deposits the amount borrowed - less the fee - into the borrower's checking account electronically. The loan amount is due to be debited the next payday. The fees on these loans can be a percentage of the face value of the check - or they can be based on increments of money borrowed: say, a fee for every \$50 or \$100 borrowed. The borrower is charged new fees each time the same loan is extended or "rolled over."

The federal Truth in Lending Act treats payday loans like other types of credit: the lenders must disclose the cost of the loan. Payday lenders must give you the finance charge (a dollar amount) and the annual percentage rate (APR — the cost of credit on a yearly basis) in writing before you sign for the loan. The APR is based on several things, including the amount you borrow, the interest rate and credit costs you're being charged, and the length of your loan.

A payday loan — that is, a cash advance secured by a personal check or paid by electronic transfer is very expensive credit. How expensive? Say you need to borrow \$100 for two weeks. You write a personal check for \$115, with \$15 the fee to borrow the money. The check casher or payday lender agrees to hold your check until your next payday. When that day comes around, either the lender deposits the check and you redeem it by paying the \$115 in cash, or you roll-over the loan and are charged \$15 more to extend the financing for 14 more days. If you agree to electronic payments instead of a check, here's what would happen on your next payday: the company would debit the full amount of the loan from your checking account electronically, or extend the loan for an additional \$15. The cost of the initial \$100 loan is a \$15 finance charge and an annual percentage rate of 391 percent. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow the \$100.

## ALTERNATIVES TO PAYDAY LOANS

Before you decide to take out a payday loan, consider some alternatives.

### 1. *Loan from Credit Union or Loan Company*

Consider a small loan from your credit union or a small loan company. Some banks may offer short-term loans for small amounts at competitive rates. A local community-based organization may make small business loans to people. A cash advance on a credit card also may be possible, but it may have a higher interest rate than other sources of funds: find out the terms before you decide. In any case, shop first and compare all available offers.

## *2. Shop Around for the Lowest Cost Loan*

Shop for the credit offer with the lowest cost. Compare the APR and the finance charge, which includes loan fees, interest and other credit costs. You are looking for the lowest APR. Military personnel have special protections against super-high fees or rates, and all consumers in some states and the District of Columbia have some protections dealing with limits on rates. Even with these protections, payday loans can be expensive, particularly if you roll-over the loan and are responsible for paying additional fees. Other credit offers may come with lower rates and costs.

## *3. Ask Creditors for More Time*

Contact your creditors or loan servicer as quickly as possible if you are having trouble with your payments, and ask for more time. Many may be willing to work with consumers who they believe are acting in good faith. They may offer an extension on your bills; make sure to find out what the charges would be for that service - a late charge, an additional finance charge, or a higher interest rate.

## *4. Contact the Loan Consumer Credit Counseling Service*

Contact your local consumer credit counseling service if you need help working out a debt repayment plan with creditors or developing a budget. Non-profit groups in every state offer credit guidance to consumers for no or low cost. You may want to check with your employer, credit union, or housing authority for no- or low-cost credit counseling programs, too.

## *5. Make a Realistic Household Budget*

Make a realistic budget, including your monthly and daily expenditures, and plan, plan, plan. Try to avoid unnecessary purchases: the costs of small, every-day items like a cup of coffee add up. At the same time, try to build some savings: small deposits do help. A savings plan - however modest - can help you avoid borrowing for emergencies. Saving the fee on a \$300 payday loan for six months, for example, can help you create a buffer against financial emergencies.

## *6. Ask Your Bank for Overdraft Protection*

Find out if you have - or if your bank will offer you - overdraft protection on your checking account. If you are using most or all the funds in your account regularly and you make a mistake in your account records, overdraft protection can help protect you from further credit problems. Find out the terms of the overdraft protection available to you — both what it costs and what it covers. Some banks offer “bounce protection,”

which may cover individual overdrafts from checks or electronic withdrawals, generally for a fee. It can be costly, and may not guarantee that the bank automatically will pay the overdraft.

The bottom line on payday loans: Try to find an alternative. If you must use one, try to limit the amount. Borrow only as much as you can afford to pay with your next paycheck - and still have enough to make it to next payday.

