



## California Reinvestment Coalition

### What is a Payday Loan?

Payday loans are short-term cash loans based on personal checks held for future deposit or on electronic access to the borrower's bank account. Borrowers write a personal check for the amount borrowed plus an expensive finance charge and receive cash. Lenders hold the check until the next payday when payment is due. Borrowers can redeem the check for cash, or allow the check to be deposited. In California, the lender is not supposed to allow the borrower to pay a finance charge to roll the loan over for another pay period. While this is against the law, many lenders violate it.

In California, a fee for a payday loan cannot exceed 15 percent of the face amount of the check or \$17.65 to borrow \$100. The maximum amount of the check used to get a loan is \$300, which includes the \$45 finance charge. This means that the most that a borrower can attain in a single loan offering is \$255.

#### **What You Pay**

##### *Scenario 1*

- You write a check for \$100
- You get \$85
- In 2 weeks the lender cashes your check
- APR is 459% and you paid \$15 to use \$85

##### *Scenario 2*

- You write a check for \$200
- You get \$170
- In 2 weeks the lender cashes your check
- APR is 459% and you paid \$30 to use \$170.

##### *Scenario 3*

- You write a check for \$300
- You get \$255
- In 2 weeks the lender cashes your check
- APR is 459% and you paid \$45 to use \$255.

Payday loans are made by storefront lenders, check cashers, pawnshops and over the internet. Consumers take out an average of 10 to 13 loans per year at a single lender.

If a borrower does not have enough money in their account to repay the payday lender, their check will not clear the bank. The borrower then accrues a bounced check fee from both the lender and their bank. In California, the payday lender cannot legally charge the borrower more than \$15 for a bounced check.

For a payday lender in California to loan over \$300, they will "rent-a-bank" so that they can broker loans for an out-of-state bank that is not bound by California law.