



Who Would Pay 500% Interest On A Loan?

Millions Do With Payday Loans

As ridiculous as it seems, 500% APR is actually on the low end of payday lenders' rates. And even with these outrageous rates, people flock to them. In 2005, payday lenders did more than \$40 billion in business, charging borrowers more than \$6 billion in loan fees and interest.¹

What Is A Payday Lender?

Payday lenders promise easy cash when you're a little short. Borrow money today, pay it back when you get your next paycheck.

They make short-term, extremely high-interest loans to borrowers who often have trouble paying off the loan with their next paycheck. This generates revolving renewal fees, trapping the borrower on an endless treadmill of debt.

How Payday Loans Work

The borrower gives the payday lender a post-dated personal check for the amount of the loan, plus a fee. For example, the borrower gives the lender a check for \$375, which covers the \$300 they're borrowing and the lender's \$75 fee.

A \$75 fee for a two-week loan of \$300 is the equivalent of paying 652% APR. But that's not the worst of it.

From Bad To Worse

After two weeks, the borrower can redeem the check for cash or let the lender deposit and cash it. If the borrower can't repay, they pay the lender another fee and renew or "roll over" the loan.

The sad truth is, payday lenders count on borrowers rolling over their loans again and again. A 2003 study found 91% of payday lenders' business came from borrowers who rolled their loans over at least five times.¹

Typical Payday Lender Rates

These are some of the biggest payday lenders in southern California, and their fees and APRs.

\$300 Borrowed	Fee / Finance Charge	Amount Of Check (Total Of Payments)	14-Day APR ²
AAAPaydayCash	\$75	\$375	652%
Advance America ³	\$45	\$300	460%
Check 'n Go	\$75	\$375	652%
Payday Select	\$45	\$345	391%
TenDollarPaydayLoan	\$90	\$390	782%

Spotting A Payday Lender

Most payday lenders are easy to spot, using "Payday" or "Advance" in their names. But if you're not sure, look for these warning signs:

- **Triple-Digit Interest Rates**
Lenders are required to disclose the Annual Percentage Rate.
- **Short Terms**
Usually two or four weeks. 90 days is the shortest term you should borrow for.
- **No Partial Payments**
It's all due at once; you can't make installment payments.
- **Rollovers Encouraged**
If you can't pay the loan in two weeks, you're welcome to extend it — for a fee.
- **"Regardless Of Credit"**
No credit check required. All the lender needs to see is that you have a checking account and a pay stub to prove you're working.

Who Payday Lenders Target

Payday lenders are disproportionately located near military bases and in African-American communities.¹

Julian Bond, NAACP, has said; "This so-called business... must be banned. The NAACP is dedicated to eliminating payday lenders, because wealth building and saving for the future are vital to the economic success of communities of color."

Alternatives To Payday Loans

When you need funds, Schools FCU offers a variety of options that help you avoid getting in long-term debt to a payday lender.

- **Personal Line of Credit**

Borrow as much or as little as you need, up to your available credit, any time. You only pay interest on what you use, and won't pay a fee when you take an advance.

- **Share or Certificate Secured Loans**

Use funds on deposit as collateral for a low-cost loan.

- **Signature / Unsecured Loans**

Borrow on your good credit, with up to 60 months to repay.

To learn more about spotting and avoiding payday loan traps, go to www.paydayloaninfo.org.

Real Life Example — LE borrowed \$255 from a payday lender and couldn't repay it, so she rolled it over — 34 times! Eventually, her \$255 loan cost her \$1,254 in interest.

AJ renewed his payday loan more than 100 times over five years! He paid more than \$5,000 in interest for an original loan balance of \$300, causing him to fall behind on his mortgage payments.

Banks work hand-in-hand with payday lenders

Some payday lenders are supported or partially owned by national banks.

For example, Bank of America is the main lender to Advance America Cash Advance.⁴ And several years ago, Union Bank of California purchased 40 percent of Nix Check Cashing, which at the time had 49 storefronts in the Los Angeles area.⁵ Wells Fargo extends a large line of credit to Advance America, as well as ACE Cash Express and Cash America, two of the biggest payday lenders in the country.⁶

In addition, many banks across the country "rent" their charters to payday lenders, allowing the lender to operate in states in which payday lending is prohibited.

¹Consumer Federation of America. ²Annual Percentage Rates gathered from payday lenders' web sites 7/5/06 and subject to change. ³Advance America data based on \$255 loan amount plus \$45 fee resulting in total repayment of \$300. ⁴Inner City Press Fair Finance Watch Report. ⁵motherjones.com 5/01. ⁶Runaway Stagecoach ACORN Report; The Association of Community Organizations for Reform Now.

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