## PROTECTIONS FOR MILITARY CONSUMERS

Payday loans (and certain other financing) offered to servicemembers and their dependents must include certain protections, under Federal law and a Department of Defense rule. For example, for payday loans offered after October 1, 2007, the military annual percentage rate cannot exceed 36%. Most fees and charges, with few exceptions, are included in the rate. Creditors also may not, for example, require use of a check or access to a bank account for the loan, mandatory arbitration, and unreasonable legal notices. Military consumers also must be given certain disclosures about the loan costs and your rights. Credit agreements that violate the protections are void. Creditors that offer payday loans may ask loan applicants to sign a statement about their military affiliation.

Even with these protections, payday loans can be costly, especially if you roll-over the loan. You instead may be able to obtain financial assistance from military aid societies, such as the Army Emergency Relief, Navy and Marine Corps Relief Society, Air Force Aid Society, or Coast Guard Mutual Aid. You may be able to borrow from families or friends, or get an advance on your paycheck from your employer.

If you still need credit, loans from a credit union, bank, or a small loan company may offer you lower rates and costs. They may have special offers for military applicants, and may help you start a savings account. A cash advance on your credit card may be possible, but it could be costly. Find out the terms for any credit before you sign. You may request free legal advice about a credit application from a service legal assistance office, or financial counseling from a consumer credit counselor, including about deferring your payments.

Military consumers can contact the Department of Defense, toll-free 24 hours a day, 7 days a week, at 800-342-9647, or at [www.militaryonesource.com](http://www.militaryonesource.com). Information on the Department of Defense rule, alternatives to payday loans, financial planning, and other guidance is available.

## ACCORDING TO THE MARYLAND ATTORNEY GENERAL -

*A man runs short of money a week before his next payday. He goes to a business that advertises "post-dated check cashing" or "deferred deposit services." The business gives him \$400 cash in exchange for a personal check he writes for \$440, which it agrees not to cash until the next week. He doesn't like losing the \$40 but he needs the money. He ends up going to the business two or three months in a row. It seems he can never save enough money for emergencies.*

The high cost of these cash advances eat away at your paychecks and make it likely you will need to borrow again. Some alternatives when you're short on money: Ask your creditors if they will accept partial payments from you. Ask your employer for a pay advance. Some community organizations or faith-based institutions offer emergency loans. Many credit unions offer their members small loans, lines of credit, and overdraft protection.

To prevent money shortages in the future, start a savings account. Ask if your employer offers automatic deductions from your paycheck to savings each pay. Even \$10 per pay will add up. If you are continually short of money, you need some help in budgeting. See if you can get budget counseling from a local Consumer Credit Counseling Service. To find one near you, call 800-388-2227.

Check-cashing services can only charge up to 10 percent of the amount of your personal check, and the transaction cannot be renewed. Businesses that offer check cashing services must be licensed by the Division of Financial Regulation. If you have a question or complaint about such a service, call 410-230-6097.

## TO COMPLAIN/FOR MORE INFORMATION

The Federal Trade Commission (FTC) works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them.

To file a [complaint](#) or to get [free information on consumer issues](#), visit [ftc.gov](http://ftc.gov) or call toll-free, 1-877-FTC-HELP (877-382-4357); TTY: 866-653-4261.

The FTC enters consumer complaints into the [Consumer Sentinel Network](#), a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

For more information on any state or local protections for payday loans, contact the consumer protection agency in your area. This information is available in the GSA Consumer Action Handbook, at [www.consumeraction.gov](http://www.consumeraction.gov). The state offices are listed at: [www.consumeraction.gov/state.shtml](http://www.consumeraction.gov/state.shtml)

In Maryland:

Consumer Protection Division  
Office of the Attorney General  
200 Saint Paul Place, 16th Floor  
Baltimore, MD 21202-2021

410-528-8662 (Consumer Complaints)

File a complaint: <https://www.marylandattorneygeneral.gov/Pages/CPD/Complaint.aspx>.

410-576-6550 (Consumer Information)

410-528-1840 (Health Advocacy unit)

email [heau@oag.state.md.us](mailto:heau@oag.state.md.us) regarding health care/insurance billing.

Business complaints: [consumer@oag.state.md.us](mailto:consumer@oag.state.md.us)

Toll free: 1-888-743-0023

Toll free: 1-877-261-8807 (Health Advocacy unit)

TTY: 410-576-6372 (MD)

Fax: 410-576-7040

File a complaint: <https://www.marylandattorneygeneral.gov/Pages/CPD/Complaint.aspx>.

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