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## Consumer Advisory Bulletin- April 2005

**"Payday Loans" -- Dollars Down the Drain?**

"Cash 'til Payday! Instant cash!" If you're running short of money, such ads invite you into one of the "payday loan" or check-loan businesses that have exploded in Iowa. Be careful! You will pay astronomical interest rates and likely will only worsen your debt.

Payday loans offer to give you cash to tide you over until your next payday. Convenient? Sure. **But, are you willing to pay for that convenience at an Annual Percentage Rate of interest (APR) of 300 to 400 percent?** That's a very expensive loan.

People who are stretched financially are turning to payday lenders. But when money's tight, paying triple-digit interest rates for short-term loans just siphons more money out of budgets that already may be running on empty. Nearly half of Iowa payday loan users get payday loans frequently, so payday loans often just make it even harder for Iowans to get off the debt treadmill.

**Here's how payday loans work:** If you want \$100 in cash, for example, you write them a check for \$116.67. (The difference is their fee.) They give you \$100 immediately. They hold your check until the date you agree they can deposit it, or you come back on your payday and give them \$116.67 in cash or money order to get your check back from them. Usually, that's a two-week loan, although it could be up to a month. That two-week, \$100 loan for \$16.67 works out to an APR interest rate of over 434%. Getting a \$200 loan for two weeks will likely cost you a fee of \$27.78 -- a 362% APR interest rate.

Just for comparison, compare those credit costs to the 24% APR that is considered very high for credit cards. A \$100 loan for two weeks at a 24% APR would cost 92 cents, a whole lot cheaper than \$16.67. A \$200 loan for two weeks at 24% would cost \$1.84, nowhere close to \$27.78. So, payday loans pull a lot of dollars down the drain -- especially if you obtain payday loans often, as many Iowans do.

**What can you do?** "Pay yourself" the fee instead of going to a payday lender. That will help you build a savings reserve for emergencies. If you need emergency cash for important bills, search for alternatives. For example, if it's a utility bill that's pressing, check first with the utility company about emergency assistance programs. If you're having trouble paying bills, seek debt counseling. Remember, trying to pay debts with triple-digit APR loans is likely to sweep you downward even faster in a spiral of worsening debt.

For more information or to file a complaint, contact the Attorney General's Consumer Protection Division, Des Moines, Iowa 50319. Call 515-281-5926. The Attorney General's web site is: [www.iowaAttorneyGeneral.org](http://www.iowaAttorneyGeneral.org).

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