

# CONSUMER GUIDE TO PAYDAY LENDING IN UTAH



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Payday or deferred deposit loans may offer quick and easy access to money for consumers who have temporary cash flow needs or are facing a financial emergency and need to borrow funds for a short length of time. These loans may be less costly than overdraft and late fee charges imposed by other financial institutions, **if paid back on a short-term basis**. You are encouraged to read this brochure to learn more about payday loans and your rights and obligations you have under the law.

## An Introduction to Payday and Deferred Deposit Loans

Payday or Deferred Deposit loans are commonly referred to as cash advance loans, postdated check loans or check advance loans. These **loans are meant to be short-term** (Utah law limits the extension of any loan to not more than 10 weeks) and are most advantageous to the consumer if paid within the original contract term.

## How You can Obtain a Payday Loan

A Payday Lender only has a few requirements you must satisfy in order to obtain a payday loan. The most important of these include an active checking account with a bank or credit union and some regular employment. The Payday Lender will usually verify the existence of these conditions prior to lending money-especially for first-time borrowers. You will be asked to sign a contract/agreement with the Payday Lender. You are strongly encouraged to read this document thoroughly so that you understand what is required of you and the Payday Lender under this contract/agreement. Also, the law requires the terms be disclosed in writing as well as verbally. Make sure the payday lender is registered with the Department of Financial Institutions (801) 538-8830.

## What You Can Expect From a Payday Loan

In exchange for providing you with the amount of money you have requested, the Payday Lender will ask for your signature on the contract/agreement form. The Payday Lender may also ask you for a personal check that is payable to the Payday Lender at a future date, with an amount that reflects the loan plus finance charges. The contract/agreement may also authorize the Payday Lender to automatically withdraw the loan and finance charges from your checking account. Unless you receive an extension, this postdated check will be cashed, or the loan amount will be automatically withdrawn electronically from your account, on the date stated on the contract/agreement.

## If You Decide to Use a Payday Loan

Borrow only as much as you can afford to pay with your next paycheck and still have enough money left over to pay other living expenses. Before selecting any loan product you should compare the cost of other credit alternatives in terms of Annual Percentage Rate (APR) and the possibility of late fees and penalties. There is no usury limit in Utah which means there is no limit as to how much interest any financial institution (banks, credit unions, credit cards, payday lenders) may charge. Thus, you are encouraged to shop around for the best rate available, while considering factors of quality service and convenience.

## Your Protection Under Federal Law

All Payday Lenders must comply with Regulation Z of the Truth-in-Lending Act. The amount of the loan, the amount of finance charge that will be assessed against you and the annual percentage rate (APR) of the loan must be conspicuously displayed on the contract/agreement you will sign.

## **Your Protection Under State Law**

Utah has state laws regulating Payday Lenders. The Department of Financial Institutions enforces these laws and every year conducts an examination of each Payday Lender's operation. Important features of the Utah law are:

- The lender is required to post a schedule of fees charged for a deferred deposit loan. The fees are required to be disclosed using the APR and the dollar amount of the fees.
- The lender is required to post the number a person can call to file a complaint. The Department's phone number is (801) 538-8830.
- The lender cannot rollover ("extend") the loan beyond ten weeks from the initial execution date of the loan.
- The lender cannot accrue contract interest past ten weeks after the initial execution date of the loan.
- The lender is prohibited from threatening to bring criminal proceedings against you if a check you provide to the lender is returned for non sufficient funds.
- You may make payments on your loan in \$5 increments or more without incurring any additional finance charges.
- You may rescind the payday loan and finance charges if you return the loan amount by 5:00 PM the next business day.
- You may request an Extended Payment Plan (EPP) once every 12 months. The EPP must be a minimum of 4 payments over no less than 60 days during which time the lender may not charge interest. Further details are provided in the loan documents.
- If the loan goes into collection process because you are in default, you or your employer may ask the lender or collection agency, verbally or in writing, not to contact you at work.

## **If You Cannot or Do Not Repay the Loan, the Payday Lender can Take the Following Actions:**

- Charge you a minimum of \$20 if your check bounces or is returned.
- Seek a judgment against you as a result of your returned check. If a court awards a judgment to a lender against you, the lender may recover court costs and reasonable attorney's fees from you.
- If the lender is awarded a judgment against you, the Court could order interest on the unpaid balance at the federal rate (6.99%\* currently) plus 2%.
- The lender may also list past due accounts with the various credit bureaus, which could affect your ability to get credit in the future.

## **When Considering a Payday Loan, Please Remember the Following:**

- The finance charge on your loan is due each time you obtain an extension.
- Compare the interest rates, charges, quality of service and convenience various Payday Lenders offer for loans.
- If you need an extension of your loan, you are encouraged at the time of renewal to pay an amount greater than the required finance charges, thereby reducing your principal.
- If you cannot repay the loan, the Payday Lender may seek judgment against you for the amount of the loan, interest, attorney's fees and court costs.

## **Do You Need Help with Your Personal Finances? Do you have too much debt or financial obligations? Are you using Payday Loans too frequently?**

Payday loans may be an efficient and quick method of providing financial assistance to families and individuals who require help because of cash flow needs and emergency situations. A Payday loan may be used to offset penalty and interest fees that may be imposed upon consumers by other creditors, to pay for an unexpected household/automobile

repair or medical emergency, the need to ensure enough money exists for a rent or mortgage payment or for other obligations that are routinely imposed upon consumers. Payday loans should never be used as a continuous or permanent form of financing for everyday expenses. Consumers who utilize Payday loans on a regular basis over long periods of time are encouraged to seek help from organizations with a focus on debt relief and appropriate spending patterns.

The Utah Department of Financial Institutions and the Utah Consumer Lending Association strongly encourage Utahns with ongoing monetary difficulties to seek information and guidance from any of the financial counseling entities that are available. You may contact the Department of Financial Institutions (801) 538-8830, the Utah Consumer Lending Association (801) 328-1888 or your local telephone directory for a listing of these organizations.

## **Most Payday Lenders are Committed to Quality and Consumer Friendly Service**

Many of the Payday Lenders registered to do business in Utah have voluntarily adopted a set of principles entitled "Best Practices". These principles are intended to be consumer friendly. You are encouraged to inquire of any lender whether it has adopted these Best Practices. The companies that have adopted these principles have demonstrated a commitment to quality consumer relations. If you have any questions about these activities, please contact the Department of Financial Institutions (801) 538-8830 and/or the Utah Consumer Lending Association (801) 328-1888.

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