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Payday Loans - 2023

What is a payday loan?

A payday loan is a small loan that has to be paid back in a very short amount of time, within two pay periods. It has a definite due date for full repayment, unlike an open-ended account (such as a credit card.) Payday loans have an extremely high interest rate, plus fees that the lender will charge you just for taking out the loan. The annual percentage rate of interest is limited to 36%, but that is very high for a short-term loan. That is a huge burden that you should not carry. For this reason alone, these are loans to be avoided.

Payday loans are sometimes called cash advance loans or check advance loans. The names of companies that make such loans often contain words such as “fast” or “quick.” It may be fast or quick, but it’s almost always a very bad idea.

How does a payday loan work?

Here’s how it works: Let’s say you believe you’re in immediate need of $500. You decide to borrow it from a payday lender. The lender will ask you to write a personal check to them in an amount large enough to cover the principal amount borrowed ($500), plus a loan fee, plus a verification fee, plus the amount of interest you’d owe if you didn’t pay it back until the due date. The amount of the check you write to the lender could be about $620. The payday lender then gives you $500 in cash.

When the loan comes due, you either pay the lender the $620, or you just allow the lender to cash the $620 check you wrote to them. So, you just paid $120 for the use of $500 for that very short time. That’s a terribly high price to pay, and an unwise use of your money.

Why is it a bad idea to take out a payday loan? Why should you avoid them?

Even though payday lending is a legal business, taking out a payday loan is almost always a very bad idea. You should avoid them because they put you in a worse position (or at least not a better position) than you were before. There are a few things to consider before you go take out a payday loan:

• First, it is very important to ask yourself: “do I NEED the money for something that I or my family absolutely cannot do without, or do I WANT the money for something that I or my family would like to have (or maybe have already bought and now need to pay for)?" Be honest with yourself when answering such questions. This is about being a good and wise consumer.

• Second, if you can honestly answer with "yes, I NEED the money," then look first for alternatives to a payday loan. (see below for suggestions) These should be alternatives that don't put you in a deeper hole, and that make it easier for you to repay, if necessary.

• Third, payday lenders make it look and sound easy and attractive to take out a loan and repay it without difficulty. Do not be lured in by such offers and advertisements. Looks can be deceiving. Do your own research and questioning.

Here are some reasons to avoid taking out a payday loan:

• It is an extremely expensive way to borrow money.
• The interest rates are extremely high for a very short time period.
• You will need to have the money to repay the loan in a very short time. If you don't have the money now, it's not likely you'll have it in two or four weeks when it's time to repay.
• Even if you have to make an agreement to repay it over time, the high interest rate will mean that most or all of your payment is going toward payment of the interest. The unpaid balance will never go down, and usually keeps going up.
• That means you're just digging yourself a deeper hole, and you will become caught in a downward spiral of mounting debt that you can't pay off.
• In short, you are set up to fail and to fall further behind, while the company makes money off of your troubles.
• If you don't pay it when due, the company will cash the check you wrote to them at the beginning of the loan. That may cause your checking account to be overdrawn, and any other checks you write will bounce. And once again, you're even deeper in the hole.

What can I do instead of a payday loan?

You have options other than payday loans. You should consider all other possibilities before you choose a payday loan. Here are some other choices.

• A small loan from your credit union or a small loan company.
• An advance on pay from your employer.
• A personal loan from family or friends.
• A cash advance on a credit card.
• A loan or gift from a church, private charity, or local community-based organization.
• Ask your creditors for more time to pay your bills, and ask what they will charge for that service, such as a late charge, extra finance charge, or higher interest rate.
• Make a realistic budget and figure your monthly and daily expenses. Avoid unneeded purchases, even small daily items. Their costs add up.
• Build some savings to avoid borrowing for emergencies. Even small deposits can help. If you put just $35 a week into savings, you will have $1,000 in only 28 weeks.
• Get overdraft protection on your checking account.
• Look into a no cost consumer credit counseling service.

Are there limits on payday loans?

Under Virginia law, a payday loan can't be more than $500. You **cannot** borrow more than $500 at any time. You **cannot** have more than one payday loan at any time. The fees are limited to: (1) a loan fee of no more than $20 for each $100 you borrow, plus (2) an additional 36% interest, plus (3) a verification fee of $5. A payday loan **must** be for at least two times your pay cycle. If you get paid every two weeks, you must be given four weeks to repay the loan. If you get paid once per month, you must be given two months to repay. And so on.

Before you take out a payday loan, the lender must give you warning notice. This must be a separate printed notice on 8½ x 11 inch paper. The notice must be in big, 24 point type. (This type is 24 point type.) This warning notice must be signed and dated by each borrower. The warning notice must say these things.

> "WARNING: A payday loan is not intended to meet long-term financial needs. It is recommended that you use a payday loan only to meet occasional or unusual short-term cash needs."
>
> "I acknowledge that I have received a copy of this notice and the pamphlet entitled Short-Term Lending in the Commonwealth of Virginia - Borrower Rights and Responsibilities."

What must a payday loan agreement say?

If you take out a payday loan, the lender also must give you a written loan agreement. This agreement must be signed and dated by each borrower. This must be done the same day the loan is made and paid to you. The agreement must say these things.

- The amount you are borrowing.
- The fee charged.
- The annual percentage rate (using that term), which is the rate of interest per year.
- Evidence of receipt of your check, dated the same as the loan date, stating the amount of your check.
- That your check will not be deposited until your loan is due, which must be at least seven days after the loan is made.
- That if your loan is not paid when due, the interest rate after the due date is 6% per year.
- That you may cancel the loan at any time before the close of business on the next business day, by paying the amount you borrowed (that is, the amount of your check minus the lender's fee).
- That you may pay back the loan before the due date by paying the amount you borrowed plus the lender's fee for each day of the loan.

