



**FINANCIAL SERVICES
COMMISSION**

JEB BUSH
GOVERNOR

TOM GALLAGHER
CHIEF FINANCIAL OFFICER

CHARLIE CRIST
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

OFFICE OF FINANCIAL REGULATION

DON B. SAXON
COMMISSIONER

February 2006

Consumer Alert

Payday Loans = Costly Cash

“GET CASH UNTIL PAYDAY...\$100 OR MORE...FAST”

The ads are on the radio, television, the Internet, even in the mail. They refer to payday loans which can come at a very high price.

Check cashers, finance companies and others are making small, short-term, high interest rate loans that go by a variety of names: payday loans, cash advance loans, check advance loans, or deferred deposit check loans. In the state of Florida, these types of loans are legal and regulated under Chapter 560, Florida Statutes.

Description of a Typical Payday Loan Transaction

The transaction usually begins with the borrower submitting an application and writing a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed – \$50 or \$100 loaned. In Florida, the maximum amount that can be borrowed is \$500 and the maximum fee is 10% of the amount borrowed plus a verification fee of \$5.00.

Florida laws do not allow the loan to be extended or “rolled-over”. In addition, Florida law requires a payday loan to be paid off by the borrower in full and to wait for 24 hours prior to entering into another payday loan. This 24 hour “cooling off” period is designed to give consumers the opportunity to consider other financial alternatives to this high cost product.

Under the Truth in Lending Act, the cost of payday loans – like other types of credit – must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of credit on a yearly basis).

A cash advance loan secured by a personal check – such as a payday loan – is very expensive credit. Let’s say you write a personal check for \$115 to borrow \$100 for up to 14 days. The check casher or payday lender agrees to hold the check until your next

payday. At that time, depending on the particular plan, the lender deposits the check or you redeem the check by paying \$115 in cash. In this example, the cost of the \$100 loan is a \$15 finance charge and 391 percent APR.

Alternatives to Payday Loans

There are other options. Consider the possibilities before choosing a payday loan:

- Shop carefully when you need credit. Compare offers. Look for the credit offer with the lowest APR – consider a small loan from your credit union or small loan company, an advance from your employer, or a loan from family or friends. A cash advance on a credit card also may be a possibility, but it may have a higher interest rate than your other sources of funds – find out the terms before you decide. Also, a local community based organization may make small business loans to individuals.
- Ask your creditors for more time to pay your bills. Find out what they charge for that service – as a late charge, an additional finance charge or a higher interest rate.
- Make a realistic budget, and figure your monthly and daily expenditures. Also, build some savings – even small deposits can help to avoid borrowing for emergencies, unexpected expenses other items.
- Find out if you have, or can get, overdraft protection on your checking account. If you are regularly using most or all of the funds in your account and if you make a mistake in your checking (or savings) account ledger or records, overdraft protection can help protect you from further credit problems. Consumers should carefully study the terms of overdraft protection offered by their financial institutions, as the fees can sometimes be as high as or higher than a payday loan.
- If you need help working out a debt repayment plan with creditors or developing a budget, contact your local consumer credit counseling service. There are “non-profit” and “for profit” groups in Florida that offer credit guidance to consumers. When entering into an arrangement with any type of credit counseling or debt management firm – carefully evaluate the fees being charged.
- If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.

To File a Complain or For More Information

If you believe a lender has violated the Truth in Lending Act or Florida laws, you can file a complaint with the Office of Financial Regulation (OFR). The Office of Financial Regulation (OFR) works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot stop and avoid them.

To file a complaint or get free consumer information visit our web site at www.flofr.com or call the **toll-free consumer help line 1-800-342-2762**.