FACTS FOR OLDER CONSUMERS

National Consumer Law Center®

BORROWER BEWARE:
The High Cost of Payday and Auto Title Lenders, Pawnbrokers, and Rent-To-Own Stores

- **What Is A Loan?**

A loan is borrowed money that must be repaid in one or more payments. Lenders charge interest or fees on the amount you borrow, so you pay back more than you receive. This is how a lender covers the cost of doing business and makes a profit. The higher the interest rate or fees, the more you must repay. How long it takes you to repay also affects the amount you must repay. For the same interest rate or fees, if you choose to spread repayment out over a long period of time, you will have lower monthly payments than if you repay over a short period of time. But you will wind up paying back the lender more money in total because interest keeps adding up the whole time a loan is in repayment.

Compare:

You borrow $500 at 18% interest for **12 months:** You pay $45.84/month x 12 months $500.00 principal (you get) <u>+ $50.08 interest you pay</u> = $550.08 total to repay	You borrow $500 at 18% interest for **24 months:** You pay $24.96/month x 24 months $500.00 principal (you get) <u>+ $99.04 interest you pay</u> = $599.04 total to repay

Sometimes you may need to borrow a few hundred dollars because of an unexpected problem, like a medical bill or a repair to your car or home. While the amount of cash you may need is small, the amount of interest you will repay may be large.

Always Shop Around!!

NCLC® NATIONAL CONSUMER LAW CENTER® Advancing Fairness in the Marketplace for All

What Can You Do To Avoid Problems?

- ## Save now for unexpected expenses.

Even putting aside a small amount each week will help. Try to save your money before there is an unexpected expense so you can avoid borrowing. You can talk with budget counselors who can help you understand how you spend your money and how you might save.

- ## Shop around for the best loan terms.

Do not look just at the monthly payment. Compare key terms including the interest rate, the amount of fees added on to the loan, the number of payments, and the total amount you will repay. A very important term is the annual percentage rate ("APR"). The APR is the total cost of the loan—including both interest and fees—expressed as a yearly rate.

- ## Read before you sign.

Make sure you or someone you trust reads the loan papers before you sign them. If the lender will not let you take them home to study them and tries to rush you, walk away. That is a sign of trouble.

- ## Look for a trustworthy lender.

Credit unions, including many community development institutions, often offer small loans at reasonable rates. For instance, federal credit unions are not permitted to charge more than 28% interest and a $20 application fee. More information about community development credit unions is available from the Coalition of Community Development Financial Institutions, (202) 393-5225, http://www.cdfi.org, and the National Federation of Community Development Credit Unions, 212-809-1850, http://www.natfed.org.

The High Cost of Different Kinds of Small Loans

- ## Payday Lenders

Payday loans are called many things, such as "cash advances" or "check loans," but they all work in basically the same way.

You write a check to the lender. The lender will hold that check and agree not to cash it until you get your next paycheck or payment of government benefits, like Social Security. The length of time the lender will agree to wait is usually about one to four weeks. In return, the lender will give you an amount of cash that is less than the written amount on your check. The amount on your check equals the amount the lender gives you in cash plus the amount the lender is charging you for the loan.

Some lenders will offer you an alternative "automatic debit" agreement instead of asking you to write a check. Signing this agreement gives the lender permission to debit your account automatically in one to four weeks. Payday loans made on the internet use an agreement instead of a check.

At the end of the one to four weeks, you must either pay back the full amount of the check you wrote or the debit agreement you signed (more than what the lender gave you), or the lender will cash the check or debit your account. Often, the lender will try to get you to extend the loan by writing another check or signing another debit agreement. When you do this, you pay an additional cost to put off when the loan is due. The lender won't give you any additional cash. So the lender gets more money from you, and you get further in debt.

The difference between the amount of the check you write or debit agreement you sign and the amount of cash you get in return is what the loan costs you. This cost may be made up of interest, fees, or both. Here is an example of a two week loan where the lender is charging you interest only.

For example:
You write a $256 check
<u>- $200 loan you get back</u>
= $56 interest you pay (730% on an annual basis, also called 730% APR)

Compare this to the much lower APRs charged by credit unions and banks.

- ## Pawnbrokers

Pawnbrokers are companies that allow you to trade something of value such as jewelry or electronics in exchange for cash. Usually, a pawnbroker will lend you up to one-half of the value of your property. You must pay back the loan, as well as interest or fees (or both) charged by the pawnbroker, within a short period of time. If you don't make this payment by the deadline, the pawnbroker can sell your property and keep the money. Since you are charged fees and/or interest, and only receive at most one-half of the value of your property in cash, you may be paying up to 200% APR.

- ## Auto Title Lenders

Auto title lenders will allow you to keep the use of your car but take the paper that is your title to the car. Some of these lenders will then sign the title over to themselves and claim to own your car and rent it back to you; other lenders will just hold onto the title but not sign it over. In exchange you will get cash, but no more than one-half of the car's value. If you do not repay the loan on time, the lender will find your car, take it, and sell it, even if it is worth more than you borrowed. If you do repay the loan on time, you are likely being charged between 200-900% APR. Sometimes lenders let you repay the loan in installments instead of one lump sum. Even then, the lenders are making a huge profit off you.

Rent-to-Own Dealers

When you go to a store and rent items such as a TV, appliances, or furniture until you have paid enough to buy them you will often pay at least three or four times what it would cost to buy them.

For example:	$832 you pay
You rent a 19-inch color TV ($300 value)	- $300 value of the TV you get
You pay $16/week x 52 weeks = $832	= $532 interest you pay (about 254% on an annual basis, also called 254% APR)

Sometimes the rent-to-own company will rent you a used TV and tell you it is new. Then, they make even more money from you. And if you miss a payment, the company may re-possess the TV, leaving you nothing to show for all the payments you have made.

Abuses by Some Small Loan Lenders

- Some lenders charge extremely high interest rates.
- Most lenders will also add expensive fees to the cost of the loan.
- These high interest rates and fees result in very high annual percentage rates (“APRs”).
- Some lenders may add on some type of insurance or “payment protection” in connection with the loan. This makes the loan cost even more.
- Some lenders make it hard for you to figure out how much the loan is really going to cost.
- Some will encourage you to borrow from them over and over again so that they can make more money at your expense.
- Some lenders will harass you and make threats to get repayment.

Where Can You Go For Help?

If you borrowed money from an abusive lender and want to know your rights, you may be able to get free assistance from your local legal aid office.

NATIONAL CONSUMER LAW CENTER®
7 Winthrop Square, 4th Floor
Boston, MA 02110-1245

Phone: 617-542-8010
Fax: 617-542-8028
E-mail: consumerlaw@nclc.org
www.nclc.org

• NCLC® is a consultant for lawyers and others on consumer issues affecting low- and moderate – income Americans. This brochure was supported, in part, by a grant from the Open Society Institute and from the Administration on Aging, Department of Health and Human Services, Washington, D.C. 20201. Grantees undertaking projects under government sponsorship are encouraged to express freely their findings and conclusions. Points of views or opinions do not, therefore, necessarily represent official Administration on Aging policy. January 2010.

NCLC®
NATIONAL CONSUMER LAW CENTER®

Advancing Fairness in the Marketplace for All