

## **Payday Lending**

**What it is:** Every day we see ads for payday loans and quick cash, offering to help you in tough times. But think before you use these loans. Ask yourself, “Would you pay 400% interest on a credit card?” Probably not, but if you are using a payday loan you could be paying that much in interest. A payday loan is a short-term loan, generally for \$500 or less, and it is typically due on your next payday. Sometimes the loans are called a “cash advance” or “check loan”.

**How it works:** The payday loan is based on a personal check written to the lender for the loan amount plus a fee. The check is held for a future date and a typical payday loan is \$100 loan for two weeks with a \$15 transaction fee. The annual percentage rate, APR, for that transaction would be 391%. Maximum APR for payday loans can vary from state to state and in Iowa the maximum is 433%. If you’re an active duty member of the armed forces or are on active Guard or Reserve duty, the Military Lending Act (MLA) says that you can’t be charged an interest rate higher than 36% on some types of consumer loans like certain payday loans, auto title loans, and tax refund anticipation loans. It also protects your spouse and certain dependents.

**Why it matters:** Clearly payday loans are a very expensive form of financing and it is almost always better to find an alternative. Try to budget carefully, keep track of expenses and avoid unnecessary purchases. If you must use a payday loan for an emergency, 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. And be aware, if you renew or roll over your loan, you will be charged another fee and still owe the entire original balance.

**Who should care? :** According to the Consumer Financial Protection Bureau the average payday borrower is in debt for nearly 200 days — more than half a year. One-in-four borrowers spends at least 83% of their year owing money to payday lenders. This is on top of any debts that borrower might have to other creditors.

There are some alternatives to consider before taking out a payday loan. You could begin with contacting the consumer credit counseling service in your area and working out a debt repayment plan. In Southeast Iowa that contact would be through Horizons, a Family Service

Alliance. Also, consider borrowing money from a local lender or even a cash advance on a credit card and always compare APR when looking at financing options.

**For more information**

- Consumer Financial Protection Bureau at, [www.consumerfinance.gov/payday-loans](http://www.consumerfinance.gov/payday-loans)
- Federal Trade Commission [www.consumer-ftc.gov//articles-payday-loans](http://www.consumer-ftc.gov//articles-payday-loans)
- Iowa State University Extension and Outreach website at [www.extension.iastate.edu/humansciences/](http://www.extension.iastate.edu/humansciences/)
- Iowa State University Extension and Outreach Money Tip\$ <http://blogs.extension.iastate.edu/moneytips/>