

Check Advance Loans Are they Right for You?

Many of us have been in situations where we needed a little extra cash to tide us over until payday. Maybe you needed to make unexpected car repairs or your utility bill was higher than you expected. If so, you might have been tempted by one of the many ads for check advance loans that now flood radio and television airwaves.

You have probably heard them called deferred deposit checks, cash advance loans, payday loans, or post-dated check loans. Whatever they are called, these loans always share certain features. They are all for a short term (usually 14 days), for a small amount (maximum \$500), and have a high service fee. They are the most expensive type of “loan” available and should be used only as a last option.

Here is how they work: Usually a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow, plus a service fee, usually \$15 per \$100 borrowed. The company gives the borrower the amount of the check minus the fee. Say you want to borrow \$100: Typically, you will be asked to write the lender a check for \$115. They will then give you \$100 in cash and keep the check for two weeks. (Some lenders take the fee out of the amount borrowed. For example: \$100 - \$15 fee = \$85.)

That \$15 service fee is equal to as much as a 457 percent annual percentage rate (APR). Would you take a credit card with that kind of rate? You must pay back the \$115 on your payday. However, some borrowers will get another payday loan for another two weeks. You pay an additional \$15 fee each time. Rollovers are

illegal; the customer must pay off the loan before getting a new loan.

Another type of check advance is the refund anticipation loan (RAL), which is marketed as the “instant refund” to customers needing a quick return on their income tax refund. RALs are high-cost bank loans that are secured by the customer’s tax refund. Most customers do not realize that the average tax refund is received within two weeks of filing income taxes by e-file or direct deposit.

Better Alternatives for Borrowing Money

- **Family or Friends** – If they have the means, a loan from family or friends might be a good option. Before you borrow, make sure you will be able to repay, even if it’s just \$10 a week. Do not promise to pay more than you can realistically afford.
- **Credit Union** – The next best place to get a loan is a credit union. Members can borrow at about 11 percent interest (APR), since the credit union is usually able to withdraw payments directly from your paycheck each pay period.
- **Cash Advance on a Credit Card** – If you have a credit card, you can borrow money in the form of a cash advance at about 18 to 21 percent interest (APR).
- **Small Loan Company** – These companies usually ask for collateral and charge between 24 and 36 percent interest rate.
- **Extensions** – Ask your creditors for more time to pay your bills. Find out what they will charge for that service – a late charge, additional finance charges, or a higher interest rate.
- **Payday Loan** – If you decide you must use a payday loan, borrow only as much

as you can afford to pay with your next paycheck and still have enough to make it to the following payday. However, shop around, as some payday lenders charge less than the maximum allowed by law.

Avoiding Problems in the Future

- **Avoid Unnecessary Purchases** – Try to look critically at what you buy on a daily basis. Decide if you really need these items. Remember, small costs add up.
- **Overdraft Protection** – If you have a checking account, ask your bank if you can add overdraft protection. Miscalculating the amount in your checking account could cost you more than \$25 in fees from the bank, **plus** equal fees from the company that accepted your bounced check, **and possibly even civil penalties and court costs, if you are not able to make good your debt right away.** And this is for each bad check you write! Also, recent federal legislation allows practically instantaneous deposit of the checks you write, meaning that we all now have less “float time,” that is, the time we expect to have until the check is cleared. Overdraft protection helps you avoid penalties for miscalculations and floated checks.
- **Savings Account** – Even small deposits can help if you make them on a regular basis. Think about taking a small amount out of each paycheck, say \$10 or \$15 per check, and putting it into a savings account. This would give you a buffer against future financial emergencies.

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To Get Help

Kentucky Attorney General's Office, Consumer Protection Division

(888) 432-9257

If you have a complaint or have questions about Kentucky law

Federal Trade Commission, Consumer Response Center

Toll-free (877) FTC-HELP
TDD (202) 326-2502

Address:

Consumer Response Center
Federal Trade Commission
600 Pennsylvania Ave, NW
Washington, DC 20580

Contact them in writing if you believe a lender has violated the Truth in Lending Act. Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violation.

National Consumer Law Center

Boston Headquarters: 77 Summer Street, 10th Floor, Boston, MA 02110-1006; Phone: (617) 542-8010

Washington Office: 1001 Connecticut Avenue, NW, Suite 510, Washington, DC, 20036; Phone: (202) 452-6252

Consumer Federation of America

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