



## **PAYDAY LOANS: Cash at a Costly Price FACT SHEET**



A Soldier here at Fort Benning does not have to wander far outside the gate in order to come across a number of payday loan businesses. Payday loans also come in the form of cash advance loans, check advance loans and post-dated check loans. There is a reason these types of businesses are higher per capita just outside the gate of military bases across the country than almost any other area; these businesses are often looking to take advantage of young and/or uninformed Soldiers. These types of loans offer quick relief, but they come at a very high price.

### **Here's How These Loans Work**

A borrower writes a personal check payable to the lender for the amount the person wants to borrow, plus the fee they must pay for borrowing. The company gives the borrower the amount of the check or electronically deposits the amount in the borrower's account, less the fee(s), and agrees to hold the check until the loan is due, usually the borrower's next payday. The fees on these loans can be a percentage of the face value of the check, or they can be based on increments of money borrowed, such as a fee for every \$50 or \$100 borrowed. The borrower is charged new fees each time the same loan is extended or "rolled over."

It is important to remember that the federal Truth in Lending Act (TILA) treats payday loans like other types of credit. Therefore, the lenders must disclose in writing the cost of the loan (which includes the finance charge and the annual percentage rate (APR)), the amount borrowed, and the length of the loan.

Let's use a real world example. Say you need to borrow \$100 for two weeks. You write a personal check for \$115, with \$15 the fee to borrow the money. The check casher or payday lender agrees to hold your check until your next payday. When that day comes around, either the lender deposits the check and you redeem it by paying the \$115 in cash, or you roll-over the loan and are charged \$15 more to extend the financing for 14 more days. If you agree to electronic payments instead of a check, here's what would happen on your next payday: the company would deduct the full amount of the loan from your checking account electronically, or extend the loan for an

additional \$15. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow the \$100.

## **Protections for Military Consumers**

Payday loans offered to servicemembers and their dependents must include certain protections under the federal law and DoD rules. For payday loans offered after October 1, 2007, the military APR cannot exceed 36%. Creditors also may not require use of a check or access to a bank account for the loan, and they cannot mandate arbitration as means of redress. Military consumers also must be given certain disclosures about the loan costs and the additional rights. Creditors that offer payday loans **may** ask loan applicants to sign a statement about their military affiliation. Credit agreements that violate these protections are **void**.

## **Consider Alternatives**

Even with these additional protections for Soldiers, payday loans are usually the most costly option, especially if you roll-over the loan. Instead of entering (or continuing) the seemingly endless circle of payday and advance loans, we strongly encourage you to seek other options first:

Seek assistance from the Fort Benning Army Community Services (ACS) Office for help with budgeting and managing money and debt;

Request an advance with the Army Emergency Relief (AER) fund;

Attempt to obtain a loan from a credit union, bank or a small loan company that offers lower rates and fewer fees. Certain businesses may have special offers for military applicants;

Military consumers can contact the Department of Defense, toll-free 24 hours a day, 7 days a week, at 1-800-342-9647, or at [www.militaryonesource.com](http://www.militaryonesource.com). Information on the Department of Defense rule, alternatives to payday loans, financial planning, and other guidance is available.

If you have any questions concerning your rights regarding payday loans or feel you have been taken advantage of by a payday loan business, then you should call the Fort Benning Legal Assistance Office at 706-545-3281/3282 to meet with an attorney.



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