Your Money

Online Extra. . .
The Big Payback
Quick cash loans can lead to a stanglehold of debt.

By Lorrie Grant
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While money problems can easily push the cash-strapped to the edge, an attempt to bridge financial shortfalls with risky payday loans can plunge them into a canyon of debt.

Payday loans—which often attract high-risk consumers who cannot obtain traditional credit from a bank or credit union—are small, short-term, single-payment consumer loans with exorbitant interest rates.

Here's how they work: A borrower writes a personal check payable to the lender for an amount from $100 to $500, plus a fee. The check is postdated for the next payday, usually two weeks' time, when the borrower is expected to repay the loan.

Experts say about 5 percent of Americans have used payday loans. Why? Many times it's to take care of an immediate need such as a utility bill or medication—or just to make ends meet.

That was the case for Glenda Malone of North Little Rock, Ark. In 2004 Malone took out a $500 loan when a back injury forced her truck driver husband to retire, cutting his $27,000 annual income by more than half. She earns $23,000 a year as a county employee.

"We still had the same bills," says the 55-year-old Malone. "When I was unable to pay back on time I had to go to another payday lender to get a loan to pay the first payday lender back, and that started

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Payday Loans Don't Pay (AARP.org)

Do You Have Too Much Debt? (AARP.org)

There's a Better Way
The Center for Responsible Lending offers the following alternatives to payday loans:

- **Contact a credit counselor** Counselors can help you get out of debt and avoid payday loans. Go online for a nationally accredited counseling agency in your area or call 1-800-388-2227.
- **Shop around** Banks, credit unions and finance companies offer alternatives to payday loans at a fraction of

the cycle of debt." The first lender cashed her $500 check to recoup the loan, causing a $30 bank overdraft fee on top of the $25 the payday lender charged for insufficient funds.

"It's much harder for [older adults] to repay a payday loan than someone who can take a second or third job, or increase their hours," says Susan Lupton, senior policy associate for the Center for Responsible Lending, a research and policy organization.

Because the loans are made—mainly by cash advance outlets, check cashers, even Internet companies—with few questions asked, many borrowers end up using them eight to 13 times a year and sink deeper in debt. Fees can well exceed the initial loan amount.

For example, a $200 loan for a period of two weeks at a fee of $30 may seem manageable despite its staggering annual percentage rate (APR) of 390 percent. If the full amount can't be repaid by the next pay period, the borrower must renew the loan by paying another $30 fee.

"It doesn't sink in that $30 on a loan of $200 is extreme considering that over a year, if you refinance over and over, it would cost $780," says Rebekah O'Connell, a certified credit counselor for Triangle Family Services in Raleigh, N.C.

In comparison, interest rates might be 8 percent to 10 percent at a credit union or bank; on a credit card advance it would be about 19 percent to 22 percent, O'Connell says.

"These loans are designed to trap people because they have to be paid back in full," says Jean Ann Fox, director of consumer protection at the Consumer Federation of America, who argues the loans should be repaid in installments.

Traditional banks offering installment loans are rarely in the communities of struggling consumers and don't make loans in small amounts. That leaves people who typically live paycheck to paycheck vulnerable to high-cost alternatives like payday loans.

"These consumers are among those with the greatest need for a market that operates with integrity and the enforcement of usury laws," says Deborah Zuckerman, a senior attorney at AARP

the cost.

- **Make arrangements with creditors** Utility companies, credit card companies and landlords often allow extra time to pay.
- **Seek assistance** Religious institutions and social service agencies may be available to help.

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Foundation who represents victims of predatory lenders.

A number of states are cracking down on the $28 billion-a-year payday loan industry. For example, North Carolina shut down payday lenders last year. In Arkansas, a coalition of religious and consumer groups called Arkansans Against Abusive Payday Lending is lobbying for payday loan rates in line with the state's usury law, 17 percent APR (versus the current 1,379 percent for six days charged on a $50 loan, the smallest loan allowable in the state). Colorado has limited payday loans to a single renewal and capped finance charges.

Consumer advocates applaud the moves that states are making. "Lending to people who don't have a prayer of repaying only makes their troubles worse," Fox says.

Despite mounting debt, some borrowers can escape the trap. Glenda Malone became part of a class-action suit against payday lenders in Arkansas and was able to erase her debt as a result.

"I would never do this again," Malone says of turning to a quick-cash lender. "It helps you at the moment but begins a vicious cycle that you don't realize until you can't pay."

Lorrie Grant is a business writer based in Virginia.