

## Payday Loan Facts

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Have you ever passed a check cashing store and wondered what kind of things happen in a business like that? Well, one thing stores like that do; is write people payday loans. Often people in need of these quick loans are not fully educated about the way they work. The purpose of this fact sheet is to help consumers better understand how payday loans work, and the pros and cons of using these services.



**Notice:** As of January 1, 2009, Virginia has new payday loan requirements as described below. **BEWARE** lenders now have a new product that works like a credit card. This new product will cost you more interest than the revised payday loans which is why lenders will try to get you to use the new product.

### Overview:

In general, it is extremely easy to obtain a payday loan. One must go to a lender with only a bank account, personal identification, and have a job. The idea is that a borrower writes a check for the amount borrowed plus a finance charge. The lender gives cash to the borrower with the promise that the borrower will pay back the loan in 2 pay periods when they receive their paycheck. When the time is up, a borrower can pay the lender in cash or allow the lender to cash their check that they previously wrote. They must wait 24 hours before they can take a loan.

### Pros:

Although payday loans aren't very smart borrowing practices, these loans have some pros. One is that they are very convenient and easily obtained in emergency situations. For example, if your work truck broke down and you didn't have the cash to fix it, then you could get a loan to have it fixed. This is convenient because the truck is essential for your job. They are also convenient for people with poor credit history. Payday lenders do not go into a full credit check to make sure you're able to repay the amount borrowed. However, this can also be a bad thing for the borrower.



**Cons:**

Since lenders do not do a credit check, they are often giving loans to people who typically do not have the resources to repay the loan. This can put a borrower into a downward spiral of debt. They would have to keep taking out more loans to repay the old one, and would end up paying more in interest than the actual amount borrowed. The new law in Virginia makes this difficult to do, so the borrower would be in a real crunch for money.

**Fees and Interest:**

Typically payday loans are taken out in amounts between \$100 and a max of \$500. The borrower is charged a fee that can be up to 20% of the loan amount. So for example, you would be charged \$20 to borrow \$100 from the lender. Also since a borrower is not allowed to have more than one outstanding payday loan out at a time, the lender can charge \$5 to run a check through a database to make sure you don't already have a payday loan. On top of the fees, the borrower will also be charged an interest rate on their loan amount. In Virginia, this interest rate is capped off at a maximum of 36% for the first two pay periods.

**The Loan Agreement:**

The lender must provide the following information in the loan agreement:

- Principal amount borrowed
- Any interest and fees charged
- The annual percentage rate
- Evidence of a receipt from the borrower of a check dated with the date the loan is due stating that the check is security for the loan and the amount
- An agreement that the lender will not present the check for payment or deposit it until the date the loan is due. The due date must be at least two times the borrower's pay cycle. After the due date, interest will drop so that it does not exceed 6% per year.
- The right of the borrower to cancel the transaction any time before the close of business the following day by returning the amount received to the lender.
- The right of the borrower to prepay the loan at any time by paying the principal borrowed plus any interest, fees, and charges due. The lender must accept payment in increments as low as \$5.



**Collections:**

The security check accepted by the lender must be use the date the loan is due. A payday lender cannot threaten or start criminal proceedings against a borrower if a check given as security for a loan is not funded. The lender must comply with the Fair Debt Collection Practices Act regarding harassment or abuse, false or misleading statements, and unfair collection practices. The lender cannot start legal proceedings until 60 days after the date of default on the loan. Nor can the lender get permission to electronically debit the borrower's account.

**Repayment:**

The borrower may repay the loan using an extended payment plan. A borrower cannot enter one of these more than once a year. The borrower must agree to repay the loan in four equal payments in no less than 60 days. Interest will not be charged during these plans and the borrower can repay the full amount at anytime. If a borrower misses a payment, the lender can request the full amount of the loan to be due immediately. After using the extended payment plan, the borrower cannot get another payday loan for at least 90 days after the loan was paid off. You have the right to use this repayment plan so be sure to request it.

**Conclusion:**

Overall, payday loans are another method of obtaining a cash advance. They are designed to trap consumers in debt so the lenders can make a lot of money. When used responsibly they can be very useful, but the consumer must know how they work and be 100% sure they can repay the loan in the specified time period. When a consumer is applying for a loan of any type, it is extremely important to make sure you get all the facts and terms of your loan agreement.

This fact sheet was prepared with information from the Consumer Federation of America (CFA) that can be seen at [www.paydayloaninfo.org](http://www.paydayloaninfo.org). Information on Virginia Legislation was gained from [www.paydayloanlegislation.com/virginia.html](http://www.paydayloanlegislation.com/virginia.html).

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