



Internet Payday Lending ALERT

Payday loans are high-interest, short-term loans offered to consumers. In simple terms, they are advances on your paycheck. These loans are also known as cash advance loans, payday advances, deferred deposit loans, and post-dated check loans and are typically made in amounts of \$300 or less to be repaid within one to two weeks. Payday lenders advertise their services as a way to cover unexpected expenses like car repairs and avoid bounced check fees and late payment penalties.

To apply for a payday loan, a borrower needs to provide personal identification, paycheck stub, and bank statement. The borrower gives a postdated check to the lender for the amount of the loan plus the lender's fee or provides bank account information for electronic transfer of funds. The lender holds the check until the borrower's next payday. At that time, the lender either cashes the check or withdraws funds electronically from the borrower's account.

Example of Payday Loan

Assume you want to borrow \$200 until you get your next paycheck in two weeks. You write a postdated check to a payday lender for \$230 (15% of \$200 = \$30 lender's fee + \$200 loan amount = \$230) and get \$200 cash in return. The \$30 interest you pay on the loan calculates to an Annual Percentage Rate (APR) of 391%. The payday lender may also charge you an additional one-time fee to set up an account.

The California Deferred Deposit Transaction Law requires all payday lenders to obtain a license from the Department of Corporations and to comply with provisions of the law. State law limits a single payday loan to a maximum of \$300 and the interest rate to 15%. Also, customers may not have more than one payday loan at a time.

Internet Payday Lending

Many unlicensed payday lenders offer their services using the Internet. Upon completion of an Internet payday loan application, a lender will electronically transfer funds into a consumer's checking account. At the close of the term, usually following the deposit of the consumer's next payroll check, the payday lender will automatically deduct the loan amount and interest charged from that account.

State and federal truth-in-lending statutes require lenders to disclose the true cost of credit in the form of an Annual Percentage Rate (APR) prior to the actual extension of credit. However, internet payday lenders typically advertise fees as a dollar amount rather than an APR. This may be misleading to consumers in determining the actual cost of the payday loan.

Internet Payday Lending Continued...

The Department of Corporations strongly urges potential internet payday loan customers to educate themselves about the risks and responsibilities involved in these types of loans. Many internet payday lenders provide little or no identifying information about themselves. Because these companies are often not licensed by the Division, they are subject to little or no regulation. Unlike a bank, credit union, or a California licensed lender, consumers may have little or no recourse should they run into trouble while doing business with an unlicensed internet payday lender.

Use Caution When Borrowing Online

Consumers are cautioned to be especially wary of on-line lenders and loan brokers. These companies often do not comply with consumer protections such as loan and interest limits, disclosures, and other operational oversight.

One overly aggressive technique being used by unlicensed lenders is to take borrowers to small claims court for collection. Some unscrupulous lenders are depositing funds before the consumer agrees to the loan and then begin drawing funds from the consumer's account for repayment. Anyone subject to such actions by any firm subject to a Department of Corporations enforcement order should download a copy of the order for reference, and take it when appearing at small claims court. Orders may be viewed and printed at the Department website at <http://www.corp.ca.gov>.

Consumers are also strongly advised to avoid entering personal or financial data on Internet-based application forms until the firm is verified as a licensed lender by the Department of Corporations. Such data can be misused or pirated even before a loan is agreed to by the borrower. Lenders can be checked out at the department's website www.corp.ca.gov or by calling toll-free at **1-866-ASK-CORP**.

Alternatives to Payday Lending

- Ask your employer for an advance on your pay-check.
- Find out if your bank or credit union or a mainstream financial firm provides short-term credit products.
- Ask your creditor for more time to pay your bills. Find out what they will charge for this service - a late charge, an additional finance charge or a higher interest rate.
- Find out if you can delay paying a non-interest bill such as a utility bill and make payment arrangements with the utility company.
- Ask to borrow money from a friend or relative.

How Should You Plan for the Future?

- Make a realistic budget and figure your monthly and daily expenditures.
- Build some savings to avoid borrowing for emergencies or unexpected expenses.
- Contact your local consumer credit counseling service if you need help developing a monthly budget or working out a debt repayment plan with creditors. There are non-profit groups that offer credit guidance to consumers.

THE BOTTOM LINE

CHECK BEFORE YOU BORROW!

Always check with the Department of Corporations on the license status of a lender before you APPLY for a loan.

California Department of Corporations -- www.corp.ca.gov -- 1-866-ASK-CORP