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cost to borrow from a payday lender.

The dollar cost for payday loans escalates if a consumer renews, or rolls over, the loan. The longer, the escalating charges, wait the original balance. "Consumer can pay no other high finance charges for several loans," says Fox. "If you have to roll over until payday, it is unlikely you can afford to repay the payday loan in full and have enough left over to make it to the next payday."

### Smarter solutions

Every consumer needs at least a few hundred dollars in a savings account for emergency expenses. If you have to borrow, licensed small-loan companies, secured credit cards, or overdraft protection on share draft/checking accounts, while expensive, offer better terms than the triple-digit interest rates of payday loans.

However, your first stop should be your credit union. The people there can help you look at some of the other avenues available.

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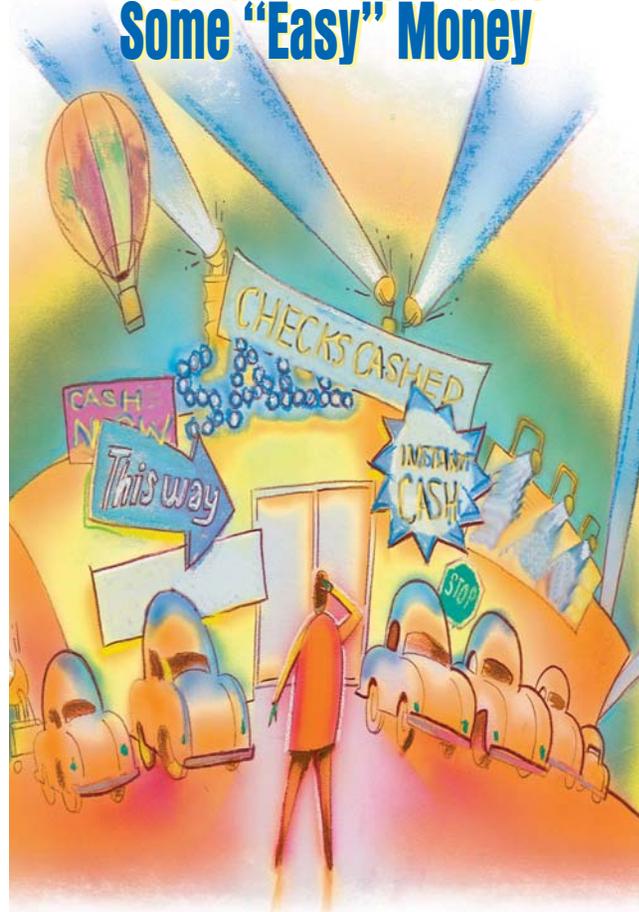


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# Payday Loans: The Hard Truth About Some "Easy" Money

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Short on cash? Need just a little more to get you through to payday? Step right up and take out a payday loan.

Payday loan cash advances will provide you with the \$300 (or more) you need to get by until your next paycheck arrives. The price? At most payday lenders interest rates from 300% to 1,000% APR (annual percentage rate) on up.

Alternatively known as cash-advance loans, postdated check loans, or delayed deposit check loans, payday loans are a star product at check-cashing outlets, pawn shops, or at Web sites. Touted as a convenient financial Band-Aid, they exact very expensive fees from consumers, many of whom already are in troubled financial straits.

Because of triple- or quadruple-digit interest rates, payday loans shouldn't be even the financial choice of last resort, according to the Consumer Federation of America (CFA) in Washington, D.C.

### A huge profit source

According to the Federal Deposit Insurance Corp., at the beginning of the 1990s, payday lending was primarily the domain of smaller independent check-cashing outlets and pawnshops that offered services related to check cashing. These firms specialized in making high-priced loans to borrowers with limited access to credit.

In recent years, the number of payday lenders has surged as more companies have been attracted by the higher fees earned on payday loans.

So what are payday loans? Typically, a customer

writes a postdated personal check to a payday lender for the amount he or she wishes to borrow—plus the fee. The customer and payday lender both understand there are insufficient funds at that time, to clear the check. The payday lender holds the check until the customer's next payday, at which time the customer can:

- Redeem the check with cash or a money order;
- Allow the check to be deposited; or
- Renew—or roll over—the loan, by paying an additional fee.

"Internet payday lending is the latest tactic to evade state small loan consumer protections. Lenders, when they can be located, are clustered in states with lax or nonexistent consumer protections or claim to be doing business from outside the U.S.," says Jean Ann Fox, CFA's director of financial services.

Internet loans are even more expensive than traditional payday loans and involve giving a lender electronic access to your accounts.

### The price is not right

Companies frequently assess fees per \$100 borrowed. For example, if the fee is \$20 per \$100, a customer needing \$100 would write a postdated check for \$120, dated 14 days down the road.

When stated as an APR, the fees are astounding. The APR on a \$100 loan borrowed for 14 days ranges from 390% to 780% or more. Compare that with 22% APR for credit card cash advances, or even the 36% some small loan companies charge.

Although these lenders must disclose the APR as part of the Truth in Lending Act, many customers are shocked to learn what they've actually paid.

Check [www.paydayloaninfo.org](http://www.paydayloaninfo.org) to see what it'll

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 First stop  
 should be your  
 credit union.