



Internet Payday Lending ALERT

Increased Risks With Unlicensed Internet Payday Lending

Payday loans are fee-based, high-cost, short-term loans offered to people who need an advance on their paycheck. These loans are also known as cash advance loans, payday advances, deferred deposit loans, and post-dated check loans and, under California law, are limited to an amount of \$300 or less to be repaid within one to two weeks. Some Internet payday lenders may not be licensed, which can put consumers at higher risk of fraud.

Increasingly, payday lenders are moving from storefronts to the Internet and many fail to obtain a license with the Department of Corporations, evading state laws and regulations designed to protect consumers. For example, state and federal truth-in-lending statutes require lenders to disclose the true cost of credit in the form of an Annual Percentage Rate (APR) prior to the actual loan. Internet payday lenders typically advertise fees as a dollar amount rather than an APR, which can be misleading to consumers in determining the actual cost of the payday loan.

Borrowers using Internet payday lending services must provide lenders their personal information, including bank account information. Upon completion of an Internet payday loan application, a lender will electronically transfer funds into a consumer's checking account. At the close of the term, usually following the deposit of the consumer's next payroll check, the payday lender automatically deducts the loan amount and interest charged from that account.

The Department of Corporations strongly urges potential Internet payday loan customers to be wary of these types of loans. Many Internet payday lenders may be difficult to contact by providing little or no identifying information; in fact, they may be operating out of state or overseas to avoid licensing and regulation. Unlike a bank, credit union, or a California licensed lender, consumers may have no recourse should they run into trouble while doing business with an unlicensed Internet payday lender.

THE BOTTOM LINE

CHECK BEFORE YOU BORROW !

California Department of Corporations
www.corp.ca.gov • 1-866-ASK-CORP

Always check with the Department of Corporations on a lender's license status before you APPLY for a loan.

Use Caution When Borrowing Online

Consumers are strongly advised to avoid entering personal or financial data on Internet-based application forms until the firm is verified as a licensed lender by the Department of Corporations. Personal data can be misused or pirated even before a loan is agreed to by the borrower. Lenders can be verified at the Department of Corporation's website www.corp.ca.gov/FSD/Licensees or by calling toll-free at 1-866-ASK-CORP.

One particularly aggressive technique being used by some unlicensed lenders is to take borrowers to small claims court for collection. Some lenders may deposit funds before the consumer agrees to the loan and then begin drawing funds from the consumer's account for repayment. This has led many consumers to close bank accounts to avoid more unauthorized withdrawals. In response, lenders have taken borrowers to small claims court when their collection efforts fail. Borrowers who are taken to court by a lender who has been subject to a Department of Corporations enforcement order should take a copy of the order when appealing in small claims court. Orders may be viewed and printed at the Department of Corporation's website at www.corp.ca.gov/ENF/Default.asp

Alternatives to Payday Lending

- Ask your employer for an advance on your paycheck.
- Find out if your bank or credit union or a mainstream financial firm provides short-term credit products.
- Ask your creditor for more time to pay your bills. Find out what they will charge for this service - a late charge, an additional finance charge or a higher interest rate.
- Find out if you can delay paying a non-interest bill such as a utility bill and make payment arrangements with the utility company.
- Ask to borrow money from a friend or relative.

How Should You Plan for the Future?

- Make a realistic budget and figure your monthly and daily expenditures.
- Build some savings to avoid borrowing for emergencies or unexpected expenses.
- Contact your local consumer credit counseling service if you need help developing a monthly budget or working out a debt repayment plan with creditors. There are non-profit groups that offer credit guidance to consumers.

Example of a Payday Loan

Let's assume you want to borrow \$200 until you receive your next paycheck in two weeks. You authorize an automatic deduction of \$230 upon the deposit of your next payroll check. (15% of \$200 = \$30 lender's fee + \$200 loan amount = \$230). You then receive a \$200 deposit in your bank account in return. The \$30 interest you pay on the loan calculates to an Annual Percentage Rate (APR) roughly 13 times more than the highest interest credit cards on the market.

The California Deferred Deposit Transaction Law requires all payday lenders to obtain a license from the Department of Corporations and to comply with provisions of the law. State law limits a single payday loan to a maximum of \$300 at an interest rate of 15%. Also, payday lenders may not issue more than one loan at a time to a customer. An unlicensed Internet payday lender might exceed the legal amount allowed and charge extremely high interest rates.