

CONSUMER ADVISORY

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By Attorney General Tom Miller

Be Wary of Online Payday Loans

The dangers of payday loans are well documented: consumers pay astronomical interest rates on small sums of money, often dragging them into a cycle of debt. Payday loans may be convenient, but is an Annual Percentage Rate of Interest of 300 to 400 percent worth that convenience? These loans are risky and expensive.

Here's how payday loans work: For \$100 in cash now, you write the lender a check for \$116.67, which is cashed in a week or two. A \$16.67 fee for a two-week, \$100 loan works out to an APR interest rate of over 434%. In comparison, even a very expensive credit card would only charge around 24% APR – that ends up being a 92 cent fee for that same \$100.

When money is tight, the cash advance offered by a payday loan may seem tempting. But those interest rates and fees add up, even if you pay the loans back on time. (If you don't, you're in big, big financial trouble!) Because these exorbitant fees place heavy burdens on already-stretched budgets, borrowers of payday loans often have to return for more loans to pay back loans they've previously taken out: **the dreaded debt treadmill**. In fact, almost half of Iowa borrowers of payday loans borrow over 12 of them a year, leading to an average of \$480 spent on borrowing fees alone per year. Those are dollars down the drain.

Now, payday lenders are going online to make it more convenient for consumers to go deeper into debt. However, it is **often illegal for online payday lenders to make loans to Iowa consumers**. Payday lenders, otherwise known as direct deposit lenders, must be licensed by the state in order to lend to consumers, and to be licensed, the lender needs a physical presence in the state. Iowa has put these laws in place to prevent consumers from getting scammed on the web, and you should avoid online payday lenders.

What can you do? "Pay yourself" the fee instead of going to a payday lender or going online for an illegal payday loan. If you need emergency cash for important bills, search for alternatives. For example, if you have a pressing utility bill, check first with the utility company about emergency assistance programs. If you're having trouble paying bills month after month, seek debt counseling instead of the debt treadmill. Trying to pay debts with triple digit APR loans – especially when made illegally online – is likely to sweep your financial situation downward into 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, or toll-free at 888-777-4590. The website is: www.iowaAttorneyGeneral.gov.