

# Predatory Lending Fact Sheet



## What is Predatory Lending?

Predatory lending is a term used to describe businesses that charge very high interest rates on loans. Often, these loans are targeted to people with a low income or poor credit. Some examples of these are Payday Loans, Title Loans, Refund Anticipation Loans, Pawn Shops and Predatory Mortgage Loans.

## Payday Loans

A Payday Loan is a loan that is taken out for a short period of time. It is sometimes called a "Cash Advance, Short-Term Loan, Paycheck Loan."

A borrower can take out a loan for \$50 to \$300 plus a fee for the loan for a maximum of 31 days, and the fee may not exceed exceeds 25% of the amount loaned.

### *Example of a Payday Loan:*

A woman needs some extra money to cover some unexpected bills so she goes to her local Payday Loan store. She learns that for every \$100 she borrows, she will be charged \$25. She writes a check for \$375 that is dated for her next payday, which is in 14 days.

Because she is paying the lender \$75 for a 14-day loan, the interest on the loan ends up being very high:

$$\begin{aligned} \$75 / 300 &= .25 \text{ or a } 25\% \text{ interest rate every two weeks} \\ 25\% \times 26 \text{ weeks} &= \mathbf{650\% \text{ annual interest rate}} \end{aligned}$$

Often, people who take out the loan are unable to pay the loan back because when their paycheck comes, the money is needed for living expenses. Some people take out another loan to pay for the first loan. This starts a cycle of loans, and can rack up thousands of dollars in fees, all to pay off the first small loan!

## What to do if you need help with your bills

If you find yourself in a situation where you need help paying back your bills, you may want to contact a non-profit organization like Consumer Credit Counseling Services to help you. They can provide you with financial counseling and education.



For more information, you can visit their website at [www.cccsmt.org](http://www.cccsmt.org) or you can call them at 1-877-275-2227.

You may also contact Montana Legal Services Association (MLSA) if you need help with other credit issues like garnishment, bankruptcy, or debt collection. The MLSA Helpline number is 1-800-666-6899. For more information about credit issues, you may also visit [www.MontanaLawHelp.org](http://www.MontanaLawHelp.org).



## Title Loans

A Title Loan is a loan that is backed by a borrower's vehicle. A person goes to a Title Loan shop and provides the lender with the title to her vehicle. In many cases, a borrower will only receive up to 50% of the value of the car.

The lender will take ownership of the vehicle and lease it back to the borrower. Or, the lender will hold onto the title while the borrower pays off the loan. If the loan is not repaid, the lender can repossess the car.

Like Payday Loans, the interest on Title Loans can be very high. For example, a man needs to take out a Title loan to pay for some bills he didn't expect. He gives his car title, worth \$2000, and gets back half of that (\$1,000). He is required to pay \$250 every week for 10 weeks. He will end up paying \$1,500 more than the amount of the loan.

Since the loan is for 10 weeks, and the amount of the loan is \$1,000, anything over \$100 a month is an interest charge. In this case, he is paying \$150 a month over the amount of the loan.


$\$150 \times 52 \text{ weeks} = \$7,800$  (This represents the yearly charge for the loan)

$\$7,800$  (yearly charge)  $\div$   $\$1,000$  (loan amount) = 7.8 or an **annual percentage rate of 780%**!

In addition to the fees paid, he risks losing one of his most valuable assets and his only form of transportation..

## Alternatives to Payday Loans and Title Loans

There are many alternatives to Payday Loans and Title Loans for consumers who need money quickly.

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- Try to work out a payment plan with the businesses that you owe money. Businesses are usually willing to work with you to create a realistic payment plan.
  - By starting a small savings account, you can create your own rainy day fund to cover unexpected expenses. After a year of saving as little as \$25 a month, you could have \$300 saved, plus interest from the savings account.
  - Asking family or friends to lend you money can save you hundreds of dollars in fees and interest.
  - Ask your employer if they will advance your paycheck. Some employers will give you your paycheck before payday, and since this isn't a loan, there are no additional costs for your to worry about.
  - Your local credit union may also be able to provide you with a small, short-term loan. To locate a credit union near you, go to [www.montanacreditunions.coop](http://www.montanacreditunions.coop) and click on "find a credit union near you."

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