If you take out a payday loan, the lender also must give you a pamphlet titled Short-Term Lending in the Commonwealth of Virginia - Borrower Rights and Responsibilities. This pamphlet must contain exact language. You can read this exact language here –

https://law.lis.virginia.gov/admincode/title10/agency5/chapter200/section80. The Virginia State Corporation Commission's Bureau of Financial Institutions also has a pamphlet titled Consumer Guide to Payday Lending – https://www.scc.virginia.gov/getattachment/6563d680-b355-46cc-a078-5d8270037f6b/pay_guide.pdf. However, this pamphlet is not a substitute for the pamphlet about borrower rights and responsibilities.

Is there a waiting period between payday loans?

Yes. After paying one payday loan, you must wait until the next day to take out another payday loan. If you take out five payday loans within a 180 day period, you must wait 45 days after paying back the fifth payday loan before you can take out another payday loan. If you enter into an extended payment plan, as explained below, you must wait 90 days after paying back the payday loan before you can take out another payday loan.

What if I can't pay back my payday loan on time?

If you can't pay the loan back on time, the payday lender must offer an extended payment plan, if you ask for one on or before the loan's due date. The extended payment plan must allow you to repay the loan in four equal installments over at least 60 days. There is no additional interest or charges during the term of the extended payment plan. You can't have more than one extended payment plan in any 12 month period. If you enter into an extended payment plan, you must wait 90 days after paying back the payday loan before you can take out another payday loan.

Are there rules that govern payday lenders?

A payday lender must give you the loan in cash, or by a check that you can cash without any additional fee. A payday lender can't do any of the following things.

- Get a Power of Attorney from you, or any authority that says you agree to a judgment against you.
- Get your agreement that you will be sued outside of Virginia.
- Get your agreement to give up any of your legal rights under Virginia law.
- Refinance, renew, extend, or roll over any payday loan. You must pay off the old loan, and wait one day, before the payday lender is allowed to make you a new loan.
- Ask for or hold a post-dated check.
- Hold anything to stand good for the loan other than your check.
- Sell or turn over your check to anyone else.
- Sell you any other product or service.
- Charge a fee for cashing a check the payday lender gives you as the loan proceeds.

Can a payday lender bring criminal charges?

A payday lender **can't** threaten, or start, criminal proceedings against you if your check bounces or if you do not pay back the loan.

A payday lender also **can't** ask for or collect the penalty allowed under the "bad check law," (which is $250, or three times the amount of the check, whichever is less).

If the loan isn't paid, what can a payday lender do?

If you don't pay back a payday loan, the lender may ask for and collect only these things.

• The amount you borrowed and did not pay back.
• The loan fee ($20 for each $100 you borrowed), <u>plus</u> the 36% interest <u>plus</u> the verification fee of $5.
• A bad check fee of no more than $25 if your check bounced or you stopped payment on your check or you closed the account.
• Court costs, and attorney's fees of no more than $250, if you are sued in court and lose.

If the loan isn't paid, what can a borrower do?

As with any loan, it is the borrower's choice when and how to repay a payday loan. If you are unable to repay a payday loan on time, you have choices other than letting your check to the payday lender be cashed. You also can do one or both of these things.

● Stop payment on your check to the payday lender. Your bank usually charges a fee of about $30 for this. A stop payment is good for six months.

● Make sure all of the other checks written on the account are paid, and then <u>close</u> the account on the check which you gave to the Virginia payday lender.

It is not a crime to do either of these things. You can't be arrested for either of these things.

You <u>don't</u> have to pay the "bad check charge" of $250, or three times the check amount, whichever is greater. All the Virginia payday lender can do file a lawsuit against you and get a judgment for the amount of your check, a bad check fee of $25, court costs, and attorney's fees of no more than $250.

What about getting a payday loan through the internet? Is that legal?

It is legal, but only if the company is licensed by the State Corporation Commission, even if they don't have a physical office or address in Virginia. If they want to make payday loans to anyone in Virginia, whether a resident or not, they have to be licensed in Virginia.

But if taking out a payday loan from a local office is a bad idea, getting one through the internet is an even worse idea. Here are some reasons to seriously avoid internet loans, or at least to use extreme caution:

● You don't know who you're dealing with. It's much better to have face-to-face dealings, and a location where you can actually go to transact business and deal with follow-up problems.

● You don’t always know where the online lender is. You don’t know if they have an actual business office space, or if they’re just working from a call center site, like a telemarketing company. Thus, you’re not able to see and judge for yourself whether it appears to be a reputable and trustworthy business.

● If legal problems develop that would require a lawsuit, there are difficult issues of court jurisdiction over the company. That means the Virginia courts where you live may not have authority to make a ruling that binds that out-of-state company. There are many complicated factors that need to be considered. The point is, this is just another obstacle for you to overcome if problems arise.

Who do I contact for assistance or to file a complaint?

● Contact the Bureau of Financial Assistance toll-free at (800) 552-7945 or online at http://www.scc.virginia.gov/bfi, or

● Contact the Virginia Partnership to Encourage Responsible Lending’s Payday Loan Hotline at (866) 830-4501, or online at http://www.virginiafairloans.org, or

● Contact the Consumer Financial Protection Bureau (CFPB) toll-free at (855) 411-2372 or online at http://consumerfinance.gov/contact-us.