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Consumer Alert—Internet Payday Lending

The State Corporation Commission's, Bureau of Financial Institutions ("Bureau") warns borrowers that they should **ALWAYS CHECK BEFORE YOU BORROW!**

A payday loan 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 be sure you know who you are dealing with and only deal with a licensed lender.

A payday loan, under Virginia law, is limited to a maximum of \$500 and is due to be paid on a specific date which is at least twice as long as a borrower's pay cycle. For example, if you are paid weekly or more frequently, the loan must have a term of at least 14 days. If you are paid monthly, the loan term must be at least 62 days. The law allows the borrower only one payday loan at a time and there is a database that the licensed payday lender must check to determine if the borrower is eligible for a payday loan.

Increasingly, consumers will see advertisements for companies offering payday loans or other short-term, small-dollar loans over the Internet. At the present time there are no Internet payday lenders licensed with the Bureau. **Consumers should always check with the Bureau on a lender's license status BEFORE THEY APPLY for a loan.** Borrowers using Internet payday lending services or other Internet short-term, small-dollar lending services are typically asked to provide their bank account information. Once the borrower provides their bank account information on the Internet application, the lender will electronically transfer funds into a consumer's bank account and deduct payments directly from the consumer's bank account.

The Bureau strongly urges all consumers to use caution when attempting to obtain a payday or short-term, small-dollar loan over the Internet. In addition to bank account information, other personal information you provide could be misused. Further, many of the companies offering such services may be difficult to contact as they provide very little if any 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 Virginia licensed lender, the consumer may have no recourse if they run into trouble doing business with an unlicensed company operating over the Internet. Further, depending on the type of loan (which actually may not be a payday loan under Virginia law), the Internet short-term, small-dollar lender may not be required to obtain a license.

A listing of licensed payday lenders can be found at

http://www.scc.virginia.gov/bfi/reg_inst/pay.aspx

or by calling the Bureau of Financial Institutions at 804-371-9657

or toll free at 1-800-552-7945 (ask for Bureau of Financial Institutions)



PAYDAY LOAN EXAMPLE

This example is based on the maximum fees permitted by Virginia law for a consumer paid twice a month. Internet lenders often charge more than allowed by Virginia law.

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%.

