

PAYDAY LOANS

Payday loans can offer quick and easy access to money for consumers who may be having temporary cash flow problems or are facing a financial emergency and need to borrow funds for a short length of time. Although these loans are convenient to obtain, consumers are strongly advised to carefully review the contract before they sign it to ensure that they fully understand their obligations as well as the fees charged for these short-term loans. Once a loan agreement is signed, the borrower becomes legally responsible to fulfill the obligations stated in the contract. It is also important that consumers are aware of the significant additional costs they can incur if they are unable to repay these loans when they are due.

PAYDAY LOAN EXAMPLE

A lender signs a contract with a borrower, agreeing to take the borrower’s personal check as collateral for a cash advance. The lender agrees to not deposit the check until the date the loan is due, yet pays cash immediately to the borrower. Let’s say you want to borrow \$300 until you get your next paycheck. The payday loan term must be at least twice as long as your pay cycle, so assuming you are paid on a semi-monthly basis, the loan term would be 31 days. You write a check to the payday lender for \$374.30 (36% interest for 31 days = \$9.30 interest, plus a loan fee of 20% of \$300 = \$60 loan fee, plus \$5.00 verification fee = \$374.30) and you get \$300 cash in return. The \$74.30 interest and fees that you pay on the loan calculates to an Annual Percentage Rate (APR) of 287.61%.

ALTERNATIVES TO A HIGH-RATE PAYDAY LOAN

- Ask your employer for an advance on your paycheck
- Ask to borrow money from a friend or relative
- Find out if you have, or can get, overdraft protection on your checking account
- 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 your creditors for more time to pay your bills. Find out what they will charge for this service, - such as a late charge
- Consider a short-term loan or a loan repayable over several months from another financial institution, such as a credit union
- Consider a cash advance on a credit card.

Please take a few moments to review the information in this brochure.

It is designed to educate consumers about payday lending and to assist you in making a well-informed decision that meets your personal financial circumstances. You will find brief explanations about short-term payday lending, as well as your rights and responsibilities as a consumer. Additional information about services available to consumers who are experiencing financial difficulty is also included. This brochure only addresses the payday loan. Other brochures are also available entitled “Consumer Guide to an Extended Term Loan” and “Consumer Guide to an Extended Payment Plan for Repaying a Payday Loan”.

PLAN FOR THE FUTURE

Borrow only as much as you can afford to repay with your next paycheck while still having enough money for your living expenses. Make a realistic budget. Build some savings. Even small deposits can help to avoid borrowing for emergencies, unexpected expenses or other items. Remember that payday loans are not an effective solution for your long-term financial needs! Keep in mind that payday loans are intended only for short periods of time. Although they are quick and easy to obtain, customers pay considerably higher prices for the convenience of these loans.

CONTACT THE VIRGINIA BUREAU OF FINANCIAL INSTITUTIONS

If you have questions about payday loans, you may contact the Bureau of Financial Institutions toll free at 1-800-552-7945 or through the Internet at www.scc.virginia.gov/bfi.

If you have a complaint about a payday loan, the complaint must be filed in writing to: Bureau of Financial Institutions, Attn: Complaints, P.O. Box 640, Richmond, VA 23218-0640 or faxed to Bureau of Financial Institutions, Attn: Complaints (804) 371-9416.



CONSUMER GUIDE TO PAYDAY LENDING



CONSUMER GUIDE TO PAYDAY LENDING

Payday Lending in the Commonwealth of Virginia – Effective January 1, 2009

Notice From Lender: The lender is required to provide you with a clear and conspicuous printed notice advising you that a payday loan is not intended to meet long-term financial needs and that you should use a payday loan only to meet occasional or unusual short-term cash needs.

Limitations on Security Interest: The lender cannot require you to provide more than one check as security for any payday loan. The check must be dated the date that the loan is due. The lender cannot require you to provide any security for your payday loan other than a check payable to the lender. The lender is not allowed to electronically debit your checking account.

