



The Truth About Payday Loans

Payday lenders market their products as convenient solutions to temporary cash-flow problems. Don't buy the hype. If you're struggling to make ends meet, chances are you'll be even worse off if you take out a payday loan.

The truth is: Payday loans are an *extremely* expensive form of borrowing money. They often carry triple-digit interest rates and include all kinds of hidden fees. One payday loan can quickly snowball into too much debt for one family to handle. Many payday borrowers come up short on their loan's due date, so they must take out a new loan to pay off the old one. Or sometimes, lenders will offer consumers additional cash if they take out a new loan to pay off the old one. This is called "rolling over" a loan. Each time a loan is rolled over, the lender tacks on additional fees. This creates a cycle of debt from which some families never recover.

New Consumer Protections

Under a new law that began on March 21, 2011, Illinois consumers now enjoy stronger protections from the payday loan industry's worst practices. The new law protects consumers from unlimited roll-overs and requires loans to be based on a borrower's ability to pay. The new law also creates a new type of loan – **the small consumer loan** – that is somewhat less expensive than the traditional payday product. Still, even with these new protections in place, consumers must exercise caution when deciding whether to take out a loan to meet their emergency expenses. The cost of short-term borrowing in Illinois remains very high.

Three Types of Loans

Small Consumer Loan: There are three types of payday or payday-like loans sold in Illinois. The least expensive of these is the small consumer loan. Under Illinois law, a lender can charge an Annual Percentage Rate (APR) of no more than 99% on a small consumer loan. This is by no means cheap, but it's considerably less costly than a payday loan. So, be sure to shop around. Ask a lender if they sell **small consumer loans**. Be specific. If they don't sell them, move on to a store that does. Stores that sell payday loans cannot sell small consumer loans. It is against the law.

In addition to having lower interest rates, small consumer loans have longer terms than payday loans – typically lasting about a year or more. Stretching your payments out over time is one way to help keep them manageable. To ensure you stay in your small consumer loan long enough to pay down a significant portion of your balance, the new law prohibits lenders from rolling you over into a new loan in the first 75 days of your loan's term. Additionally, by law, a small consumer loan's monthly payments can be no more than 22.5% of your gross monthly income.

Payday Installment Loan: Like small consumer loans, payday installment loans have longer terms than conventional payday loans, lasting up to six months. However, payday installment loans are more expensive than small consumer loans, with APRs running as high as 400%. This is why you should make every effort to qualify for a small consumer loan – or, preferably, an even less expensive loan – before considering a payday product.

Illinois law *does* provide payday loan consumers with some protections against the cycle of debt. For example, a lender cannot roll over your loan if doing so would keep you in debt for longer than six months. Also, a payday installment loan's monthly payments can be no more than 22.5% of your gross monthly income.

Payday Loan: A payday loan is truly a short-term loan; it has to be paid back in two to four weeks. Like the payday installment loan, a payday loan can carry an APR as high as 400%. The combination of the short term and high rates increases the likelihood that you'll be unable to pay off your payday loan when it comes due.

If this happens to you, please remember that under Illinois law, you are entitled to enter into an interest-free repayment plan with your lender after you've been in debt for more than 35 days. This option applies only to payday loans, not to payday installment loans, and you must request it. Additionally, the law prohibits lenders from issuing a new payday loan if it would result in your being in debt for more than 45 days in a row. Together, these two provisions are designed to give payday borrowers some breathing room to pay off their old payday loan debt without getting buried under additional charges and fees.

Consider Other Options

With their extremely high interest rates and many charges and fees, small consumer loans, payday installment loans, and payday loans can quickly transform a short-term financial crisis into a long-term debt problem. You should exhaust all possible resources – family, church, friends – before you even consider taking out one of these high-cost loans.

For more information about these loans and other types of credit, or to file a complaint against a payday lender, please visit www.IllinoisAttorneyGeneral.gov or contact the Illinois Attorney General's Consumer Fraud Bureau at 1-800-243-0618 (TTY: 1-877-844-5461).

www.IllinoisAttorneyGeneral.gov