



## The Truth About Payday Loans

Following a Pennsylvania Supreme Court ruling in 2009, payday loans can be solicited and made to Pennsylvanians only by lenders licensed under the Consumer Discount Company Act by the Department of Banking. Currently, no payday lender holds a Department of Banking license. While payday loans may be advertised on television, radio and especially the Internet as a reasonable option for people who need immediate cash, its potential pitfalls can spell financial disaster for borrowers. Just because a company advertises its services does not mean it is licensed: the Department of Banking discourages consumers from doing business with unlicensed companies. If you have questions about a company's license call the Office of Consumer Services toll-free at 1-800-PA-BANKS.

### What is a payday loan?

Payday loans are small, short-term loans that typically are expected to be repaid in a week or two -- usually on the borrower's next payday. Most payday loans are in the \$100 to \$1,000 range, although some go higher. Instead of interest, payday lenders charge a flat fee typically from \$15 to \$30 per \$100 borrowed. These fees, when expressed as annual percentage rates (APR), can equal 300 to 1,000 percent, which violate Pennsylvania's consumer protection laws.

### What are the dangers with payday loans?

If a borrower does not repay a payday loan right away, fees quickly add up and after just a couple of months can even exceed the cost of the original loan.

For example, if a person borrowed \$300 from a payday lender with a fee of \$20 per \$100, that person would owe \$360 when the loan is due. If the borrower cannot repay the loan at that time, he or she can pay \$60 to extend it. When the loan is due again in another week or two, the borrower still owes the original \$360. So, after just one extension, a \$300 loan has already cost the borrower \$120 in fees. If this loan is not paid off within two and a half months, the fees paid could be equal to the original amount of the loan.

Borrowers who have taken out multiple payday loans often find it difficult to keep up with the required fee payments, much less pay down the actual loans. As a result, they are forced to repeatedly extend the existing loans or even take out new loans to pay off the old ones.

## **What are the alternatives to payday loans?**

Because payday loans are such an expensive way to borrow money, you should explore other options. For instance, you can negotiate with your creditors – many doctors' offices, pharmacies and utility companies offer special arrangements and assistance for people who are unable to pay. You can also seek emergency funds from a church or community-based program, ask for a payroll advance from your employer, use a credit card or even borrow the money from a friend or relative.

## **I am struggling to pay off a payday loan: where can I go for help?**

Borrowers struggling to pay off their payday loans should start by talking with the lender to see if another repayment plan can be arranged. It may also be a good idea to talk with a qualified credit counselor or a reputable community-based organization. You can call the Office of Consumer Services toll-free at 1-800-PA-BANKS to discuss your situation with a professional service representative.

Once a borrower has their payday loan debt under control, the best way to turn the tide is to begin to budget and save. Even on a very modest income, budgeting ensures that there will be money to meet necessary expenses such as food, utilities and rent. Having adequate savings helps ensure that there will be money available when an unexpected expense comes up.

To learn more about how to find a qualified credit counselor or to get general tips with regard to personal finance and money management, visit Your Money's Best Friend at [www.moneysbestfriend.com](http://www.moneysbestfriend.com).