One Loan at a Time / Payday Database / \$500 Maximum / Minimum Loan Term: As a borrower, you may only have one payday loan at a time and there will be a database that the licensed payday lender will check to determine if you already have an outstanding payday loan. The lender will check the database by using your original driver’s license or ID card issued by your state’s driver licensing agency.

The maximum loan amount is \$500. If you pay off your payday loan in full, you must wait one day before obtaining another payday loan. The specified due date of your loan must be at least twice as long as your pay cycle. If you are paid weekly or more frequently, your minimum loan term would be 14 days. If you are paid biweekly, your minimum loan term would be 28 days. If you are paid semimonthly, your minimum loan term would be 31 days. If you are paid monthly, your minimum loan term would be 62 days. If you are paid on a basis other than those listed, your minimum loan term would be 62 days.

Fees, Charges and Interest: The lender is permitted to charge interest at a simple annual rate of 36%, a loan fee of 20% of the amount of the loan, and a \$5.00 verification fee. The following examples are based on a 360 day year; however, the lender may also use a 365 day year, which will result in slightly different numbers than those listed as examples. For example, if the lender advances you \$300 for 14 days, the lender may charge you up to \$369.20 which includes interest, the loan fee, and verification fee. If the lender advances you \$300 for 28 days, the lender may charge you up to \$373.40 which includes interest, a loan fee and a verification fee. If the lender advances you \$300 for 31 days, the lender

may charge you up to \$374.30 which includes interest, the loan fee, and the verification fee. If the lender advances you \$300 for 62 days, the lender may charge you up to \$383.60 which includes interest, the loan fee, and the verification fee. No additional amounts may be charged, contracted for, collected, received, or recovered by the lender other than the specific fees and costs discussed in the section of this pamphlet entitled “Failure to Repay.” The lender will fund your loan with either cash or a check. The lender cannot charge you a fee for cashing their check nor can any check casher affiliated with the lender charge you a fee for cashing the lender’s check.

Disclosure of APR and Fees: You have the right to full disclosure in your contract (written loan agreement) of the Annual Percentage Rate (“APR”) of the loan, the interest, and any fee charged before you sign the loan contract.

Written Agreement: The lender must provide you with a written loan agreement, which must be signed by both you and the lender. The loan agreement is a binding, legal document which requires you to repay the loan. Make sure you read the entire loan agreement carefully before signing and dating it. The lender must provide you with a duplicate original of the agreement when you get the loan.

Other Businesses: A lender is prohibited from engaging in other businesses at its business location, except for check cashing, unless permitted by order of the State Corporation Commission. A lender is also prohibited from selling you any type of insurance.

Loans for Other Products & Services: You are prohibited from using any of the money from your payday loan to purchase any other product or service sold at the lender’s business location.

Right to Cancel: You have the right to cancel your loan at any time before the close of business on the next day the lender is open following the date your loan is made by paying the lender the amount advanced to you in cash, certified check, cashier’s check, money order, or, if the lender is equipped to handle such payments, by credit card.

Partial Payments and Prepayments on a Payday Loan: You have the right to make partial payments (in increments of not less than \$5.00) on the payday loan at any time prior to its specified due date without any additional fee or charge. If you make a partial payment, the total interest and loan fee you pay will be reduced. You have the right to receive signed, dated receipts for each payment made along with a statement of the balance remaining on your payday loan. You also have the right to prepay the loan in full before its due date without penalty by paying the lender (in cash, certified check, cashier’s check, money order, or, if the lender is equipped to handle such payments, by credit card) the amount of money advanced to you as well as any accrued and unpaid interest and fees.

No Rollovers, Extensions, Etc.: The lender cannot refinance, renew, extend, or rollover your payday loan.

Military Provisions: The payday lender is prohibited from making payday loans to members of the military services of the United States as well as their spouses or dependents.

