



Attorney General  
of New York  
**Letitia James**

### **Dear New Yorkers,**

It sounds quick and easy: someone gives a personal check or account debit authorization in exchange for a loan plus a fee (which is actually interest on the loan).

Payday lenders agree not to cash the check until the next payday. No credit check, no references. Borrowers must simply prove they have a bank account and a regular source of income.

But quick and easy can come with a hefty price. Fees, rollover loans, interest — it all adds up fast, often to over 900% annual interest. Twelve million Americans use payday loans per year.

Many payday loans are illegal in NYS, other short term loans are strictly regulated. This brochure offers advice on how to avoid getting trapped in an endless debt cycle.

If you have been caught by an illegal payday lender, I want to hear about it: file a complaint with my Consumer Frauds Bureau. We can help put these loan sharks out of business.

Sincerely,

*Letitia James*

## **Resources**

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### **New York State Office of the Attorney General, Consumer Frauds Bureau**

(800) 771-7755  
[ag.ny.gov](http://ag.ny.gov)

### **New York State Department of Financial Services**

(800) 342-3736  
[dfs.ny.gov](http://dfs.ny.gov)

### **U.S. Consumer Financial Protection Bureau**

(855) 411-2372  
[consumerfinance.gov](http://consumerfinance.gov)

### **U.S. Federal Trade Commission**

(877) 382-4357  
[ftc.gov](http://ftc.gov)



## **Payday Loans**

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Avoid the Debt Spiral



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## The High Cost of Payday Loans

### Small “fees” Add Up

A \$15 finance charge on a \$100 loan due after two weeks has an annual interest rate of 391%. Extreme interest rates, as high as 900%, are common.

### The Debt Cycle

When loans come due and borrowers cannot repay, many lenders “rollover” or renew the loans for an additional fee. The borrower ends up paying many times the face value of the loan in interest without ever paying down the principal. A 2012 industry report found that the average borrower uses eight loans and is indebted five months of the year.

### Identity Theft

Online lenders often require that consumers provide a social security number and bank account information. Revealing personal information to unknown lenders can lead to fraud and identity theft.

## New York Caps Interest Rates

New York’s laws protect consumers from the exorbitant interest rates many payday lenders charge. Payday lenders that are not licensed by New York State cannot charge individuals in New York interest over 16% for personal loans of \$25,000 or less. Payday lenders that are licensed by New York State can charge up to a 25% interest rate. Most payday loans far exceed these rates.

**Note:** Because of federal laws, New York’s usury rates do not apply to most banks and credit cards.

## Loans by Other Names

Short term loans go by different names, sometimes based upon the borrower they are targeting. Avoid loan offers with fees and interest that exceed the legal limits, and be wary of those that encourage roll overs.

### Pension Advances

They may call it an advance or a buyout, but it works just like a loan. Aimed at those who are eligible for or receive defined benefit pensions - military retirees, civil servants, teachers, and some corporate retirees - “pension advances” usually require borrowers to sign over part, or even all of their future pension payments in exchange for cash today. The effective interest rates consumers are charged can be many times the legal limit in New York. They may seem like an easy alternative, but pension advances can be financially devastating.

### Installment Loans

While they sound like a legitimate bank product — and many are — installment loans can carry annual rates of interest of more than 300%. Interest is usually paid at the “front end” of the loan, and borrowers are encouraged to refinance or “roll over” the loan. They continue to pay interest without paying down the principal. With longer terms than payday loans, consumers remain in debt for months or even years.

### Auto Title Loans

These small loans, secured by a motor vehicle, also carry high annual rates of interest. Even worse, just one missed payment can result in the repossession of your car or truck.

## Some Alternatives

### Contact creditors to work out a payment plan.

They often will offer extensions on bills. Make sure to ask about additional fees or costs.

### Talk to your employer about a paycheck

**advance.** Policies vary by employer, but you may be required to fill out an application detailing why the advance is needed. Usually repayment is deducted from future checks.

**Consider a loan from a credit union or a cash advance on a credit card.** These usually have lower rates than a payday loan. Shop around for the best offer.

**Find a licensed lender.** NYS licensed lenders may provide unsecured loans that are less expensive than those from most payday lenders. Contact the NYS Department of Financial Services or visit **dfs.ny.gov** for a list.

### Review your bank’s checking account plans.

For a fee, many banks provide plans that transfer money from a savings account, credit card or line of credit to cover overdrawn accounts. Avoid “bounce protection” programs that only cover individual overdrafts.

### Consider a licensed, not-for-profit credit

**counseling agency.** Budget planners, or credit counseling agencies, can help reduce fees and interest rates, arrange to waive charges, and stop harassing phone calls from creditors. Be sure the agency is licensed and not-for-profit. Contact the New York State Department of Financial Services or visit **dfs.ny.gov** for a list of licensed budget planners.

**Review your tax withholdings.** If you have been receiving a large tax refund each year, you may want to reduce the amount withheld from your check. It’s better to have money available when you need it, rather than pay interest on loans until the refund comes in.