Internet Payday Loans: The Virginia Payday Loan Act applies to anyone who makes payday loans over the internet to Virginia consumers regardless of where they are located. As a wise consumer, be sure to check that the payday company you do business with is properly licensed before accepting a loan from them. A listing of licensed payday lenders can be found on the Bureau of Financial Institutions’ website or by calling the Bureau.

Fifth Payday loan made to a consumer within 180 days: Any consumer who has obtained a fifth payday loan within a 180 day period, at their option, may elect to repay the fifth payday loan as:

- a payday loan,
- an extended payment plan, or
- an extended term loan.

If you obtain the fifth payday loan in a 180 day period and choose to repay the payday loan according to the terms in the agreement, you will not be allowed to obtain another payday loan for 45 days from the date the loan is paid in full.

If you choose to obtain the fifth payday loan within a 180 day period, as an extended payment plan, you may only do so if you have not had an extended payment plan for a payday loan within the previous 12 months. If you are eligible for the extended payment plan and you choose this option for your fifth payday loan within a 180 day period, you will not be allowed to obtain another payday loan for 90 days following the loan being paid.

If you choose to obtain the fifth payday loan within a 180 day period as an extended term loan, you are not able to obtain another loan from a licensed payday lender for either: 90 days following the date the extended term loan is paid in full or 150 days from the agreement date of the extended term loan, whichever is longer.

Extended Payment Plans for a Payday Loan: If you obtained a payday loan after January 1, 2009, from a licensed payday lender, you have the option of repaying the payday loan with an extended payment plan, one time within any 12 consecutive month period. Refer to the Consumer Guide to an Extended Payment Plan for Repaying a Payday Loan for further information.

Extended Term Loan: An extended term loan is a payday loan which may be available to you as a consumer if you are obtaining your fifth payday loan within a consecutive 180 day period. Refer to the Consumer Guide to an Extended Term Loans for further information.

Failure to Repay: PAY BACK YOUR LOAN! Know when your payment is due and be sure to repay the loan on time and in full. Failure to repay the loan on or before its due date can result in additional interest and fees as well as legal action against you. Be sure that you have money in your checking account on the due date of the loan so that your check does not bounce when it is deposited. If you cannot or do not repay the loan, the following measures are available to the lender:

1. The lender is permitted to recover from you any fee charged to the lender (maximum of \$25) as a result of your check being returned because (a) you stopped payment on your check, (b) you closed the account, or (c) the account contains insufficient funds to cover the check.

2. The lender may seek judgment against you as a result of your returned check. If a judgment is obtained and the court so awards, the lender may recover court costs and reasonable attorney’s fees from you (total not to exceed \$250). The lender, however, is prohibited from threatening or beginning criminal proceedings against you if the check you provide to the lender is dishonored (for example, bounces).

3. The lender may begin accruing interest on the principal amount of your loan at a maximum rate of six percent (6%) per year if the loan is not repaid by the specified due date.

4. The lender may also list past due accounts with the various credit bureaus, which could affect your ability to get credit in the future.

The Virginia Payday Loan Act requires the lender to also comply with the Fair Debt Collection Practices Act when collecting or attempting to collect a payday loan. This is a federal law applicable to debt collectors. The restrictions and prohibitions pertain to harassment or abuse, false or misleading misrepresentations, and unfair practices in collection.

A payday lender cannot file or begin legal proceedings until 60 days after the date you default on your payday loan. During this 60 day period, you and the lender may voluntarily enter into a repayment arrangement.

Legal Action against Lender: You have the right to bring a civil action against the lender if you suffer a loss as a result of the lender violating any provision of the Payday Loan Act. If you are successful in your civil action, you have the right to recover reasonable attorney’s fees, expert witness fees, and court costs you have incurred in connection with your civil action. Losses suffered as a result of the lender’s violation of the Payday Loan Act may also be pursued under the Virginia Consumer Protection Act (§ 59.1-196, et seq. of the Code of Virginia), which in some cases permits consumers to recover actual and punitive damages.